INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION

1977 ANNUAL MEETINGS OF THE BOARDS OF GOVERNORS

SUMMARY PROCEEDINGS

WASHINGTON, D.C.
SEPTEMBER 26-30, 1977

INTRODUCTORY NOTE

The 1977 Annual Meeting of the Board of Governors of the International Bank for Reconstruction and Development, held jointly with that of the International Monetary Fund, took place in Washington, D.C., September 26–30 (inclusive). The Honorable George Colley, Governor of the Bank and the Fund for Ireland, served as Chairman. The Annual Meetings of the Bank's affiliates, the International Finance Corporation (IFC) and the International Development Association (IDA), were held in conjunction with the Annual Meeting of the Bank.

The Summary Proceedings record, in alphabetical order of member countries, the texts of statements by Governors relating to the activities of the Bank, IFC and IDA. The texts of statements concerning the IMF are published separately by the Fund.

P. N. DAMRY
Vice President and Secretary
THE WORLD BANK

Washington, D.C.
November, 1977

CONTENTS

Speaking on behalf of a group of countries.

OPENING ADDRESS BY THE PRESIDENT OF THE UNITED STATES JIMMY CARTER

Mr. Colley, Mr. Witteveen, Mr. Bob McNamara, and my own Secretary of Treasury, Mike Blumenthal, distinguished visitors to our country from all over the world, I am very glad to welcome you to Washington, as you begin your Annual Meeting.

After being President for a few months, after dealing with the Congress, after facing many difficult questions, it is a great pleasure to meet with a group where there is an absence of disagreement, where complete harmony prevails, and where you have discovered the answers to all the difficult questions.

This meeting is important to all of us because the partnership that exists among nations and among people is so evident in this room. These meetings provide an opportunity for the leaders of the world's financial institutions, both public and private, to consider the economic problems and also the economic opportunities that our nations share. And through the Bank and the Fund, we are able to meet the challenges to our shared well-being.

The two greatest challenges we face are to restore and to maintain steady, noninflationary expansion of the world economy and to increase the pace of growth in the developing nations of the world, with the benefits of the growth among us all, more widely and equitably shared.

The health of the international economic system depends upon the health of our individual domestic economies. Just as none of us can prosper without a stable system, so the system will not be sound unless we act responsibly at home.

I am pleased that the United States economy is healthy and growing. Our rate of inflation, while still too high for our liking, about 6 percent, is moderating and is below that, of course, in most other countries.

We will meet our economic growth targets for this year, about 6 percent in real terms. And we will also maintain a vigorous and a noninflationary growth next year.

I am committed to take such actions as are necessary as President to insure that this optimistic prediction comes true. We will do so principally because it is good for our own country, but also because it contributes to the economic health of the rest of the world.

Our unemployment rate is steadily going down. We have very little doubt about this, and there is a sense of commitment in our country and a strength of our economic system that bodes us good for the future. Strong economic growth in the United States and a slowing pace of growth in other countries combined with an excessive United States import of oil have all led to a rise this year in the United States trade deficit, which has continued even through last month.

With respect to oil imports, I have proposed to the Congress really for the first time in the history of our country, a comprehensive energy program which in the years ahead is designed to reduce our oil imports substantially below what they are now and to less than one half of the previous projection for the next eight years.

We know that it is critical that the Congress enact strong and effective energy measures. The United States must have a credible program to limit the growth of oil consumption and therefore to reduce oil imports.

I urge all nations, and especially the major industrial countries, to reduce energy waste along with us and to pursue economic growth and stabilization policies along with us, leading to an expanding noninflationary world economy, growing international trade, and an improved pattern of world trade balances.

The International Monetary Fund has played already a vital role in keeping the international monetary system both flexible and effective. I am particularly grateful for the enlightened fiscal discipline which the Fund and the Bank encourage throughout the world with their loans. The present system is working well.

The United States has ratified the amendments to the Articles of Agreement of the IMF, and we hope other nations, other members will do the same so as to increase the Fund resources and strengthen its capacity for surveillance of exchange rate policies and the oversight of monetary agreements.

The new IMF Supplementary Financing Facility adds an important element to the IMF capabilities. It has my country's full support.

The United States will also join with others in working toward adequate increases in IMF quotas during the seventh special review of these quotas.

The United States remains firmly committed to policies that will promote freer and wider trade without the deleterious consequences of protectionism. My country joins with others to seek substantive progress in the ongoing multinational trade negotiations by the end of this year.

Restoring health to the world economy will help us toward what we all recognize is a vital, human obligation, assisting poor countries in the task of human development. If the roughly 1 billion people who now live in extreme poverty are to have their chance, every nation must take more effective action and the United States is ready to join such an international campaign.

The study of world development issues now being undertaken by the Bank and the Fund should provide a framework in which all nations can expand our efforts toward common development efforts.

Of course, the developing countries are ultimately responsible for their own growth. Only they can mobilize the skills and the resources necessary for development. Only they can be sure that the benefits of growth, when and if it does come, extend throughout the country involved, to those who need it most.

But the industrialized countries like our own must provide more outside capital.

I am glad to report that the United States Congress has authorized more than twice as much money for the World Bank and the regional development banks this year as we did last year.

I hope that the negotiations for a major, general capital increase will permit the World Bank to increase the level of its lending in real terms.

All this will take time. Our goals will not be achieved overnight. Perseverance will be the key to success. There will be many difficulties to overcome, many complicated questions to answer, many national interests that might separate countries to be overwhelmed by a common commitment to mutual responsibility.

The United States wants to cooperate with all of you. We are prepared to stake the course and you can depend upon us.

OPENING ADDRESS BY THE CHAIRMAN
GEORGE COLLEY
GOVERNOR OF THE BANK AND FUND FOR IRELAND

Ireland is honored to take this chair at the Thirty-Second Annual Meetings of the World Bank Group and the International Monetary Fund.

As nations, we are joined through these institutions in a common effort to better the human condition by providing opportunity where there is need.

As Governors, we have come together in Washington to discuss the policies the Bank and Fund are following, and must follow, to achieve this goal. Both institutions have been consistent in providing firm leadership. Each has shown the flexibility needed to meet changing circumstances with fresh approaches and new instruments.

The strength of our support—our financial support and our commitment to international cooperation—will determine their success in reaching the goals we have set for them.

It is in this spirit, then, that I welcome my fellow Governors and their Alternates, our Observers and Special Guests. I welcome also the newest members of our international community, Guinea-Bissau and the Seychelles. I extend our greetings to the Observers from Surinam, whose membership the Governors have already approved, from Cape Verde, whose application is pending, and São Tomé and Príncipe and Maldives, whose memberships are on our agenda. Governors will also be interested to know that the Solomon Islands has applied for membership.

Human needs are more than economic; the added dimensions of freedom, self-determination, and opportunity have long been recognized in this country, which is once again our host. They have been eloquently expressed by President Carter on a number of occasions and we look forward to the honor of hearing him address our joint session this afternoon.

My own country, Ireland, knows well the difficulties of the poorer countries. It has gladly accepted the responsibilities that go with independence. We know from experience that discipline is a necessary foundation for economic advancement. But we also know that economic advance is not the totality of man's prosperity. Our own circumstances have bred in us a deep respect for the rich and diverse cultures of other lands, regardless of their economic condition.

For more than three decades the Bank Group has been the prime channel for multilateral resource transfers for development. In that period it has built its own reputation; it has won the trust of donor and recipient members alike with a record of financial integrity and operational pragmatism. It has, thus, been able to focus increasingly on raising the productivity of the rural and urban poor, while retaining the complete confidence of the financial community.

Last year, for example, IDA channeled almost 90 percent of its commitments to the poorer developing nations. The number of Bank projects attracting co-financing also continued to increase, a trend which we hope will accelerate.

This trust in the Bank and its management has recently—and rightly—been demonstrated in Mr. Robert McNamara's unanimous appointment to an unprecedented third 5-year term as its President. On behalf of the Bank's Governors, I congratulate Mr. McNamara—and the World Bank—on this excellent decision.

The Bank's success is, without doubt, an expression of its members' common political will. This success has rested on political decisions—by developed countries to commit themselves to the financing required for development; by developing countries to commit themselves to the discipline required for their development. The Bank, on the other hand, has always pursued—in accordance with its Articles—the policy of basing its lending on economic, rather than political, considerations. It has become a major source of the analysis of developing country needs. It has been among the first to recognize—and act on—the fact that simple additions to national product are not the whole of development. What once seemed a relatively simple task of transferring resources has been vastly complicated by the need to define the particular groups whose advancement will raise the opportunity level of whole societies, then devise effective means of reaching them. In city and countryside, the Bank has demonstrated that it has this ability to discover the roots of poverty and attack them with determination, care, and imagination.

Yet resource transfers remain the necessary foundation for the development effort. One of our goals at this Annual Meeting must be to affirm our nations' commitment to respond adequately to the needs of our members. The agreed $7.6 billion replenishment of the International Development Association's resources is a first, important step in this direction. But consideration must now be given to the longer-term capital needs of the Bank itself.

Here, I would remind my fellow Governors of the remarkable leverage for development created by our subscriptions to the Bank's capital. The relatively small amount of capital actually transferred in our subscriptions is multiplied more than twentyfold through the Bank's own capital market efforts and the local and co-financing resources mobilized in connection with its projects.

The Bank Group's catalytic action extends to the private sector, as well as the public, notably through the International Finance Corporation, an institution now on the threshold of becoming a much more important development force.

IFC's pending capital increase gives members the opportunity to provide it with the resources needed to pass this threshold. The task it has set for itself of extending its operations into the smallest and least developed of our member countries is most welcome.

The Corporation is consciously entering a field which involves new risks. The potential rewards of providing opportunities to mobilize the entrepreneurial spirit far outweigh this risk, however, and the Corporation deserves our full support.

The Bank Group has chosen to move forward, to evolve, in a bold attempt to get close to the needs of ultimate beneficiaries in paddy fields, on mountain plains, in urban slums.

Change often implies risk, a concept not traditionally popular with many. The alternative, however, is acceptance of the status quo; our very presence here demonstrates a shared conviction that the status quo is not good enough.

Under the careful leadership of Mr. McNamara and the Executive Directors, we can be assured that the Bank Group's boldness will always be tempered by caution and prudence, that the competence which has been demonstrated over three decades will continue. Our support for these institutions must also be continued.

Prospects for development, however, are vitally linked to a prosperous and expanding world economy. It is encouraging, therefore, to note from the latest Annual Report of the Fund that there are grounds for cautious optimism. Economic and financial conditions in many parts of the world have clearly improved in the past year or two, and this improvement is continuing, albeit slowly. The recovery has, however, been marred by the persistence of high levels of unemployment. The value of a recovery whose benefits are scarcely felt by many of those who have suffered most from the recession is, of course, limited. At the same time, rates of inflation remain very high by historical standards.

Faced with this situation, policymakers are attempting to pursue a difficult course of promoting expansion without aggravating existing inflationary pressures and with emphasis on medium-term policies. Policymakers will need to give special attention to the possibilities of supplementing overall demand management policies through specific measures to reduce unemployment, particularly among the young whose ideals and hopes can be crushed by failure to find any work. And it is to be stressed also that prospects for improvement of the world economy depend crucially on the success of the larger economies in pursuing expansionary policies consistent with the basic objective of reducing inflation.

Understandably, widespread unemployment, together with persistent and severe imbalance in international payments, has produced insistent calls from sectional interests for the adoption of protectionist measures. In general, governments have resisted the temptation to resort to short-sighted—and, in the longer run, self-defeating—measures. But, while large numbers of our active men and women are out of work, calls for protectionism are unlikely to abate. For many countries, including Ireland, economic growth depends largely on maintaining exports at high levels. Indeed, for many newly established manufacturing industries in developing countries, the widespread growth of trade barriers could be a disaster and a cruel dashing of their hopes for industrial advancement.

For many countries, weakness on external account has been a complicating factor, bringing restrictive demand management policies, or inhibiting the adoption of policies of expansion. The problem of persistent external deficits of many countries—the counterpart of the large surpluses of a few—will be with us for some years. During the interim, substantial balance of payments financing will be required. For this the private financial markets have continued, by and large, to work satisfactorily, providing an efficient conduit for channeling funds from countries in balance of payments surplus to those in deficit. Yet, as I look ahead, I feel that the Fund must continue to play a key role.

The Fund's role, however, is not only to finance deficits; it has a central part to play in promoting the international adjustment process, both from the point of view of individual members and from that of the world economy as a whole. At the Annual Meetings last year, held in Manila, the Fund's Managing Director reminded us that the time had come to lay more stress on adjustment of external positions. In the past year, the Fund has approved a record amount of financing under stand-by arrangements in support of stabilization arrangements.

The demands made on the Fund's resources in recent years have been extensive. In the past three fiscal years, members' drawings from the Fund have totaled SDR 16.6 billion, which represents almost a fourfold increase on the drawings in the previous three years. Even after unprecedented levels of borrowing from OPEC and industrial countries, this has caused a sharp reduction in the Fund's liquidity. Last year the volume of usable currencies held by the Fund declined by about one third, despite numerous additions to the list of usable currencies and the replenishment of its currency holdings by means of gold sales.

Implementation of the Sixth General Review of Quotas will provide only temporary relief. If all members consent to the quota increases proposed for them, total quotas in the Fund will rise by almost SDR 10 billion, to SDR 39 billion. At this level, however, the "size" of the Fund in comparison with the total trade of its members will be less than one half its size a decade ago. Fortunately, the Seventh General Review of Quotas has begun and is to be completed, hopefully, early in February 1978.

Even if the Seventh General Review is completed in good time, however, the increase in quotas will not be implemented for some time to come because of the legislative and other procedures required to make the new quotas effective. Some Fund members, however, are expected over the coming period to experience payments imbalances that are large in relation to their quotas. It was in the light of these considerations that the Managing Director proposed, and the Interim Committee at its meeting last April approved, the concept of a supplementary financing facility.

Thanks largely to the vigorous efforts of Mr. Witteveen and to a heartening response from those countries in a position to lend to the Fund—OPEC and industrial countries alike—the Executive Directors were able to take a decision last month to bring the new facility into existence. On completion of the ratification procedures required by some of the lenders, the new facility will start with well over SDR 8 billion in borrowed resources.

The development of this new financing facility comes after four years of intense activity and adaptation by the Fund under the farsighted and purposeful leadership of its Managing Director, Mr. Witteveen. We have always been fortunate in having outstanding Managing Directors with the special blend of personal, technical, and international attributes required by an organization as unique as the Fund. These attributes Mr. Witteveen possesses in full measure. We all very much regret that he has announced that, for personal reasons, he does not wish to make himself available for a second term in the position of Managing Director. Mr. Witteveen can already look back with immense pride and satisfaction at his accomplishments. He came to the Fund at a particularly difficult and crucial moment, and steered it brilliantly through a period that has been one of the most innovative and productive in the Fund's history. We are grateful for his inspiration. We wish him well in the future.

The Second Amendment of the Articles of Agreement gives the Fund new responsibilities and provides for an extensive revision of its policies and practices. The Executive Directors have already made considerable progress in preparing for the implementation of the amended Articles, including agreement on the principles for the guidance of members with respect to their exchange rate policies and on procedures for Fund surveillance over those policies.

Implementation of the new provisions awaits acceptance of the Second Amendment by the necessary majority of members. Up to now only 55 members, having about 58 percent of the total voting power, have accepted the Amendment, well short of the required three fifths of members having four fifths of the total voting power. I should therefore like to take this opportunity to appeal to my fellow Governors to do all that they can to hasten the ratification procedures.

Of course the Second Amendment will not close the book on reform of the international monetary system. There remains much which can be done, and while this is not the place to go into details, I would mention, for example, that the promotion of the SDR as the main reserve asset of the system is an objective to which Ireland remains firmly committed. It will be recalled that last April the Interim Committee requested the Executive Directors to give further consideration to all aspects of the question of the advisability of a future allocation of SDRs, and to report on this matter at the first meeting of the Committee in 1978. The Committee also requested the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund including the objective of making it the principal reserve asset. We look forward to the results of this consideration and review.

Finally, I think we as Governors should express our thanks to the Executive Boards—of the Bank Group and the Fund—for their performance of duty. Their responsibilities are exacting and are likely to continue so. We rely on them for the detailed formulation and execution of the guidelines we lay down. Their loyalty and active cooperation are essential to realization of international monetary cooperation and international aid to the high degree necessary to make a real impression across the world on the deep-seated problems that beset our rather troubled times.

Both our institutions face great opportunities. They require your continuing and growing support if they are to fulfill the role which the international community has entrusted to them.

ANNUAL ADDRESS BY ROBERT S. McNAMARA PRESIDENT OF THE WORLD BANK

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 12 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 12 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 UN 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 1950–75 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.

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 10 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.

Growth of GNP Per Capita in Developing Countries

		GNP Per Capita (1976 dollars)		
Region	Population (1975; millions)	1950	1975	Annual Growth Rate 1951–1975 (%)
South Asia	830	85	130	1.8
East Asia	337	170	435	3.9
Sub-Saharan Africa	309	175	285	2.0
Latin America	309	550	1,050	2.6
North Africa and Middle East	158	385	1,300	5.0
Southern Europe	117	555	1,815	4.9
Total	2,060	210	520	3.7

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.[1]

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.

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.

---

[1] *The 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.*

Relative Income Gaps: Developing Country Per Capita Incomes as a Percentage of Developed Country Incomes[a]

	1950 (%)	1960 (%)	1975 (%)
Developing Countries:			
Poorest[b]	6.1	4.0	2.6
Middle-Income	20.8	18.3	17.0
Oil-Exporting[b]	n.a.	16.1	22.6
All Developing Countries	11.9	9.7	9.2

[a] 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.

[b] Indonesia is included in the "poorest" category.

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 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 20th 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 the table below 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.

Per Capita Income Growth Rates[a]

	1950–60 (%)	1960–70 (%)	1970–75 (%)
Developing Countries:			
Poorest	2.6	1.8	1.1
Middle-Income	3.2	3.5	4.2
All Developing Countries	2.9	3.2	3.7
Developed Countries	3.0	3.7	1.9

[a]Excludes "Southern Europe." The universe for each group of countries is the same for each period.

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 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.

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.

One billion two hundred million do not have access to safe drinking water or to a public health facility. Seven hundred million are seriously malnourished. Five hundred fifty million are unable to read or write. Two hundred fifty 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 2 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. Two hundred ninety 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

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.

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[1] by 1985. I will return to this matter a bit later on.

[1] *All per capita income figures in this section and in the following section are expressed in terms of 1976 dollars.*

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.

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.[1]

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.

[1] *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.*

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 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 the following table 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.

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.

LDC Earnings from Export of Manufactures
($ billion, 1975 prices)

	Poorest Countries ($)	Middle-Income Countries ($)	Total ($)
1965	2.4	7.6	10
1975	3.4	29.6	33
1985—Present Policies	7.3	86.7	94
Possible Additions from:			
• Tokyo Round	0.3	3.7	4
• Partial Relaxation of Non-Tariff Barriers	1.0	5.0	6
• Improved LDC Policies	2.5	7.5	10
1985—New Policies	11.1	102.9	114

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 33 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 0.42 in 1966 to 0.33 in 1976. The 1976 ratio is, of course, less than one half of the 0.7% goal accepted by the UN General Assembly in 1970.

The fact that the total for ODA remained more than 50% below the UN target is due chiefly to the three largest ODA contributors. In 1976 the

ODA to GNP ratio for the US was 0.26; for the Federal Republic of Germany 0.31 (down from 0.40 in 1975); and for Japan 0.20 (down from 0.24 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 0.37 of the donors' GNP, an increase of one third, or \$4.9 billion in real terms.[1] 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

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.

---

[1] *See Annex III on page 35.*

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 (1973–76) 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.[1] 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.

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-

[1] *In 1976 prices.*

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 1 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.

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.

World Bank Group New Commitments
(billions of $)

	Avg. per Yr. FY64–68	Avg. per Yr. FY69–73	Avg. per Yr. FY74–78	Preliminary Plan FY79
New Commitments:				
Current $	1.2	2.7	6.7	9.8
Constant FY77 $	2.8	4.3	7.1	8.5
No. of IBRD/IDA Projects	57	129	207	255

Net Disbursement from IBRD and IDA to Developing Countries
(billions of current US$)

	FY68	FY73	FY78	FY83[a]	FY64–68	FY69–73	FY74–78	FY79–83[a]
IBRD	0.4	0.7	2.6	5.0	1.7	2.9	9.1	21.6
IDA	0.3	0.5	1.3	2.6	1.3	1.4	5.6	10.5
Total:								
Current $	0.7	1.2	3.9	7.6	3.0	4.3	14.7	32.1
FY77 $	1.4	1.9	3.7	5.0	6.3	7.6	15.4	24.0

[a]Preliminary projections.

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 billion 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.

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 nontariff 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 billion 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.

Capital Flows to and Debt Status of the Poorest Nations[a]
(in billions of current US$)

	1973	1975[c]	1976[c]	1980[d]	1985[d]
Current Account Deficit before Interest Payments	1.1	5.6	2.2	4.7	9.2
Interest Payments	0.6	0.6	0.7	1.0	1.8
Changes in Reserves and Short-Term Debt	1.6	−0.4	3.6	2.7	5.5
Total to be Financed	3.3	5.8	6.5	8.4	16.5
Financed by Medium- and Long-Term Capital from:					
Public Sources	3.3	6.3	5.5	8.0	15.8
Private Sources[b]	0.1	−0.5	0.9	0.4	0.7
Total Net Capital Flows—Current $	3.4	5.8	6.4	8.4	16.5
—1976 $	6.1	5.8	6.4	6.1	8.6
Outstanding Medium- and Long-Term Debt:					
Public Sources	18.1	23.0	26.4	42.3	79.3
Private Sources	3.0	3.4	4.0	5.2	7.0
Total—Current $	21.1	26.4	30.4	47.5	86.3
—1976 $	37.8	26.2	30.4	34.8	45.1
Debt Service:					
Interest Payments	0.6	0.6	0.7	1.0	1.8
Debt Amortization	1.1	1.5	1.4	1.3	2.1
Interest Payments as % of GNP	0.8	0.4	0.5	0.4	0.5
Debt Service as % of Exports	16.7	15.2	14.5	9.6	8.7
Price Deflator	55.8	100.7	100.0	136.6	191.5

[a] Excludes oil exporters.

[b] Includes "Direct Foreign Investment."

[c] 1975 and 1976 data are based on IMF sources.

[d] 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.

Capital Flows to and Debt Status of the Middle-Income Developing Countries[a]
(in billions of current US$)

	1973	1975[d]	1976[d]	1980[e]	1985[e]
Current Account Deficit before Interest Payments	−1.2	25.4	13.9	14.9	16.0
Interest Payments	3.0	5.8	6.8	14.8	29.6
Changes in Reserves and Short-Term Debt	10.7	−6.7	5.6	8.2	14.6
Total to be Financed	12.5	24.5	26.3	37.9	60.2
Financed by Medium- and Long-Term Capital from:					
Public Sources	4.4	9.8	10.5	15.0	21.8
Private Sources[b]	8.1	14.7	15.8	22.9	38.4
Total Net Capital Flows—Current $	12.5	24.5	26.3	37.9	60.2
—1976 $	17.6	24.9	26.3	28.4	32.1
Outstanding Medium- and Long-Term Debt:					
Public Sources	24.2	34.8	42.3	82.6	159.2
Private Sources	35.0	58.7	70.2	128.9	251.1
Total—Current $	59.2	93.5	112.5	211.5	410.3
—1976 $	83.1	94.9	112.5	158.3	218.9
Debt Service:					
Interest Payments	3.0	5.8	6.8	14.8	29.6
Debt Amortization	10.2	10.8	11.3	27.7	52.9
Interest Payments as % of GNP[c]	0.8	0.8	1.1	1.4	1.3
Debt Service as % of Exports[c]	17.5	17.2	18.8	23.3	19.5
Price Deflator	71.2	98.5	100.0	133.6	187.4

[a] Excludes oil exporters.

[b] Includes "Direct Foreign Investment."

[c] Based on a sample of 26 countries that account for 80% of the external debt of the oil-importing middle-income nations.

[d] 1975 and 1976 data are based on IMF sources.

[e] 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.

Flow of Official Development Assistance from Development Assistance Committee Members Measured as a Percentage of Gross National Product[a]

	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	0.38	0.53	0.59	0.53	0.59	0.44	0.55	0.61	0.42	0.45	0.47	0.48	0.49
Austria		0.11	0.07	0.07	0.09	0.15	0.18	0.17	0.10	0.17	0.18	0.18	0.19
Belgium	0.88	0.60	0.46	0.50	0 55	0.51	0.51	0.59	0.51	0.61	0.64	0.65	0.67
Canada	0.19	0.19	0.42	0.42	0.47	0.43	0.50	0.58	0.48	0 58	0.61	0.64	0.66
Denmark	0.09	0.13	0.38	0.43	0.45	0.48	0.55	0.58	0.58	0.64	0 67	0.70	0.70
Finland[b]		0 02	0.07	0.12	0.15	0 16	0.17	0.18	0.18	0.17	0.17	0.18	0.20
France	1.38	0.76	0.66	0.66	0.67	0.58	0.59	0.62	0 62	0.62	0.62	0.62	0.63
Germany	0.31	0.40	0.32	0.34	0.31	0.32	0.37	0.40	0.31	0.32	0.32	0.32	0.31
Italy	0.22	0.10	0.16	0.18	0.09	0.14	0.14	0.11	0.16	0.12	0.11	0.10	0.10
Japan	0.24	0.27	0.23	0.23	0.21	0.25	0.25	0.24	0.20	0 26	0.27	0.29	0 30
Netherlands	0.31	0.36	0.61	0.58	0.67	0.54	0.63	0.75	0.82	0.97	1.00	1.02	1.03
New Zealand[c]			0.23	0.23	0.25	0.27	0.31	0.52	0.42	0.41	0.45	0.48	0.49
Norway	0.11	0.16	0.32	0.33	0.43	0.43	0.57	0.66	0.71	0.87	0.96	0.97	0.98
Sweden	0.05	0.19	0.38	0.44	0 48	0.56	0.72	0.82	0.82	0.93	0.97	1.00	1.00
Switzerland	0.04	0.09	0.15	0.12	0.21	0.16	0.15	0.18	0.19	0.15	0.16	0.17	0.17
United Kingdom	0.56	0.47	0.37	0.41	0.39	0.34	0.38	0.37	0.38	0.39	0.37	0.38	0.38
United States[d]	0.53	0.49	0.31	0.32	0.29	0.23	0.24	0.26	0.26	0.26	0.26	0.26	0.26
GRAND TOTAL													
ODA ($b—Nominal Prices)	4.60	5.90	6.80	7.70	8.50	9.40	11 30	13.60	13.70	16.30	18.80	21.50	24.40
ODA ($b—Constant 1977 Prices)	12.20	14.10	14.40	15.50	15.80	14.30	14.20	15.10	14.80	16.30	17.40	18.60	19.70
GNP ($t—Nominal Prices)	0.90	1.30	2.00	2.20	2.60	3.10	3.40	3.80	4.10	4.60	5.30	5.90	6.60
ODA as % GNP	0.52	0.44	0.34	0.35	0.33	0.30	0.33	0.36	0.33	0.35	0.35	0.36	0.37
ODA Deflator[e]	0.38	0.42	0.47	0.50	0.54	0.66	0.80	0.90	0.93	1.00	1.08	1.16	1.24

[a] Figures for 1975 and earlier years are based on actual data. Figures for 1976 are preliminary actuals. 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

[b] Finland became a member of DAC in January 1975.

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

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

[e] Includes the effect of parity changes. Deflators are the same as those for GNP.

REPORT BY CESAR E.A. VIRATA CHAIRMAN OF JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES (DEVELOPMENT COMMITTEE)

In addition to the report I have submitted to the Boards of Governors, I wish to make a few remarks about the tasks we will jointly undertake in the Development Committee. This responsibility can be discharged only with your full support. The task before us is not easy, but on its satisfactory resolution hangs the fate not only of some 750 million people at present living a life without basic necessities or hope, but also the future peace and prosperity of the world.

I need not dwell at any length on the world economic scene which is well described in the documents prepared by the World Bank and the IMF and is well-known to you. While there have been some marginal improvements in some of the world economic indicators, extreme poverty in many parts of the world continues to pose a challenge and concern which we all share. The current and prospective high rates of inflation, slow growth and a high rate of unemployment generate legitimate concern about the social and political consequences and create a general atmosphere of uncertainty and lack of confidence adversely affecting much needed growth in investment and reducing the desired expansion in world trade.

There is a marked increase in the current account deficit of the non-oil developing countries which is estimated at some $30 billion for 1978 compared with $25–26 billion in both 1976 and 1977. While this large deficit may be manageable in the aggregate, it will confront some individual countries with serious problems of balance of payments adjustment and external debt.

The cumulative effect of this situation threatens the process, or at least the pace, of recovery of the world economy and prolongs the agony of those who are most seriously affected and whose future growth prospects are jeopardized. The projected annual growth rate of 1.7 percent per capita for the low-income countries up to 1985 was considered by the Development Committee as unsatisfactory and unacceptable and unless improved it will only mean that these countries will be subject to prolonged hardship. This has emerged as a major issue requiring the urgent attention of the international community and the Development Committee intends to pursue it vigorously. Thus, while the low-income developing countries will need larger flows of concessional assistance in support of their own resources, the middle-income developing countries will have to rely more on receipts from exports, on access to capital and money markets and on private investment, including foreign private investment.

I cannot emphasize strongly enough the importance of export revenues for developing countries. Mr. McNamara, Mr. Witteveen and other distinguished speakers have already referred to this vital aspect of the development strategies of our member countries in some detail.

Exports are important not only for the middle-income but also for the low-income developing countries. After a long and difficult process, several developing countries have become exporters of manufactured goods because they are able to produce them at a lower cost than what is possible in the industrial countries. To their disappointment these developing countries are confronted with the fear that a revival of growing protectionist tendencies in various forms, such as voluntary restraints, orderly arrangements, quotas, would hamper their possibilities of continuing their process of industrialization and modernization. I consider these tendencies self-defeating in the long run and a threat to the world development efforts. It is important that a liberal trade framework not only survives but is improved for the good of the world economy.

As past events have shown, the world economy is indivisible and the world economic issues are interrelated. Therefore, no isolated measures, or measures restricted to any one group of countries, can be expected to provide a satisfactory or lasting solution to the benefit of all. It is with this conviction that I welcome the initiative of a study of the world development issues by the World Bank as announced by Mr. McNamara. This will provide a basis for a continuing and comprehensive review of development problems, their complexities, their linkages and the impact of alternative internal and external policies of development in countries at various stages of development. It will contain policy alternatives together with an analysis of their implications and cost. The study could, and I hope will, become a primary focus of the Development Committee's future activities.

As regards its future work, the Committee agreed at its meeting last Sunday to undertake a program of work which, besides the study of world development issues, which I have already mentioned, will include the important issues of Official Development Assistance in all its aspects, the coordination of the role of the multilateral development institutions, the role of private overseas investment, the stabilization of export earnings, and some further work on access to capital and money markets, including the role of borrowing in financing development. We have made this selection on the basis of the suggestions made by the members at our April meeting and in the light of the conclusions of the CIEC discussion in Paris. In preparing our short list, we have selected topics of priority in relation to the situation and future prospects of the developing countries for which the Development Committee appears to be the most appropriate forum and which are both urgent in the context of the world economic situation and are ripe for ministerial discussion. Let us remind ourselves that the Development Committee is not primarily a debating society nor a study club but an organism whose discussions should lead to concrete policy decisions.

The Development Committee, consisting as it does not only of representatives of the member countries of the World Bank/IMF but also the heads of all the international organizations concerned with development, remains in my judgment a most useful forum for constructive dialogue at a high political level among developed countries, oil exporting and other developing countries in the fields of development and transfer of resources. It has made some progress on a number of specific issues and, what was perhaps more important in its earlier phase, it has contributed to the broad understanding of the international economic situation and the development problems with which we are faced. It now enters a critical stage with the shifting of its focus to long-term and more fundamental problems of development. Success here will depend on a united, dedicated and sustained effort by all the member countries, both rich and poor. I urge and seek your support in the accomplishment by the Committee of the task which lies ahead.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS[1]

AFGHANISTAN: ABDUL WAHED KARIM

Head of the Delegation

It is indeed a great honor for me to represent the Government of the Republic of Afghanistan at the Thirty-Second Joint Annual Meeting of the Boards of Governors of the World Bank and the Fund. On behalf of my delegation, I take this opportunity to express my gratitude to the Government of the United States of America for hosting the meeting. I also wish to thank the President of the World Bank, the Managing Director of the Fund, the Executive Directors, and the staff of both institutions for their efforts during the past year.

It is with great admiration that I have listened to President Carter's enlightening address, which I am undoubtedly assured has provided the dynamic atmosphere and the necessary guidance to all of us during our deliberations.

I should also like to state how realistic and objective were the statements addressed by the distinguished President of the World Bank as well as those of the distinguished Managing Director of the International Monetary Fund, whose recommendations will pave the way toward a better economic order.

I am pleased to hear that negotiations regarding the Fifth Replenishment of IDA resources have been successfully concluded and that the World Bank and the International Development Association have more funds at their disposal to provide for the faster development of the developing nations and especially for the least developed countries.

I also wish at this stage to extend my warm welcome to the distinguished representatives of the Republic of Guinea-Bissau and the Republic of Seychelles.

I should also like to convey my congratulations to His Excellency, George Colley, Deputy Prime Minister and Minister for Finance of the Republic of Ireland, the distinguished chairman of this illustrious gathering, for the way he has chaired the Thirty-Second Joint Annual Meeting.

Now I should like to make a few remarks on the world economic situation.

World economic recovery which began in 1976 has not yet gained the vigor and depth that had been wishfully anticipated at the time of last year's Annual Meeting. The problem of high levels of unemployment and inflation in industrialized countries still remains with us, and the aggregate current account deficit of the non-oil developing countries continues to be massive in magnitude. At the same time, net official development assistance to these countries has lagged behind the level of previous years, thus

[1]*Comprising statements relating to the work of IBRD, IFC and IDA. Omitted passages are indicated by dots (. . .). Statements relating to the International Monetary Fund are produced in the IMF Summary Proceedings.*

compelling them to vastly increase their recourse to external financing on commercial terms. This has resulted in a marked increase in their total indebtedness and debt service payments, which in turn slowed their development efforts and exercised a dampening effect on their growth rates. In this connection, we welcome the establishment by the Fund of a Supplementary Financing Facility to assist the member countries facing payments imbalances that are considerable in relation to their economies and quotas in the Fund. However, we believe that charges by the Fund for the use by the developing countries of resources under the facility should be substantially more moderate than market-related interest rates in order not to exacerbate the debt servicing difficulty confronting these countries. It would also be helpful for the least developed countries if IDA were to provide full financing of projects presented by these countries since cofinancing and similar methods cause undue delay in project implementation and increase total cost. If full IDA financing cannot be arranged, the least developed countries should be given the option to use the facilities of the Third Window for the remainder of the loan.

The twin problems of unemployment and inflation afflicting the world economy seem to be almost intractable, and in dealing with them we have no easy cure or solution. We need to tackle these problems with perseverance and without resorting to protectionist measures. Such measures by the developed countries affect a dominant proportion of the actual and potential exports of the less developed countries and prevent these countries from taking advantage of their natural resource base and lower real labor costs. Therefore, trade barriers on goods originating from developing countries in the form of tariffs, quotas, and other measures should be relaxed rather than intensified.

The conclusions of the North-South conference held in Paris in May–June 1977 were more limited than we had expected at the outset. We hoped that continued increased domestic resources will help to finance our development expenditures, but despite our efforts to achieve this end, we still continue to count heavily on financial assistance from international organizations and friendly countries on concessionary terms.

Turning now to my own country, I wish to note that since the advent of the Government of the Republic in 1973, important strides have been made to promote public welfare and social justice. We have introduced a program of land reform and have also reorganized our financial system. Our new constitution, which was ratified by the Grand National Assembly and signed by our beloved leader, Mohammed Daoud, in February 1977, provides the ground for accelerated economic and social development.

The determination of our Government to give better living conditions to the people is amply demonstrated by the Seven-Year Development Plan launched last year. The plan calls for public sector development outlays of Af 174 billion compared with actual development expenditures of Af 30 billion undertaken during the seven years prior to the initiation of the new plan. In addition, the private sector, which is being encouraged under the constitution to operate small- and medium-scale enterprises, is expected to invest Af 33 billion over the plan period. The thrust of the plan is directed toward a more rapid and balanced development of industry and agriculture as well as expanding educational and health facilities. The Government is striving to mobilize increased resources to finance the plan; domestic financing, primarily through public sector saving, is estimated at Af 92 billion, and foreign loans and grants are estimated to cover Af 115 billion. We are expanding the absorptive capacity of our economy, and last year actual development expenditures have almost doubled in relation to the 1975–76 level.

We have embarked on the implementation of the new plan in an environment of financial stability. During the past three years, our Government has pursued restrained fiscal and monetary policies which, coupled with favorable agricultural production, were instrumental in containing the pressures on domestic prices despite a substantial increase in the cost of imported goods and services. Our external position has also improved, and we have been able to build up the level of international reserves to tide us over the downswings of economic activity caused by recurrent drought conditions. Our relatively strong balance of payments position has resulted in upward pressures on the exchange rate. In view of the adverse consequences of this trend on our exports and development prospects, our monetary authorities in 1976–77 implemented an exchange rate management policy aimed at stabilizing the external value of the Afghani. This policy was successfully executed, and as a result of Central Bank intervention, the appreciation of the Afghani was halted.

We intend to accelerate the pace of economic development while maintaining financial and exchange rate stability. However, the prospects for our balance of payments in the coming two years are not as favorable because of a decline in the international prices of our major export commodities plus an increase in our debt service payments. Moreover, larger grain imports are required this year due to unfavorable weather conditions. Although we are making every effort to mobilize increased domestic resources to finance our development expenditures, we continue to count heavily on financial assistance from international organizations as well as friendly countries on concessionary terms.

While we will try to manage our economy as efficiently as we can, we realize that in our interdependent world no economy can be managed in isolation. Therefore, we welcome the untiring efforts of all the international organizations, such as the Bank and the Fund, to find workable and equitable solutions to world economic problems, for which they have our full support and appreciation.

ALGERIA: MOHAMED SEDDIK BENYAHIA

Governor of the Bank

The questions evoked by the agenda for these Meetings are of special significance in the present world context, composing as they do one of the aspects of what is called by general agreement the North-South dialogue.

This dialogue was initiated in global fashion at the Paris Conference which, whatever else it did, gave official sanction to the idea that it is necessary to establish a new economic order. What had seemed insoluble appeared to be possible and desirable; the germs of confrontation that had shown a tendency to spread were no longer inevitable. It became clear that, by objective dialogue, adequate solutions could be found for the problems of all parties concerned.

Do we need to give an evaluation of the results of the Paris Conference? Every one of us in this room knows what they were. I believe that those who participated feel we missed an opportunity to seek, by joint endeavor, real solutions to the problems which, by their nature, cannot be resolved without global consideration of all the interests at stake.

It was unrealistic, of course, to think that negotiations—even if they had been as untroubled as one was entitled to expect—could lead to a drastic change in situations that became entrenched long ago.

However, from this experiment we received affirmation of the idea that dialogue was possible and that it was the course to be adopted in any event. This is followed up, in part, in various international forums including our own. And the International Monetary Fund and World Bank are agencies in which some of the essential aspects of the problems confronting developing countries are discussed.

This being so I should like to analyze, in light of the hopes and viewpoints of the developing countries, what these two institutions—each in its own domain—have initiated, proposed, and achieved, before I go on to discuss their forecasts concerning their own future and the ways and means they envisage for providing a more effective and innovative response to countries' needs. . . .

. . . Turning to the World Bank, we have appreciated the determination with which its President has undertaken to obtain a special increase of capital. Despite considerable negative aspects of this increase, the measure has helped to improve the amount of external resources made available to the borrowing countries, which has aided them in their ongoing adjustment process.

The Fifth Replenishment of IDA resources deserves special mention, although despite commendable efforts by some donor countries the amount agreed remains below that which would have been desirable, and there are still some weighty problems of implementation.

In his opening remarks, the President of the World Bank noted the official viewpoints expressed in various international forums in favor of a general increase of the Bank's capital. But what is more important for the developing countries would be to know within the next few months what financing commitments the Bank can assume in forthcoming years, and the conditions that will be attached to its assistance. Let us not forget that, unless a decision is rapidly taken, the coming years' programs will have to be brought up to the level of fiscal year 1976, i.e., $5.8 billion.

Projections made by the Bank's staff reveal a tendency toward a hardening of the terms for recourse to sources of external financing. This being so, only a very considerable increase in the Bank's own resources can allow that institution to play an effective intermediary role. An increased volume of lending would make recourse to the capital market less onerous and at the same time facilitate a mobilization of resources of private origin.

However, for eight months no progress seems to have been made in the Executive Board. It is very much to be feared, in the light of past experience, that serious difficulties are becoming apparent, both as concerns the Bank's level of operations and as regards the terms for its loans.

The main purpose of this general increase should be to reinforce the role of the World Bank as a development institution. It should be able to transfer to the developing countries a significant amount of external resources in the light of the economic growth rates and the financing needs that these engender.

Likewise, consideration should be given to the efficacy of its policy as regards the selection of projects which, in practice, too often takes the form of allocating small amounts of credit to a number of recipients, entailing the Bank's presence in virtually all sectors of the economy, to a marginal extent. A new and more global approach in its lending procedures, such as a wider use of program loan and sectoral loan formulas, on a pluriennial basis, might be more effective. It would also have the advantage of being less costly and more capable of increasing the level of operations.

The methods now used too often cause the World Bank to adhere a little too narrowly to the only criteria it recognizes. An approach giving greater attention to the specific aspects of the various types of development, and to the major organizational principles the borrowing countries choose to apply might help to reduce certain stresses that arise in the preparation, negotiation, and execution of projects. Greater prominence could be given to the priorities defined by the borrowers because they are based on thorough knowledge of their natural and sociopolitical conditions.

In summary, the Bank's policies, in order to be effective, must be conceived so that, without taking the easy way out, they foster a constructive dialogue with the borrowing countries.

There is need for a study of the nonfinancial role of the Bank; for example, to assess the contribution that it could make to the transfer of technology to the developing countries. Likewise, a study should be made of the various forms of technical assistance that it could provide to the developing member countries, even if they are not borrowers. The method of payment for this type of service should be studied in order to find a formula befitting the World Bank's role as a development institution.

The actions taken by the international agencies and the improvements that could be made in their operations would not in themselves lead to a general solution of the problem of development, since development is an all-embracing process.

Let us examine what we find in the reports prepared by our institutions. They show that the future of the developing world is more uncertain than ever, and that all of these countries share certain problems.

They have succeeded, in varying degrees, in adjusting their balance of payments only by adopting policies that have required considerable efforts and sacrifices, obliging these countries to reconsider their growth objectives and in some cases their development model. According to reports prepared by the International Monetary Fund, most of them suffered a fall in their growth rate between 1973 and 1975. In 1977 they have again seen a deterioration in their terms of trade—a 6 percent decline with respect to the 1967–72 period. This factor alone is costing these countries 1 percent of their gross national product because of the reduction in the purchasing power of their exports.

In the short term, a further deterioration in the terms of trade is already projected. We thus face the immediate possibility of an increase in the already substantial financing requirements of these countries, at a time when the structure of financing has already changed for the worse, with all the implications this has had for their policies.

For the medium and long term, the World Bank's projections indicate that the external situation of the developing countries is bound to worsen. The noteworthy decrease in grants (from 20.7 percent to 14.4 percent), the maintenance of loans from public sources at their present level (32 percent), and the much larger share of private loans (rising from 29 percent to 43 percent) could paradoxically make many developing countries more dependent ten years from now than they are today on external resources obtained on favorable terms.

The conclusions of the analyses are meant to indicate that acceptable growth rates are ensured. However, they are based on a mere continuation of past trends and on an assessment of the resources that are to be made available to the developing countries. Such a pragmatic approach makes it impossible to respond to the minimum needs of the peoples of the Third World, which can be met only if precise objectives corresponding to specific stages of the development process are established, and if the international conditions that those objectives imply are created.

Because there are many who say that they support the goal of eliminating what the President of the World Bank has called absolute poverty, it is necessary to find answers to the following questions: Within what time period should this objective be achieved? Will we then be in a position to mobilize the volume of external resources needed and in the form required? And if the answers lead us to allocate almost all of the public resources now available to countries in that category, what will happen to the other developing countries? It is obvious that for the latter, only an increase in public resources will enable them to strengthen their position in the capital markets.

In point of fact, we believe it necessary to establish a number of basic objectives. I do not intend to propose a specific program here. Nonetheless, I consider that one of our basic objectives should be the establishment of a system capable of mass production of the goods and services needed by our societies. We must therefore make our decisions within a logical framework compatible with the rational development of all the developing countries, and requiring us to specify the time by which the income curves will no longer diverge.

In calling to mind the general problems of development in this forum, I am well aware that we will not find the answers to all the questions I have raised in our institutions. I am not unmindful that the overall concept of the transfer of real resources led us to establish the Development Committee. Our task would be incomplete if we failed to make at least some mention of the other areas which are affected by the putting into effect of a transfer of real resources, and which give us so many opportunities for concerted action.

In the financial area, mention should be made here of the need to meet the goal of 0.7 percent of GNP for official development assistance. At the same time, the resources that each industrial country can bring into play within the context of its specialized institutions, both by opening up access to these resources and by reducing their cost, should be reexamined, especially at a time when the developing countries could contribute to the better functioning of the developed economies, through the additional activity that would be generated by the implementation of their development programs.

With regard to increased access to capital markets, it is urgent that the restrictions of all kinds, imposed by countries protecting their markets, be lifted for the developing countries. Furthermore, measures to increase the borrowing capacity of the developing nations should be devised so as not to jeopardize the positions that some of those countries have gained with great effort. Even when these objectives have been achieved, there is a risk that the increasing external indebtedness of the developing countries will lead rapidly to a closing of access to these markets, which they have worked so hard to penetrate. For this reason, I believe it is imperative to seek a continuing improvement in the current balances of the developing countries, particularly through the elimination by the industrial countries of tariff barriers and restrictive conditions that adversely affect exports of manufactured goods from the developing countries. This objective requires a solution as regards the desirable types of integration in the world economy, and correction of the problems that many developing countries face because of the extent and nature of their participation in international trade. Such an approach, if generally adopted, would be in the interests of all parties concerned; and I am convinced that the developing countries would prefer trade to aid.

Finally, real progress seems difficult to achieve unless the means are sought, at each stage, of carrying forward and consolidating the process of development. I am thinking particularly of the effects of inflation, with all it implies for the maintenance and improvement of the purchasing power of exports, and of the formation of national savings that are stable and sufficiently large to enable the Third World countries to effectively control the basic factors that condition their economic development.

This leads me to conclude that the North-South conference was a logical step in the course of events, not an accident of history; and that its agenda and work methods were entirely acceptable. All that is lacking is the political will to achieve success.

Without this will, a shift of the discussion to other organizations, however well qualified their experts and whatever their motivation, will yield only partial results. I hope that the continuation of this dialogue and a more thorough study of the problems will lead to a direct and open general discussion among informed and responsible representatives of all the parties interested in putting an end to the disparities that so deeply divide our world.

ARGENTINA: JOSE A MARTINEZ DE HOZ

Governor of the Bank

I would like to begin my remarks by expressing my thanks for the warm welcome given to our meeting by this great country, whose principles of political pluralism, individual rights, and the republican system of government are shared fully by the nations I represent.

The Countries of Latin America and the Philippines

I have the great honor of speaking on behalf of 20 developing countries with a total population of 350 million. Their gross domestic product is estimated—subject to the technical limitations of such a calculation—at US$350 billion. Their imports total US$60 billion a year. Thus, these countries account for 5 percent of world production of goods and services and their foreign trade is nearly 6 percent of the world total. The positive differential between their share of trade and their share of world production is a clear indication of the degree of modernization attained by their economies.

Ours is a group of nations with a firm desire to raise the standard of living of their people; with a great capacity to absorb capital productively; and with development well under way. The countries for which I speak are Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Uruguay, and Venezuela, together with my own country, Argentina.

The Activities of the World Bank Group

Let me begin by expressing our support and congratulations to the President of the World Bank, Mr. Robert S. McNamara, on his re-election to another five-year term. We believe that a mere mention of the growth figures of the Bank is the best indication of the effectiveness and dedication with which Mr. McNamara has guided the fortunes of the institution since 1968. In that year the Executive Board of the IBRD approved loans totaling US$800 million; in the year just past, the total was US$5.8 billion. This striking increase represents a cumulative annual rate of 24 percent in nominal terms and 13 percent in real terms.

Not only has the volume of Bank lending increased, the quality of its operations has improved as well. In like manner, the volume of IDA credits rose from US$100 million in 1968 to US$1.3 billion in 1977.

We also take this opportunity to express our deepest appreciation for the meritorious work of Mr. Burke Knapp, a career official of the World Bank who has rendered important services to the Bank and to Latin America and who has announced that he will retire in the middle of next year.

Latin America and the Philippines are, moreover, greatly pleased to see the increase in lending to our countries. This is a very encouraging sign. And as a consequence our acclaim must be extended to the regional officers of the Bank for their important work. The total volume of loans approved by the Executive Directors for Latin America and the Caribbean rose from US$900 million in 1974 to US$1.9 billion in 1977. There has been an equally spectacular increase in the case of the Philippines, and for this we also wish to acknowledge the efforts of the Bank officials responsible for the East Asia region.

With regard to the International Finance Corporation, I would like to affirm Latin America's support for an expansion and diversification of its assistance to the region. We believe that the expansion of IFC activities is especially important for our region in view of the intermediate stage reached in its industrialization and the tendency of Latin American enterprises, especially private firms, to raise funds in international capital markets.

We believe that the action of the IFC is highly important, because it helps to strengthen the role of private enterprise in the development of our countries and because it serves as a catalyst in attracting domestic and foreign capital to this sector, which we regard as a key element of economic growth. We agree with the Bank management that IDA funds should be allocated so as to better satisfy the elemental, basic human needs of the most impoverished people in Asia and Africa, but we also think it just that the less developed countries of the Americas continue to receive IDA assistance, especially for socially oriented projects such as integrated rural development, education, small-scale industry, water supply and sewerage, and others. We also request special IDA treatment for those countries whose economic development is substantially hampered by their own particular conditions.

Capacity of Latin America and the Philippines to Multiply the Effect of Money Borrowed

The increase in World Bank lending to Latin America and the Philippines, while satisfactory, has not been accompanied by a similar trend in the net transfer of resources. Our countries have a great capacity to absorb capital for productive purposes. If we examine the high rates of return that can be obtained in those countries, coupled with the availability of natural and human resources—and this analysis is the basis for the allocation of funds—there can be no doubt as to the increase in the flow of loans that is needed. On the other hand, if the Bank's resources continue to be allocated on the basis of per capita income, the results will be somewhat unsatisfactory. This indicator fails to reflect capital requirements (which are not directly related to the level of national development), the productivity of the investments that the Bank can make, or the effectiveness of development policies. In the best of cases, per capita income expressed in dollars is an indicator without precise meaning, owing to technical deficiencies that the World Bank itself has repeatedly emphasized.

Nor does it seem justified to establish loan repayment periods on the basis of per capita income. We consider that the periods and maturities of loans should be determined, as in the traditional manner and as laid down in the Bank's Articles of Agreement, by the nature of the project itself and not on the basis of per capita income. Greater flexibility in the maximum repayment periods for loans and in grace periods will also help greatly toward lessening the external debt service burden.

Furthermore, we would like to see an increase in the financing of local costs and in sectoral lending.

An increase in the volume of World Bank lending will have a substantial impact on the development of our nations. They are ready for a major economic takeoff if the international lending institutions act as a catalyst for the attraction of capital to the region. In this way, after a certain time Latin America will be in a position to contribute, through the repayment of the loans as well as through new capital contributions, to the development of other regions of the world whose economic growth is limited by factors other than the scarcity of capital and its proper allocation.

The Problem of Balance of Payments Deficits

Latin America needs a greater contribution from the World Bank in order to continue growing. As evidence of our need for capital, the average current account deficit of the non-oil producing countries of Latin America for the last three years has been US$13 billion, 45 percent of the deficit of all the non-oil producing developing countries. This gap is a clear indicator of the external capital requirements of our region.

This situation has obviously forced the developing countries that are not oil exporters to adopt burdensome adjustment measures, aggravated by the lack of adequate financing and by the restrictive trade policies of the industrial countries.

The Danger of a Revival of Protectionism

We do not wish to succumb to the danger pointed out by Wilhelm Haferkamp, Chief of External Relations of the European Economic Community, who said that the world is sliding back toward the protectionism that had such harmful effects in the 1930s. In his words, "protectionism, which caused millions of people to lose their jobs 40 years ago, is now being presented in a new disguise, accompanied by seductive and apparently rational modern slogans."

Latin America and the Philippines already account for a substantial percentage of world trade, which as I have already noted represents almost 6 percent of the total. The continuation of their economic development through adequate volumes of external financing is extremely important for the industrial countries. An increase in the demand for machinery, equipment, and other manufactured goods by Latin America and the Philippines will help toward a recovery of aggregate demand in the more developed countries, which they need to increase their rate of growth and reduce unemployment.

In this connection we should note that, despite the world recession of 1974–76, the annual increase in GDP in the region averaged 4.6 percent. In contrast, the GDP growth rate in the industrial countries was only 1.3 percent, and could have been even lower if Latin America had contributed to the recession by adjusting its balance of payments more rapidly, as all countries cannot have a surplus at the same time.

An illuminating document on the liberalization of world trade prepared recently by the World Bank states clearly that the best contribution the industrial countries can make to the development of our countries, and to their own growth and well-being, is the liberalization of their imports. The elimination of tariff and nontariff barriers to the exports of the developing countries as a whole would generate additional receipts for those countries of some US$30 billion in 1985, expressed in 1975 dollars.

The Fight Against International Inflation

Recent studies project world inflation exceeding 7 percent a year for the next ten years. We believe that the evils of world inflation can be attenuated if the developed and developing countries cooperate to bring about a new period of growth in world trade and competition. By making such expansion possible, we will counter the adverse effects of inflation and promote the welfare of every region of the world at the same time.

Stabilization of Markets and Prices of Raw Materials

Another matter to which we attach great importance is the stabilization of markets and prices of basic commodities. The establishment of buffer stock of these products, adequately financed by contributions from exporting and importing nations, would benefit both groups by preventing sharp fluctuations in prices and the harm done by violent rises and falls.

Investment Requirements for Development

Another recent World Bank study estimates that the investment requirements of the developing nations will total US$200 billion in 1977. At the same time, the study points out that the net flow of resources from all official sources, bilateral as well as multilateral (including those from the World Bank), will amount to only US$16 billion, a mere 8 percent of those countries' investment requirements.

In view of the small scale of the transfer of resources compared with the needs of the developing nations, I believe that two conclusions are equally evident. The first is that there is need for a substantial increase in the World Bank's capital so that it can expand the volume of its lending in real terms. In this connection, Latin America and the Philippines fully support a general increase in the Bank's capital.

It should be recalled that only a small proportion of the increase must be paid in by the governments and that the majority of the international savings that the World Bank transfers to the developing countries does not consist of government contributions but rather is obtained from private investors who purchase World Bank bonds because they know that the Bank invests the proceeds of its bond sales in projects with a high rate of return.

The second conclusion is that the resources of the World Bank Group must continue to be allocated efficiently throughout the developing world, so that its aid will have a multiplied effect, subject to the priorities that the countries themselves establish.

Investment Projects for Multinational Integration

It is well to point out the desirability of increasing the emphasis already placed by the World Bank on investment projects for multinational integration, which can open up economic development possibilities that have not been explored up to the present.

Technology Exchange Among the Developing Nations

It is also worthwhile to stress the benefits that can be derived from technology exchange among nations at a similar level of development, as opposed to the vertical flow from more advanced countries. In some sectors our countries have engineering, consultants, and institutions with highly developed technology. The use of the World Bank's facilities to enable these national efforts to be brought together would have an undeniable multiplier effect. The bringing into play of the recognized creative imagination of the World Bank staff for this purpose would enhance the positive impact of the Bank's work.

The Danger of Political Interference in the Bank's Operations

In another connection, we should like to draw attention to a matter that we find extremely disconcerting, namely, certain tendencies that have recently manifested themselves to advance arguments of a noneconomic nature in the Bank's Executive Board sessions when loans are being considered. Latin America and the Philippines are definitely opposed to this political trend; they reaffirm their fidelity to the legal regulations to which we all agreed in 1944 and which prohibit political activity in the World Bank. To this effect we unreservedly support the stand of the Bank's President to maintain the political neutrality of the institution.

Representation of Latin America and the Philippines in the World Bank

On another matter, Latin America and the Philippines wish to call attention to the importance of maintaining a balanced geographical representation on the Executive Board of the World Bank. We reaffirm our conviction that the presence of three Executive Directors for Latin America and the Philippines is a vital factor in that equilibrium.

High-Level Commission for the Study of Development Problems

I cannot conclude my remarks without expressing support for the initiative of the President of the Bank in setting up a commission of world-renowned statesmen to bring together the opinions of developing and developed countries regarding the appropriate forms and amounts of aid for our development. Two fundamental ingredients of the set of measures mentioned by Mr. McNamara must be the liberalization of world trade and a substantial increase in the Bank's capital.

Development of the Mining, Petroleum, and Energy Sectors

A key point on which we would like to express the enthusiastic support of Latin America is the new policy of the Bank to assist the member countries in the development of the mining, petroleum, and energy sectors in general. It is well known that Latin America has vast strategic reserves of these resources. The Bank's participation in these sectors will help attract foreign capital to them and increase the world supply of these resources. The entire world community will thereby benefit: the producing countries by reason of the foreign exchange that exploitation of these resources will save for them or enable them to earn, and the consumer countries since they will obtain the raw materials they need.

Nevertheless, we believe that the expansion of these new sectors should be effected with additional funds, and not to the detriment of others.

Action of the Bank in the Food and Energy Crises

In recent years the World Bank has been greatly concerned with stepping up its loans for agricultural development, especially in the less developed countries. It has thus demonstrated its desire to help overcome one of the great problems mankind must face: world hunger.

For this reason, we believe that the Bank should now devote special attention to the other critical problem—no longer seen at a distance, but with us now. I refer to the development of energy.

Concentrated action by the Bank on these two problems would help greatly in mitigating their impact on the world economy and on individual countries.

Balance Between Development Financing and Trade

In conclusion, we believe that the problems facing the world can be dealt with successfully only if we achieve an adequate balance between the financing of development and the strengthening of the external sector of our countries through an expansion of export opportunities and of access to the markets of the more industrialized nations.

We are convinced that our countries are now sufficiently aware that all our efforts must be directed, to the limit of our possibilities, toward a more balanced development in the world.

This will make a great contribution to the attainment of true international solidarity.

AUSTRALIA: PHILLIP R. LYNCH

Governor of the Bank and Fund

I would like at the outset to join other Governors in applauding Mr. McNamara's reappointment as President of the World Bank and in regretting that the IMF will not have the considerable benefit of Mr. Witteveen's leadership beyond the completion of his present term. I should also like to welcome the Fund's newest members—Seychelles and Guinea-Bissau—to the Annual Meetings. It is very encouraging that the Fund's membership is continuing to expand on the basis of the capacity of countries, regardless of their size, to undertake the obligations of membership.

The central issue at these meetings is the progress of economic recovery. This gathering needs no reminding that progress in restoring economic health to our nations has been slow. But it is important that we do not lose sight of the reasons why that has been the case. The basic factor is that many economies developed deep structural distortions during the early 1970s. In particular, real wages outstripped productivity and the profitability of business enterprises was squeezed. Government spending grew rapidly and large public sector deficits led to excessive monetary expansion. These problems manifested themselves in heightened inflation and inflationary expectations, in loss of confidence among investors and consumers, and in reduced employment.

We need to correct these distortions in order to be in a position to resume a more rapid growth path. Most economies have set about that task on a medium-term basis. Fortunately some of the major countries have achieved notable success on this front. They have, in particular, significantly lowered their inflation rates—though I am sure they would prefer to see them lower still. As noted by Managing Director Witteveen, however, the pace of economic recovery in the industrial countries has been disappointingly slow and unemployment remains very high. It is clear that a higher rate of growth in world activity next year is desirable within the framework of the medium-term strategy.

The stronger countries must now aim for faster growth of domestic demand. There seems to be an emerging view that this can be done without rekindling inflation. Faster growth in the stronger countries will, in turn, be of assistance to those countries with continuing significant inflation or external deficit problems which need to maintain firm restraint on domestic demand until these difficulties have been brought under control.

However, all countries—including those which must now push ahead at a faster rate—need to have continuous regard to the basic problem of inflation. That message is crystallized in the following paragraph from the latest communiqué of the IMF Interim Committee: "Policies in all countries should be directed as a minimum to avoiding a resurgence of inflation and in many countries to reducing inflation rates which are clearly excessive." The reason for this is, as noted by the Interim Committee, that "current rates of inflation in almost all countries were still much too high to be considered acceptable." Even in the industrial countries, the average rate of price increase in the first half of 1977 remained almost three percentage points above the average annual rise of the 1960s. Among the nonindustrialized countries, the inflation problem remains more pervasive.

In commenting on the economic situation of primary producing countries, the IMF Annual Report—the quality of which again pays tribute to the high caliber of the Fund management and staff—notes that "the linkage of high inflation and slow recovery in real economic activity among the more developed primary producers is by no means incidental." My own Government is very conscious of this relationship. Equally, like others, we are very concerned about the continuing high level of unemployment, and the human distress which it produces. This reinforces our view that the stronger economies need to ensure, by their own policies, that world economic activity is expanded more rapidly next year.

However, significant gains in reducing unemployment must also be made by further reducing rates of inflation. In addition, it needs to be recognized that structural problems have been a feature of our recent unemployment experience and, consequently, that much of our current unemployment cannot be permanently reduced by manipulating aggregate demand. It is therefore essential, within the context of the medium-term strategy, that specific measures be directed toward overcoming these structural problems and that labor market policies be given appropriate priority. We must look to these solutions because, as most of us know from our own experience, governments grappling with high rates of inflation cannot spend their way out of the unemployment problem.

Since taking office in November 1975 we have progressively reduced the rate of growth of government expenditure to a point where, in current circumstances, a responsible spending base has been achieved. By doing this the federal budget deficit has been reduced by more than $2 billion and room has been made for major taxation reforms that will increase incentive to work and to become more skilled, thereby enhancing national economic growth. All this has been done in a continuing context of fiscal restraint. In terms of GDP, the deficit has been cut from 5 percent in 1975/76 to an estimated 2½ percent in 1977/78. Growth of the money supply has been reined in from 20 percent to, prospectively, less than 10 percent per annum. As a result, we have made substantial gains on the inflation front.

In the first half of 1977 consumer prices in Australia rose at an annual rate of around 9 percent. That increase was actually lower than the average increase recorded by our major trading partners. There remains a vital need—arising mainly from domestic economic considerations—to further improve our price performance, which remains short of our good record in the 1960s. This need is fully recognized in the Interim Committee's most recent communiqué, which states: "Demand policies in countries with relatively high inflation or seriously weak external positions should place primary emphasis on combating inflation and improving the balance of payments. The Committee reaffirmed its belief that for these countries this was not only necessary in present circumstances but over time would yield the best results for growth and employment."

Inflation's principal evil lies in its damaging effects on the normal pattern of domestic economic activity, in particular on the behavior of private consumers and investors. Inflation also tends to unfairly redistribute domestic income away from those ill-placed to protect themselves against its effects. In the light of these considerations my Government intends to continue to pursue policies directed at bringing inflation fully under control while maintaining an appropriate level of growth in output and activity. We are confident that, on the basis of this strategy, the recovery in activity which is now under way will strengthen in the period ahead.

The actual course of economic activity in Australia will, as is the case for the large number of small open economies represented here, be dependent to an important degree on the course of events in our trading partners. I referred earlier to the desirability of strong countries making a greater contribution to world economic growth next year. This is an important objective, not least because of the need to achieve a more satisfactory rate of expansion in world trade. As a primary commodity exporting country, Australia has a direct interest in a healthy world trading situation. Moreover, provided stronger growth in world output and trade can be achieved in a manner compatible with containing inflation, it would facilitate the external adjustment process. There is a clear need for faster progress in this area. At the same time we must ensure adequate financing of world trade and payments. . . .

. . . Let me turn now to the activities of the World Bank. The magnitude of the problems with which that institution is dealing should never escape us. No one can fail to be appalled by the fact that the basic human needs of hundreds of millions of people remain unfulfilled. There is a fundamental responsibility on all countries to work together to alleviate and, ultimately, eradicate the suffering and distress of the poverty-stricken. The Bank is at the center of the development assistance process, trying to respond to the needs of the world's poor nations and—even more fundamentally—the urgent needs of those areas where there is still an intolerable burden of poverty. For that reason, the Bank's efforts must be supported by its membership to the maximum extent practicable.

On that score I believe Australia has a commendable record. In particular, our aid effort is among the best. The Australian Government is committed to working toward achievement of the ODA target of 0.7 percent. Australia's aid allocation is well above the DAC average and in most recent years, including the current one, we have been able to provide increases in real terms. In 1977/78 Australia will provide approximately US$470 million in ODA, almost entirely in the form of straight out grants, the greater part of which is given on an untied basis. At the same time we are further improving the terms on which our ODA is provided to developing countries. Australia recognizes that an indication of its aid intentions in the medium term is of considerable assistance to major recipients in their forward planning. Several important areas of the bilateral program have now been directed into multiyear commitments, notably aid to Papua New Guinea, ASEAN and South Pacific countries. Similar arrangements have been concluded with a number of major multilateral bodies.

We also support the provision of increased funds to international development institutions to allow them to achieve real increases in their lending. In particular Australia endorses the need for a general capital increase for the World Bank of sufficient magnitude to enable its lending to increase in real terms. No doubt the appropriate size and composition of the capital increase will be determined in the light of the Executive Board's forthcoming discussion of the future role of the Bank. We have recently passed legislation authorizing Australia's contribution of $134 million to the Fifth Replenishment of IDA. Part of our additional aid to be provided under the CIEC Special Action Program will also be channeled through the IDA.

Australia also supports a substantial second replenishment of the resources of the Asian Development Fund of the ADB, and we hope other developed countries will contribute generously to this important facility. Australia's bilateral aid policy is managed in accordance with the twin goals referred to by President McNamara, namely, development and basic human needs. Given Australia's comparative advantage, considerable emphasis is placed in our aid program on increasing food production, particularly by small farmers.

On a different level, Australia recognizes its obligations to the rest of the world in relation to the development of much needed energy resources. That is one reason why the Australian Government has decided to allow development of uranium resources to proceed, subject to appropriate environmental and other safeguards—particularly as regards waste disposal—being met. In addition, of course, we are encouraging development of Australia's rich coal reserves and a new oil pricing policy is intended to foster conservation of known petroleum resources, as well as exploration for and development of new fields. Australia's contribution in these vital areas will help to ensure that the development process is not interrupted on account of shortages of basic energy resources.

We will, of course, be relying in considerable measure on foreign private capital to finance development of our natural resources. I consider there may be scope for developing countries to make increased use of such capital for their own development and I am particularly pleased that the Development Committee has decided to adopt an Australian suggestion that a study be made of the role of private foreign investment in the development process. Such investment can provide an important supplement to the resources of developing countries and thus enable them to increase their living standards at a faster rate than would otherwise be possible.

My earlier remarks were concerned with the importance of sound domestic economic policies in the generation of a more satisfactory world economic environment. In that context I was particularly struck by President McNamara's reference to the need to take appropriate policy actions to promote development. His specific words were: "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. 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." That statement in effect reminds us that world economic development, viewed in its broadest sense, is a two-sided process. The developed and the developing nations have responsibilities to themselves and to each other. If we each discharge those responsibilities, the path ahead to improved fortunes for all will be clearer.

AUSTRIA: HANNES ANDROSCH

Governor of the Bank

It is my great pleasure to meet again the distinguished representatives of the member countries, and I would like to take the opportunity to welcome to this Board the countries which have joined the IMF since the last Annual Meetings—Guinea-Bissau and the Seychelles.

Turning at first to the economic developments it is regrettable to see that since our last meetings these developments have fallen short of our expectations. The expected—or perhaps I should say the hoped-for—strong and general recovery of the world economy has not materialized. Already last year I was somewhat cautious in judging the future economic development.

Today the world economy is rather differentiated and characterized by the existence of favorable but, on balance, more adverse signs. The inflation rates have been reduced somewhat faster than expected, and the adjustment of unsustainable balance of payments deficits has improved only in some of the developed and developing countries. On the other hand, we have witnessed a marked slowdown in the growth of output and trade in the industrial countries. Moreover, on top of that there has been a widespread rise in unemployment which was already too high. Every country being in a position to counteract this development should enact measures to alleviate this serious problem.

I take this position from the point of view of a smaller country that is heavily dependent upon economic developments elsewhere. We are enjoying increasing employment, and other leading economic indicators are not bad either: for 1977 real growth will be about 4 percent, the inflation rate is down to 5.5 percent, and industrial investments are within the high medium-term average. Nevertheless, we are concerned about future developments in the light of the deterioration of our external position. This situation has been primarily caused by sharply increased imports. Measures for redressing the unsatisfactory current account deficit are already under way.

May I, in this connection, express my strong belief that in order to achieve an effective adjustment it is absolutely necessary to change the real conditions of the underlying economic activities, especially in view of the energy situation. In my opinion, it is—if at all—only of little help to resort to a change in the exchange rates or the exchange rate regime instead. In fact, by the experience so far it is even doubtful whether the present system of more or less flexible exchange rates has a better adjustment adaptability than the former one.

In this connection, I believe it should be mentioned that the shift to the new system has altered the mechanism by which the economic influences are transferred from one economy to the other. In addition, in analyzing developments since 1971 we note that the disequilibria in the international community have grown considerably. Although increasing energy imports account for an ever-rising portion of these disequilibria, the total amount and the continuing development cannot be attributed solely to the dependence on energy. It is obvious, however, that far-reaching energy programs are strongly needed to help overcome or at least alleviate, the structural deficiencies our economies are confronted with. Although every effort in this direction is appreciated, it must also be noted that huge trade balance deficits caused by these very imports are an inadquate means to stimulate the world economy.

My country's situation with respect to the main trading partners fits perfectly into a global perspective. Due to sluggish internal demand several main trading partners try to balance their weak domestic economic situation through stepped-up export activities, often accompanied by aggressive marketing strategies. These activities, however, result in excessive imports for the other countries and thus bring about considerable difficulties with regard to their external positions. In addition, this situation is worsened by protectionist measures in important economies, either unilaterally or within the framework of multilateral economic associations. In this context, it is quite clear that the repercussions of protectionist measures hit smaller countries most of all.

Permit me, at this point, to reiterate a trivial truth. The export performance of one country depends solely upon the import capacities of the trading partners. In addition, unutilized capacities and unemployment in the industrialized countries contrast sharply with the import need in the Third and Fourth World.

The unresolved economic and social problems within and among both the developing and industrial countries pose a serious threat to a peaceful global development. If no ways and means can be found to alleviate these problems, political stability might be threatened in many places.

Aside from all the fruitful efforts and endeavors within the World Bank Group and regional banks, I strongly believe that—similar to what had been done after World War II in the framework of the Marshall Plan—more generous moves and stronger efforts are needed to overcome this serious problem.

It goes without saying that an effective solution cannot be found in any form of confrontation but only in a widespread and thorough cooperation among all parties concerned. Austria herself has always been prepared to contribute to the common efforts in assisting the developing countries. We have joined the Asian Development Bank and the Special Fund of the Inter-American Development Bank and have, considering the size of our economy, substantially contributed to the Oil Facility. The new Articles of Agreement are before the Austrian Parliament. The Fifth IDA Replenishment was adopted in Vienna this year and the legal procedure for its implementation in Austria is under way. The quota increases of both the IMF and the World Bank will be ratified this year. We are glad about the successful negotiation of the Witteveen facility as an additional instrument of the Fund. This new Supplementary Financing Facility will probably be large enough to handle the major existing imbalances. Consequently, the Fund would need no more than an appropriate across-the-board increase of quotas to meet the demands of member countries that are facing the usual, temporary balance of payments imbalances. In this context, I would hope very much that, in the discussion of the Seventh Quota Review, selective quota increases can be avoided, since the comparative economic conditions of the member countries have not changed so dramatically in the last two years as to warrant drastic changes in relative quotas.

At this point, I would like to express my sincere appreciation to the Managing Director of the Fund and his staff who performed an excellent job in an extremely difficult period with economic and monetary problems. It is only with great regret that we see Mr. Witteveen leave his post in the Fund. May I also convey the same appreciation to President McNamara and the staff of the World Bank.

Summing up my brief remarks on the present state of the world economy, I want to stress that to the extent that external deficits have been reduced and inflation rates improved, more countries are getting into a position to envisage expansionary measures without the risk of a recessionary backdrop. Above all, policymaking must concentrate on all those activities that aim at structural improvements so as to adapt the production capacity, transport systems, energy supply and consumption, and so forth, to the far-reaching changes that have occurred in the past several years.

There will be no quick solutions or easy answers and, equally, it will be impossible to reach these targets on a national basis. International cooperation is needed. The Annual Meetings give us the framework within which we can start and continue our common efforts.

BANGLADESH: M. N. HUDA

Governor of the Bank

I have the privilege of addressing this distinguished gathering for the second time. Like many of my colleagues from the developing countries, we come to these meetings to explore solutions to the problems facing us in the effort to raise the level of living of our people. Coming to the close of the decade of the 1970s, we cannot but say that the Second Development Decade has been very largely a decade of frustrated hopes, especially for the low-income countries. Transfer of resources from the rich to the poor has been a topic of the most consuming interest, yet the problem of the resource gap of the developing countries has remained as difficult as it was, and in fact has worsened. The resource flow targets, first discussed in the 1950s and accepted with some reservation in the 1960s, have remained mere targets. Except for the tremendous expansion in the operations of capital markets and the emergence of OPEC as a donor group, there has not been any significant move to bridge the resource gap of the developing countries. The year just past has brought us no unmixed blessings. But what we have heard so far gives us some renewed hopes. The Annual Reports of the World Bank and the IMF show that the international development effort has seen one more eventful year and the international monetary system has survived one more crucial period. Under the competent and inspiring leadership of Dr. Witteveen and Mr. McNamara, the international monetary system and international development effort have continued to remain meaningful, and I have no hesitation in saying that our faith in these has been reinforced. This is no small achievement, and I extend heartiest congratulations to Mr. McNamara and Dr. Witteveen for their untiring efforts in this regard.

Permit me to join other distinguished delegates in welcoming the trends of recovery that the world economy has witnessed in the recent months, and to hail those countries which have shown sagacity and farsightedness in initiating and persevering in this recovery process. But this recovery seems to be halting, if not tapering off. Some of the industrial countries are still haunted by the fear of inflation, so much so, that there is considerable reluctance to stimulate their economies. The current investment lag is also a matter for serious concern. However, there are signs that the major industrial countries, through collective leadership, are seeking to harmonize the domestic and international economic policies of their respective countries with a view to sustaining the growth of world trade and the world economy. In this hopeful scene there seem to be small dark patches of cloud looming on the horizon. I am referring to the protectionist mood that is raising its head in some of the industrial countries in order to meet the difficulties that some of the domestic industries of those countries have experienced. The Fund Report has rightly remarked that resorting to restrictions on trade would not provide a real solution to the problem but would, on the contrary, be destructive to world prosperity. In particular, this would have a serious adverse effect on the payments situation and adjustment process in the developing countries. We therefore welcome the announcement by the President of the United States of his Government's commitment to the objectives of world development and the concern of his Government for those who live in absolute poverty. We note with great concern that in recent years the rate of growth of the developing countries has been only 3.7 percent and for the low-income countries it has been only a meager 1.1 percent. As we find from the massive documentation prepared for the meetings of the Group of 24, the Development Committee and the Interim Committee, and the Annual Reports of the Bank and the Fund, the prospects for growth in the developing countries for the period until 1985 are not at all encouraging. For the low-income countries, the prospect of growth in the coming decade is less than 2 percent. This is a far cry from the internationally accepted growth target for this decade. We note from a study prepared by the World Bank that if the OECD countries can grow at the rate of 5 percent, the developing countries could grow at a rate of 7.8 percent. In our view, this is a tremendous possibility and has great policy implications for the developed countries. It will be a real tragedy if an opportunity for doubling the GDP of the developing countries in about ten years should be allowed to go by default. It is in this context that we support the proposal for setting up an international commission for study of world development issues, and welcome the decision to initiate work on a world development report. We hope the proposed studies will explore these possibilities and come out with concrete action programs.

It is disappointing to find that the ODA of DAC members has declined further to a level of 0.33 percent in 1976 from a level of 0.36 percent in

1975, when the need for accelerated capital inflow to the poor countries is admitted on all sides. What is needed is a time-bound commitment by individual donor countries concerning the extent of sacrifice they can tolerate for the benefit of the world as a whole, and the poor countries in particular. It is also disappointing that untied aid still accounts for only a little over 50 percent of ODA from the DAC countries. Tied aid not only reduces the value of external assistance greatly, but also gives rise to slow disbursement and occasionally transfer of inappropriate technology. These difficulties should be recognized, and a time-bound program of untying should be adopted by the donor countries.

The low-income countries were also not successful enough in seeking resources in the capital markets unlike their more fortunate brethren in the middle-income countries. As a result of the shortfall in flow of resources:

- debt service liability of the poorer developing countries like my own has been higher than the increase in their export earnings;
- imports by the low-income countries like my own had to be drastically restricted;
- planning for development has become extremely difficult due to continued deterioration in the terms of trade and uncertainty in the flow of resources.

We have noted with great appreciation the reference in the speeches of Mr. McNamara and Dr. Witteveen to the need for rationalizing development policies within the developing countries. Institutional arrangements exist for monitoring the development policies followed by the developing countries. The Bank and the Fund in the process of channeling their assistance are in a position to continuously monitor their development policies. What is important is to look for institutional arrangements for monitoring flow of resources, particularly official development assistance, so that the internationally accepted targets continue to be meaningful. Experience of the last decade prompts us to make such a proposal. We think the World Bank has a special role in this respect. We therefore reiterate our support for an increase in the Bank's capital structure. The expansion of the Bank's lending program is one of the most effective ways to accelerate resource transfer. It is necessary that this process be continued and extended. We are happy to learn that the negotiations for replenishment of IDA-V have been successfully completed. In our opinion, the possibility of new participation of IDA-type funds should be vigorously explored, and in this context we would like to pay special tribute to Saudi Arabia, the United Arab Emirates, Spain and South Korea. It is necessary, however, to undertake a review of IDA voting rules which serve as a disincentive to new contributors' enthusiasm.

We also attach great importance to the effectiveness of the lending program of this premier institution for channeling development resources. It is in this context that we urge an expansion in the program loan operations and sector loan approach of the Bank Group. It has been established that program loans can be used with greater flexibility by the recipient and are quick disbursing. Based on a sound development plan, external assistance ought to support such a plan over a broad front without insistence on specific project financing. Again, it is difficult to appreciate why donors seem to be more inclined to program loans on a bilateral basis, but are adverse to such assistance from multilateral institutions. We are disappointed to note in the Annual Report of the Bank that in recent years program lending has fallen much below its historical levels, and in the year 1976/77 it was only on the order of 2.3 percent of the total Bank and IDA operations. We would strongly urge that the proportion of program loans by the Bank Group should not fall below 10 percent in any year. We would appeal that the Bank Group not get involved with the conditionality of IMF tranche facilities in offering program loans which are intended to serve an altogether different purpose. In our opinion, the Executive Board of the Bank should take a special look at possible modification of the Articles of Agreement. The Bank Group took a flexible approach to financing development plans when they introduced sector loans a few years ago. It seems that this innovative and forward-looking mechanism has not been sufficiently promoted or utilized.

Another way of increasing the effectiveness of the Bank Group's assistance to the low-income countries is to increase the share of local cost financing of projects. Although this has increased somewhat in recent years, it is still not significant and much more needs to be done. The priority accorded to sectors like agriculture, rural development, population, and small-scale industries, which tend to have low import content, underlines the need for greater local cost financing.

While we fully agree with the Bank's emphasis on increasing the productivity of the poorer sections in the developing countries, another important way of increasing the effectiveness of Bank Group assistance could be diversification of exports. Since increased export earnings can make such a great difference in the required flow of external assistance, investment in export production and diversification should receive high priority in the Bank's lending program. We also welcome the Bank's decision to expand lending to the areas of energy and mineral resources. We consider it important, however, that in selecting projects, low-income countries with untapped mineral resources are given high priority.

An important institutional arrangement in stepping up the flow of resources to the developing countries would be to take definite steps in the matter of debt relief. The Bank Report has once again focused attention on the phenomenal increase in the debt burden of non-oil developing countries. In our opinion, it is unrealistic to conclude that there are no debt problems. For the middle-income countries, debt burden by and large has been matched by increasing growth in the export sector, but it is essential to evolve a mechanism for handling the debt problem of the low-income countries. As has been brought out in the Bank Report, 96 percent of the external debt of the low-income countries in the South Asian region are owed to official lenders. Relief on official debts which were incurred on more onerous terms than are currently available will be an effective means of transferring real resources. Such relief on official debt will also help to step up the flow of private capital to middle-income developing countries.

We fervently appeal that this issue be settled in the next ministerial meeting under the auspices of the UNCTAD.

We have noted with great appreciation the emphasis in Mr. McNamara's speech on the basic human needs in the developing countries. While the concern for the basic needs of a billion people living in absolute poverty is admirable and gratifying, it will be important to identify how an organization like the World Bank can undertake a meaningful action program for launching attacks on rural poverty. In our opinion, it is essential to concentrate attention at the lowest rung of the ladder in order to "lift the bottom." In the countries where one fifth or more of its people live in absolute poverty, we urge the Bank to organize special comprehensive programs, where necessary with cofinancing from bilateral donors, through what was termed "global compacts" in Mr. McNamara's statement in Manila. A separate program for these countries can no longer be postponed, as they have been left out of the benefits of the First and Second Development Decades. We are confident that the Bank will initiate urgent steps without waiting for the recommendations of the international commission or for the world development report.

I would like to say a few words about the Bank organization itself. We consider that an expanded role and lending program of the Bank should be accompanied by a wide decentralization of the decision-making process in the Bank. Expedients such as greater authority to field missions and resident missions, and elimination of processing levels within the Bank, can go a long way toward holding in check the natural red tape of a large bureaucracy and attendant unlimited paper work. This is important in the context of rapid expansion of new-style projects in the developing countries. While we fully support the expansion of new-style projects, it is our considered opinion that more people with field experience in the developing countries need to be drafted into the operational and management cadres of the Bank Group. Preponderance of high quality expertise will not make up for the lack of field experience, and may frustrate the high objectives that we have set before ourselves. . . .

. . . We in Bangladesh, at a fairly early stage in our development planning, expressed our total commitment to population control and integrated rural development measures. But this alone is not sufficient to move us forward; a comprehensive development program has to seek other structural changes in the economy. We need to plan on a long-term basis and devise ways and means to meet long-term capital needs. But these efforts are often upset and halted by short-term balance of payments difficulties. Being a country affected frequently by natural calamities, resulting almost immediately in short supply of food, we consider that an adequate quantity of food aid is essential in the framework of an international arrangement, in order to maintain stability in the broad sense in many developing countries. Frequent diversion of domestic resources and valuable foreign exchange to meet the food gap has a crippling effect on our development efforts which are, in any case, modest. We urge that the Bank Group develop an intimate working relationship with the FAO and other related organizations in order to implement the important recommendations of the

World Food Conference.

Before I conclude I would like to underscore the urgency of taking the following concrete measures:

(1) Special programs for low-income countries where 20 percent or more of the population lives in absolute poverty.

(2) Time-bound commitment by individual donor countries on transferring the accepted target of GNP as official development assistance.

(3) Time-bound programs for untying of development assistance by donor countries.

(4) A beginning to ensure continuity of aid flow by establishing a mechanism under which IDA-type multilateral funds (e.g., IDA, IFAD, ADF, SOF, etc.) can have automatic replenishment at definite intervals at an increased rate, at least until the end of the next decade.

(5) A mechanism for providing relief on official debts to the developing countries in general, and to the low-income countries in particular.

(6) Improving the management and the operational cadres of the World Bank Group by drafting qualified people with field experience from the developing countries.

(7) A time frame for reviewing the conditionality of Fund facilities and for providing interest subsidies for the Supplementary Financing Facility.

(8) Provision of additional resources at the disposal of the Fund by increasing quotas substantially and allocation of fresh SDRs, both during the current fiscal year.

I would also urge that the terms of reference of the international commission be designed to include as many of the above issues as possible and that the world development report bring out concrete action programs on them.

May I in conclusion express our deep gratitude to President Carter and his Administration for their warm welcome and hospitality, compliment the Bank and Fund staff for their excellent work of documentation and arrangements for our meeting, and wish Mr. McNamara a most fruitful third term and Dr. Witteveen health and happiness in his retirement.

BARBADOS: J.M.G.M. ADAMS

Governor of the Bank and Fund

It is a distinct honor and privilege for me to speak to this Thirty-Second Joint Meeting of the Boards of Governors of the World Bank and the International Monetary Fund. My remarks will be confined to matters relating to the Bank and I will be speaking, not only on behalf of my own country, Barbados, but on behalf of my Caribbean colleagues in the Bahamas, Grenada, Guyana, Jamaica, and Trinidad and Tobago.

I join with my colleagues present here today in expressing my deep pleasure and appreciation for the welcome we have received from the Government and people of the United States and for the magnificent setting they have once again provided for our meeting.

The world economy has, since our last meeting, enjoyed a limited recovery from the recession for some countries, but for many it has been a year of deepening despair. While the industrialized countries have been able to adjust fairly quickly and smoothly, the non-oil developing countries have been unable to avoid the continuing large current account deficits in their balance of payments, and in these circumstances a willingness to share equitably in the deficits which are a corollary of the projected surpluses is, in our view, urgently required.

To this end, a major immediate contribution can be made by a deliberate program of economic expansion directed toward expanding international trade by industrialized and surplus countries, coupled with a transfer of resources in real terms to developing countries, as a basis for sustained stimulus to economic activity both in the developed and developing countries. A further contribution could be made by increasing the flow of funds to international and regional institutions. These steps would allow time for the adjustment processes now under way to yield results. In the longer term this process of adjustment needs to be supported by major improvements in the terms of trade for commodities through trade liberalization and by improved access to world markets—particularly for manufactured goods—with special emphasis on the position of developing countries.

The observed trend in a number of developed countries toward the increasing use of various protectionist measures—a trend inevitably sustained by the slow pace of recovery from recession—poses dangers to rich and poor alike. The tendency is even more to be regretted because restrictive policies bear heaviest on developing countries. The stark reality of the consequences of deteriorating balances of payments is that developing countries are being called upon to bear first the burden of sharply increased oil prices, and then the major share of the burden of adjustment of developed countries' restrictions on developing countries' exports.

It would seem that the international community has but one of two choices: either to abandon the goal of improved living standards for developing countries in the face of massive and growing balance of payments disequilibrium, or to seek international agreement for alleviating the burden by arrangements for financing an increased proportion of this debt.

Based on World Bank studies, the total medium- and long-term debt outstanding of the 81 principal developing countries was estimated to be US$169 billion with another US$50 billion outstanding in short-term liabilities of one year or less maturity. While total developing country reserves grew to $72 billion at the end of 1976, those of non-oil developing countries then stood at $41 billion and their annual debt service obligations at $17 billion. The low- and middle-income countries have experienced a marked increase in their debt service to export ratios and a decline, in real terms, in the net transfer of resources. The debt servicing for this group of countries represents a heavy burden on scarce foreign exchange resources. What little adjustment this group of countries was able to make was done only at severe cost and the process is still incomplete.

In these circumstances, we do not consider it unreasonable to hope and indeed to expect that the World Bank will devise appropriate and effective means to assist this group of countries in overcoming its financial problems.

A greater use by the Bank of sector loans and a higher proportion and a wider geographical distribution of program lending would, in these circumstances, seem appropriate and worthy of serious consideration. Moreover, in the consideration of such program assistance the Bank should be guided only by its own criteria and policies. This type of lending has advantages for both the Bank and borrowing countries that appear to us to be greater than the disadvantages. Further, while we must record our pleasure to learn of the successful conclusion of arrangements among donor countries for the Fifth IDA Replenishment, to a commitment level of $7.6 billion, representing an increase of 85 percent over the funds available in the Fourth Replenishment, we must nevertheless not overlook the delay and uncertainties that were attendant upon such negotiations. It is for these reasons we feel that for future replenishments the procedures necessary to maintain an uninterrupted flow of IDA lending should be arranged as soon as possible, and that steps to make IDA-V fully operational should be agreed upon at an early date. We feel that negotiations should be conducted expeditiously to provide for increases in real terms and for a more permanent and reliable mechanism to secure future funds for IDA.

We attach considerable importance to traditional and new sources of energy in energy-deficient countries, and we therefore welcome the decision for the expansion of the Bank's activities in the fields of minerals and energy. But since the World Bank is unlikely to command enough resources to cover the needs of developing countries in minerals and energy, special emphasis should be placed on its catalytic role in mobilizing other sources of finance including private capital. The Bank, after satisfying itself on the feasibility of such energy projects, should stand ready to take the initiative in bringing together a financial package from varied and interested donors. In other words, we feel and urge that the Bank should use the strong influence it now holds in the international financial community to initiate cofinancing arrangements for such energy projects, as indeed it does now in other project areas, and to make its own contribution known so as to encourage and, indeed, influence others to participate.

Further, in pursuing investments of this nature, the Bank should ensure that adequate technical assistance is given to developing countries in those sectors, since most of them will lack the necessary expertise to negotiate successfully for such projects.

If the Bank is to sustain an increased lending program in both the traditional and energy sectors, a substantial increase in the authorized capital of the Bank will be required. We accordingly urge the Executive Board to complete negotiations for the size of this increase as early as possible in this new fiscal year, and in any case, not later than June 1978.

When this capital increase is realized we hope that the opportunity will be taken, in addition to increasing the level of its real lending in financial year 1979, to review the lending rate formula now used by the Bank. This formula, which I am sure is well known to all of us, has resulted in interest rates that have approached 9 percent; the most recent rate being 8.2 percent, falling from 8.9 percent in July 1976. For many countries these lending rates make World Bank loans little more attractive than commercial loans.

But our greatest concern is to see that following upon the proposed capital increase of the Bank, the development needs of member countries, rather than per capita GNP criteria, should be used as the basis for determining grace periods and final maturities.

The use of per capita lending criteria bears particularly heavily on small island economies. In fact, we consider that there is a pressing need for greater recognition by the international community of the special problems of this group. Indeed, in the final communiqué of the recently concluded meeting of Commonwealth Finance Ministers, which I had the privilege of chairing in my own country last week, Finance Ministers drew attention to the special characteristics of small island economies, with their extreme dependence on imports and exports, on capital inflows, and in most cases their lack of natural resources. The Ministers, moreover, noted that these weaknesses were in no way helped by the practice of applying per capita *income* as a measure of need in these countries, and per capita *lending* as a measure of the extent to which that need might be deemed to be met. It was stressed that neither of these criteria was a reliable guide to the quantity and quality of assistance needed by these countries, and the international community was urged to adopt a more flexible and realistic approach to both the assessment of need as well as the index of response. It was agreed at that meeting that such measures should be at least parallel to policies now being considered in favor of least developed and landlocked countries.

Like all integration movements in this time of international economic recess, the Caribbean Community too has experienced stresses and strains. To strengthen the integration process even further, the Caribbean Development Bank, as a regional financial institution, needs adequate resources on reasonable terms to on-lend to member countries within the region. The Bank had already made one loan to the CDB—in 1976. The World Bank lending to the CDB is and will continue to be of immense value in consolidating and promoting even further the integration process among the Caribbean countries. We, therefore, look forward to a second loan being made by the Bank to the CDB. Part of the first loan was made from the Third Window of the Bank. With the exhaustion of funds from this source, we urge the Bank to consider including in any second loan to the CDB an IDA portion for the relatively disadvantaged borrowing member countries of the CDB.

The countries for whom I speak would like to acknowledge and congratulate the Bank management for pursuing the basic needs strategy in developing countries. This strategy will be of immense benefit to the countries of the Caribbean where the problem of urban migration needs urgent attention.

Much of what I have said so far relates to issues that call for this urgency of attention, but I would like to take this opportunity to look at the matter from a longer-term perspective.

First, the Development Committee. We have already referred to the severe balance of payments problems that non-oil developing countries have experienced and will continue to experience and the long-term structural changes in their economies that are required to solve the problems. Up to now the Bank and the Fund have been attempting to coordinate their efforts to deal with these problems on, I venture to suggest, a rather ad hoc basis, and without much success. It seems to us, therefore, that the time has come to consider new ways of ensuring that the increasing need of these countries for medium- and long-term finance on flexible terms is met. We believe that the Development Committee should now be mandated to give first priority to a study of the ways in which the Bank and Fund could act to put into place effective institutional arrangements for assisting, more adequately and more appropriately, the efforts of the non-oil developing countries and primary producers in making the structural adjustments to payments problems which have been so seriously aggravated by the steep increases in the international prices of oil and other essential imports.

Of course, we are already on record as suggesting that the Development Committee should be a forum for discussions and decisions at the political level of issues that relate to the activities of the Bank, and that it should more and more be used as a forum where such decisions can be taken in between general meetings of the Board of Governors of the Bank.

The second and final point I wish to make may be more controversial, although I believe it is fundamental. With the expected expansion of the Bank's activities, including new-style projects of rural and urban development, we feel that the need to ensure that local conditions are fully taken into account in project designing will be even greater than before. One step in this direction may well be an expansion in resident missions, and we would therefore suggest that the time has come for a major review of the role of resident missions in project preparation.

We believe firmly that the Bank must continue to play a major role in the development process of its borrowing member countries. Under the capable leadership of its President and Executive Board, the Bank has become a leader in the difficult, but nevertheless satisfying, task of international economic development. We therefore have every confidence that the areas we have here identified for review will receive careful and, we hope, sympathetic consideration.

BELGIUM: GASTON GEENS

Governor of the Bank

Before speaking on behalf of Belgium, I have the privilege of addressing you on behalf of the European Communities since my country currently holds the presidency of the Council of Ministers.

Despite certain encouraging signs, the world economic situation continues to provide cause for concern. The Community notes that some progress has been made toward reducing inflation, but further efforts will be required in order to ensure sustained and lasting growth.

The Community is seriously concerned by the upward trend in unemployment, in particular of young people, and is exploring the possibility of speeding up lasting economic recovery without rekindling inflation. To this end, it considers that closer cooperation both at the world level and within the Community is essential in order to promote sustained expansion of activity which should reduce unemployment without entailing the risk of a further upsurge of inflation.

On the one hand, this assumes that the industrial countries with a satisfactory payments position act so as to pursue an appropriate expansion of domestic demand within the limits fixed by effective anti-inflationary policies. On the other hand, the deficit countries must pursue effective stabilization policies and thus allow resources to be transferred to the foreign sector.

The Community recognizes the important role of the Interim Committee in encouraging such an adjustment policy and in assuring that the financing means available to members of the IMF are adequate to support an orderly adjustment process. . . .

. . . I will now deal with development problems. As you know, the European Economic Community has spoken with a single voice in the North-South Conference. This has often allowed the Community to take the initiative with proposals, some of which met with general agreement. This was the case for the establishment of a common fund with purposes, objectives, and other constituent elements to be further negotiated in the UNCTAD. Moreover, the Community originated the Special Action Program for individual low-income countries facing general problems of transfer of resources. In this framework, the Community has committed itself to transfer to a special account of the IDA, $385 million, equal to more than one third of this special aid.

This decision emphasizes the importance the Community attaches to concentrating its financial aid on the poorest countries, and confirms the confidence it has in the IDA, with whom the use of these funds is being discussed. In addition, on several occasions, the Community countries have expressed their willingness to see the World Bank and its affiliates granted increased means for meeting the needs of the Third World.

I would now like to speak to you as Governor for Belgium, and to discuss first the questions regarding the World Bank and then those concerning the International Monetary Fund.

World Bank

The success of the Bank is that it has ensured a growing transfer of real resources to low-income countries, while diversifying its loans in order to have an increasingly direct bearing on the very causes of poverty, and strengthening its credit with those countries that lend their savings for the fulfillment of its task. We sincerely hope that the Bank may continue its action in this direction and that its relative share in the flows of financing, both public and private, to developing countries, may grow.

Some serious consideration must, therefore, be given to the means for ensuring an expansion of the Bank. It is advisable also for the Bank to continue actively seeking ways and means of diversifying its action even more without jeopardizing, however, the priority that must be given to the infrastructure and base sectors for which sufficient local savings are generally not available and the development of which entails a faster and surer multiplier effect on income. Another field of activity in which the Bank owes it to itself to strengthen its intervention is that of technical assistance for development programs and for the borrowing countries' investment policy. It seems to me important to systematically organize recourse to these services and to examine to what extent they may be expanded, possibly arranging for remuneration by their beneficiaries.

In the different areas in which we would like to see the role of the Bank strengthened, we must make greater efforts even than in the past to form a judgment about the effectiveness of our action. This effectiveness should utlimately be evaluated on the basis of an essential criterion: Has it been possible for the countries assisted by the Bank, thanks to that assistance, to improve the mobilization of their own domestic resources and thus to move closer to the stage of self-financing of development, the ultimate objective of our policy?

The Belgian Government will support the efforts of the Bank as it has done consistently since the beginning. It is in this spirit that my country will share in the special increase in the capital of the Bank, and that it is pleased with the achievement of the Fifth Replenishment of the IDA resources, which should go into effect shortly. Meanwhile, thanks to the "bridging" arrangement, the Association will be able uninterruptedly to make commitments in favor of the most underprivileged countries. I can assure you that my Government will to the full extent of its resources take part in meeting these objectives.

The Fifth Replenishment, which amounts to $7.6 billion for the period from July 1977 to July 1980 and to which will be added an EEC contribution of $385 million, will make it possible in the coming years to achieve a better ratio between the Bank's lending and IDA credits. Allocation of IDA funds should certainly be continued in favor of the poorest countries on the basis of the criteria applied by the Association. It seems to me necessary, however, to consider also the possibility of the Bank's increasing, in favor of certain "marginal" countries, application of the system of mixed Bank/IDA credits, i.e., of the "blended loan system." This would more normally and more immediately achieve the objective aimed at by the Third Window mechanism. As regards this temporary financing facility, I wish to confirm that Belgium has just notified the Bank of its contribution to the Interest Subsidy Fund and of its contribution to the Subsidy Account of the International Monetary Fund.

I would also like to emphasize the importance of the role of the International Finance Corporation in the coming years as a catalyst of foreign private capital needed to carry out large projects in the developing countries, above all in the industrial sector. It will thus give new impetus to the flow of private investments into these countries—which at present are experiencing stagnation—above all by creating a more favorable climate and improving arrangements for the receipt of such investment there. The Corporation may also extend to the developing countries more extensive technical assistance for the development of their capital markets and for the creation of new types of financial institutions, such as development banks. With a view to helping the Corporation achieve these objectives, Belgium will participate in the increase of its capital.

Moreover, it has been gratifying for us to note that the Bank has been able to continue, for a third consecutive year, to increase its joint financing activities with other multilateral and bilateral agencies of both the industrial and the OPEC countries and with private financing institutions. In particular, I have noted that joint financing on favorable terms has played a decisive role in the execution of the Bank's lending program in East Africa, and that the most important source of joint financing has been furnished by the European Development Fund with the European Investment Bank, which, for the first time, have been able to contribute substantial amounts, mostly in the form of grants. We sincerely hope that the Bank can henceforth apply the joint financing formula even further. This formula actually provides one of the most effective means of mobilizing additional financial resources, above all of private origin, in favor of the developing countries.

In concluding my remarks on the role of the Bank I would like to confirm that Belgium has full confidence in the activities of the World Bank Group. The Group has furnished development assistance policy with instruments of which experience emphasizes the effectiveness. We are therefore looking forward with interest to the thorough study that will be undertaken during fiscal year 1978 regarding the future role of the Bank and on the financial solutions required to enable it to play this role. I can assure you that my Government will be particularly happy if it can associate itself constructively with this endeavor....

BRAZIL: MARIO HENRIQUE SIMONSEN

Governor of the Bank and Fund

It is a great honor for me to address this Annual Meeting of the Governors of the International Monetary Fund in the name of Argentina, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela, as well as my own country. On behalf of the Governors of those countries I extend the most cordial greetings to our Chairman, to the Managing Director of the Fund, and to all the Delegations participating in this meeting. We have been saddened by the Managing Director's decision that, at the expiration of his present term of office, he will not stand for re-election. His qualities of leadership, imagination, and intellectual brilliance have been decisive in firming the position of the International Monetary Fund in the most critical period which the international financial system has faced since the great depression. We must respect the reasons for his decision, but the international financial community will miss him grievously. We wish him and his family well for the future.

I should like to join the distinguished speakers who have preceded me, in thanking the Government of the United States of America, who are once again our hosts, and in particular Secretary Blumenthal, for the welcome they have extended to us. We have been specially honored by the visit to our Meeting and the speech which has been delivered to us by the President of the United States, whose words will constitute an inspiration to our deliberations.

At the last Annual Meeting we could note considerable progress in the recovery of both developed and developing countries. But we were concerned then at the very pronounced slowdown which was occurring in industrial countries during the second semester of that year. This year we can note more rapid recovery in those countries during the first half of the year, though less than was expected earlier. In the second semester also, growth is expected to be slower than foreseen earlier, despite additional measures of stimulation adopted recently by some of the industrial countries. Developments for the first half of 1978 are also uncertain.

Although our region as a whole has had more rapid growth in 1977 than in 1976, this is still far from satisfactory. While our region, like other less developed ones, must normally be expected to sustain somewhat higher growth rates than the industrial countries (this was indeed the pattern between 1967 and 1974), nevertheless, the lower the growth rate of the developed countries, the more difficult it becomes for us to sustain high growth rates for ourselves. The industrial countries are our principal customers and from them we must earn most of the foreign exchange needed to pay for the imports and services which we require. Furthermore, it is particularly worrisome to us that the growth rate of imports of industrial countries is expected to be only two thirds of the average for 1962–72. The consequence is an export growth rate for the less developed countries which is also lower than the earlier average. In 1977 this lower volume growth was offset for some countries by an improvement in the terms of trade; others had deteriorating terms of trade, however, and a general decline in them is expected for 1978.

There is no question that up to 1977 there has been a considerable improvement in the global pattern of current accounts, and the improvement has been particularly marked in our region. Also, there has been a pronounced change in the financing of the current account deficit in our region. Private direct investment, long-term loans received by governments from official sources, and medium-term borrowing from commercial banks, permitted not only the financing of the current account deficit but also, as in 1976, a considerable accumulation of international reserves. Nevertheless, one cannot forget that this result was achieved, to a great extent, due to the very strong adjustment measures undertaken by many of our countries, and at some cost in terms of growth rates.

The disappearance of the current account deficit for the industrial countries as a group foreseen for 1978 and the persistence of the surpluses of some major oil exporters, who are unable to absorb them, pose a continuing problem. As long as some countries have persistent surpluses, others must have deficits, and the concentration of these deficits in the same countries—whether developed or less developed—for extended periods, could lead to serious problems for them as well as for the world economy as a whole. Means must be found to finance a larger part of the deficits through direct investments and relatively long-term loans, and the deficits themselves must be shared by the industrial countries. This requires an expansion of demand in industrial countries, which need not be inflationary if it is accompanied by a liberalization of imports rather than the present very disturbing trend toward increased protectionism.

We recognize the sustained and substantial action undertaken by the major oil exporters to recycle part of their surpluses both directly and through the international financial institutions. At the same time, recognition has to be given to the role played by the private financial institutions, particularly the commercial banks, in recirculating surpluses to deficit countries. The Caribbean and Latin American region has been able to rely on commercial banks to a substantial extent. The responsible policy of borrowing countries has avoided the emergence of debt-servicing problems. The record of the borrowing countries in meeting their obligations has been unquestionably superior to that of borrowers in some sectors of the industrial countries themselves.

The role of the commercial banks, whose financial performance has benefited greatly from their operations in the developing countries, will remain important in the future for our region, even if additional official resources become available and new transfer mechanisms are established. The role of the commercial banks can be helped by countries making available an adequate amount of economic information. We wish to stress, however, that this is a role for the countries themselves. As last year, we categorically reject any role for the Fund in providing to nonofficial bodies anything except published statistical and institutional facts, i.e., it should not provide confidential information such as any judgments, forecasts or analyses regarding the economic performance of countries. Such a role would impose on the Fund a responsibility which it is not in a position to bear. . . .

CAMEROON: MARCEL YONDO

Governor of the Fund

The African nations, united in their diversity, have given me the high honor and great trust of serving as their spokesman this year, to express their concerns before this meeting. But it is my country, Cameroon, that Africa is so honoring through me.

Many obstacles strew the path of the African nations toward development, keeping Africa under the shadow of misery and preventing it from sharing in the benefits of the economic recovery that is beginning—not without difficulties—in some developed countries after one of the most serious crises to shake the international economy in recent years.

You know what these obstacles are: the mounting deficit in the balance of payments, the increasingly burdensome external debt, the appalling low standard of living. It is a sad fact that Africa has the largest number of countries with annual per capita income of less than US$100. Even more serious is the steady fall in the per capita income of many countries for more than a decade.

One may justly ask whether the international community finds it in its interest to remain heedless of these ills that beset the African economy. It is to everyone's advantage that the chain of solidarity that binds the nations remains unbroken, so that misery will not be joined by despair, the wellspring of frustration.

After recounting the problems that Africa faces, I would like to take up the question of the resources and operations of the World Bank and the International Monetary Fund. But first of all, allow me to discharge the happy duty of welcoming Guinea-Bissau, the Maldive Islands, São Tomé and Príncipe and Seychelles, whose recent entry enlarges the family of the Bank and the Fund.

In recent years the world economy has been sorely tried by monetary instability, a severe and persistent inflation and the worst recession that it has suffered in many years. Nonetheless, it is encouraging to note, in reading several recent economic reports, that the inflation is slackening and that an economic revival is under way in the industrial countries. We are likewise heartened to see that some developing countries as well are experiencing a reassuring expansion of economic activity. But I am obliged to point out that this economic recovery is not a universal phenomenon. Because we always speak of blocs, such as that of the developing countries and that of the developed countries, it is easy for us at this kind of meeting to overlook the particular situations of some countries.

In a number of countries, including those for which I speak, the economic tribulations that have overwhelmed the world in the years just past have only aggravated the problems that Africa has faced for more than a decade, and there is no sign that these problems will soon be resolved.

In particular, the balance of payments of the African countries shows a growing deficit. While the overall current account deficit of the non-oil exporting countries fell from US$38 billion in 1975 to about US$28 billion in 1976, that of the African countries rose from US$5.1 billion to US$5.4 billion in the same period despite the complex and onerous adjustment measures adopted by the African nations. Moreover, the deficit is expected to be about US$6 billion in 1977. These deficits have been financed by massive drawings on net reserves and by an inflow of private and public capital which has swollen the external debt of those countries. The restrictions which severely limit access to the capital markets of the developed countries, and the steady shrinking of official development assistance, continue to prevent most of the African countries from financing the increasing costs of essential projects that can enable their economies to attain an acceptable rate of growth and level of development.

We deplore the fact that a number of industrial countries are beginning to impose restrictions on their imports, which may well jeopardize the emerging industries of Africa. Such an attitude is contrary to the principles that should govern world trade; not only is it unlikely to favor the industrialization of Africa, it can also dampen the spirit of cooperation with regard to the Third World.

Even today, the per capita incomes of several African countries remain below US$100. From 1960 to 1975 the annual growth rate of these countries averaged only 2.6 percent, and the figures at hand indicate that for 1976 the rate was not even 2 percent. With an average annual population increase of 3 percent, it is evident that for more than a decade, per capita income in many African countries has declined steadily.

The suffering usually involved when income falls, especially when that income is at a level as low as US$100 per person, is difficult to imagine for those who have always enjoyed a very high standard of living. Partly for that reason, insufficient attention has been given to the misery faced by the people of these countries in the distribution of bilateral and multilateral assistance for development.

The facts that I have just mentioned have convinced us, the representatives of the African countries, that we cannot rely indefinitely on foreign financial and technical assistance to solve our problems. We must endeavor to establish and strengthen our own institutions in order to transform the present economic order which keeps our economies under the domination of those of the powerful countries, which do not take our problems into account when they make decisions that affect our future.

As part of our efforts to participate in international decisions affecting our economic performance and our welfare, we have taken an active role in the discussions on the establishment of a new international economic order. All of us are aware of the problems that have arisen and the disappointing results of the Conference on International Economic Cooperation that has just closed in Paris. Its only accomplishments were the decision to set up a joint fund whose purposes and other conditions are to be negotiated within UNCTAD, the commitment by the developed countries to contribute US$1 billion to a special program of aid for certain low-income countries facing general problems in the transfer of resources, and the promise to grant assistance for the development of infrastructures in the developing countries, especially those of Africa. The peoples of Africa dare to hope that a decade of transportation, communications and telecommunications will be declared, and that its objectives will be achieved. Another disappointment would do the international community no credit.

In our opinion, it is regrettable that agreement has not been reached on most of the proposals concerning structural changes in the international economic system or on certain proposals of the developing countries regarding the establishment of an emergency fund to meet urgent problems. As for the crucial problem of indebtedness, the developed countries have refused to grant the moratorium requested by the developing nations.

As part of the effort we are making to increase our autonomy, we intend to set up institutions that will enable us to deal with our economic problems more effectively. We will endeavor to strengthen existing finance and aid agencies, and to establish new ones.

We have resolved to increase economic cooperation among our countries. Recently, measures have been taken to establish an African reinsurance company with headquarters in Nigeria, and an African center for monetary studies is being organized in Senegal. We are also carrying on an exchange of views in the subregions of Africa with the aim of setting up payments unions or agreements. These initiatives do not mean that we are trying to detach ourselves from the rest of the world. On the contrary, we hope that in this way we will be better able to cooperate with other countries, developed as well as developing, in dealing with the problems that we face periodically. Moreover, for the establishment of these institutions we will seek technical assistance from multilateral agencies and countries in a position to help us.

In the meantime, we will continue to require external development assistance to finance our immediate needs. In this connection, I am obliged to point out that the trend of public aid for development continues to be disappointing. In 1976, the volume of official aid provided by the members of the Development Assistance Committee was about US$13.741 billion, which represented an increase of 1 percent in nominal terms with respect to 1975 and a substantial decrease in real terms. The proportion of public aid for development in the gross national product of the DAC countries declined from 0.35 percent in 1975 to 0.33 percent in 1976.

Such a trend can only compel us to call upon the industrial countries to bend all their efforts so that the objective of at least 0.7 percent may be achieved. In this regard, we offer our warmest congratulations to Norway, Sweden and the Netherlands for having surpassed that target. We would also like to express our gratitude to the members of the Organization of Petroleum Exporting Countries (OPEC) for their continuing assistance to our countries. We urge these countries and the others to continue their efforts and to increase their aid.

The African Governors believe that during the next stages in the development of Africa, primary emphasis should be placed on the management by Africans of the resources earmarked for the development of their countries. One of the African agencies best suited to play a major role in the forthcoming decade of development is the African Development Bank (AfDB). The Bank and its affiliated fund have acquired a technical capacity, experience and expertise of particular value for dealing with local conditions and the specific problems of the region. Aware of this capacity, the Bank and its affiliate, the African Development Fund (ADF), have drawn up programs that are extensive yet realistic in terms of the growth of their lending capacity as well as the expansion of their operations. The Bank's program is based on a greater mobilization of the resources of the member countries and an increase in borrowing abroad. For the ADF, the basic task is to obtain, from the participating states, an effective and realistic replenishment of its resources, taking into account the imperative needs of Africa's development. The African Governors are grateful for the active and unstinting support that the participating states have given to the ADF since its establishment. They hope that future action to replenish its resources will be attuned to the needs of more rapid and comprehensive development, within the context of the present world inflation. Therefore, they earnestly invite the international community to support the ADF, calling upon the participating states to fix their contributions for this purpose.

I would now like to speak about the World Bank Group.

In general, the African countries are satisfied with the way in which the Executive Directors, the President and the staff are managing the affairs of the World Bank. At the same time, we are convinced that the World Bank Group can improve its operations, by broadening its field of action and adopting more flexible operating policies. The Executive Directors are currently studying the future role of the Bank and the resources it will need to carry out that role. We have no doubt that all aspects of the Bank's activities will be studied carefully. In the meantime, we would like to make several proposals to which we have given thorough study.

We are greatly disturbed by the recent attempts of certain member countries to inject noneconomic considerations into decisions on the granting of World Bank loans. Our Executive Directors have repeatedly expressed their concern to the Board. We must remind all the member countries that such attempts violate the Agreement establishing the Bank, and jeopardize the future of one of the very few world institutions that enjoy general support. For this reason, noneconomic factors should not be allowed to affect decisions on the granting of loans.

I now come to the matter of the increase in the World Bank's capital. Because the capital requirements of the developing countries are continuing to grow, while public aid for development remains at a disappointing level, we believe that the World Bank is an appropriate institution for increasing the flow of resources to the developing countries. It therefore seems desirable to effect an increase of over 100 percent in the subscriptions to the Bank's capital. In any case, the increase should take place before June 1978.

It would also be desirable for the Bank itself to be fully aware of its role. Recently, there has been a slackening of disbursements with respect to commitments; at the same time, the Bank has often been reluctant to allow the rapid disbursement of loans. In this regard, we would like to point out that disbursements, and not commitments, determine the effectiveness of loan operations, and we therefore call upon the Bank to liberalize its policy regarding loans and disbursements. We are troubled by the recent contraction in program loans with respect to operations as a whole. In our opinion, a return to the previous level is desirable; in fact, we would like to see the volume of such loans, which are suited to our needs, brought up to at least 10 percent of total authorizations.

We are likewise concerned with the hardening of loan terms. For the last fiscal year the average grace period for our countries was 4.3 years, compared to 5 years in 1974. The average repayment period was 19.7 years, against 21.8 years in 1974. This shortening of amortization and grace periods adversely affects the debt structure not only of the African countries that borrow only from the Bank, but also that of the countries that borrow from both the Bank and IDA. In view of the acute economic problems that face so many developing countries, we urge the Bank to make its loan conditions more flexible.

On several occasions we have suggested to the Bank's management that it assign some of its decision-making personnel to the member countries.

Taking into account the size of the staff and the projected increase, we again call upon the Bank to give serious consideration to the transfer of the regional departments outside Washington. These departments are large enough to function autonomously, and if they were located in the areas for which they are responsible, their operating costs would be reduced and their effectiveness improved.

We would like to congratulate the President of IDA and the donor countries upon the successful outcome of the Fifth Replenishment of IDA resources. We had hoped that a figure of at least US$9 billion would be approved. We are not unduly disappointed with the agreed amount of US$7.6 billion, but we take this opportunity to reiterate our hope that IDA will make a radical change in the criteria for the granting and allocation of its credits.

As we have frequently stressed, per capita income should not be the sole criterion for determining the level of development. The rigid application of this criterion has prevented some African countries from having access to IDA, and has kept others from obtaining their rightful share of its assistance. It has long been necessary to take account of such factors as the literacy rate, the share of manufactured goods in GNP, the infant mortality rate and the physical infrastructure, to name only a few.

Undue interest has been focused on the per capita level of allocation in the distribution of IDA funds. Such a viewpoint fails to take into account the indivisible character of some investments and the gravity of the problems confronted by some countries. In our countries, particularly those that are enclaves and those in which the construction sector is relatively undeveloped, construction costs are very high. Since these countries do not have large populations the per capita amount of IDA's commitments far exceeds that received by other areas, although the total amount granted is in fact relatively small. These countries need large-scale infrastructure investments, and IDA does not meet this need. Nevertheless, we are all aware that the longer these investments are deferred the graver the problems relating to the development of the infrastructure projects will be.

Likewise, we believe the World Bank and IDA attach an exaggerated importance to the financial and economic rates of return in their selection of projects. Since investment costs are very high in our countries, especially the enclave countries, a choice founded solely on the rate of return, rather than on the project's overall contribution to a nation's economic development distorts the allocation of resources and lessens the flow of IDA funds to those countries. It would be a good thing if the Bank and IDA would allow the decision on financing a project to be based on the economic and social rate of return or the project's place in the economy as a whole.

As in the past, we are asking the Bank and IDA to provide more liberal financing for the national currency costs of projects, because many countries have difficulty in financing a high percentage of project costs on account of the present economic difficulties. We are already finding ourselves forced to modify our development programs and channel the few domestic resources available into a few major projects for which external resources could not be found. The scarcity of funds that this occasions compels us to cut certain urgent but small-scale projects out of our programs.

We have several times requested that conditions for IBRD loans and for access to IDA resources be rendered more flexible. Several middle-income countries are facing structural adjustment problems that call for recourse to external loans, thus aggravating the burden of foreign debt. To alleviate these problems, we should like to propose that aid including an adequate concessionary element be furnished to these countries through a renewal of Third Window operations. In this respect, the World Bank would stand to gain in receiving substantial supplementary contributions from the industrial countries.

The African Governors appeal to the members of the International Finance Corporation to see to it that the measures for its increase of capital are rapidly adopted. They have noted the IFC's program of work for Africa; but we would like to believe that from now on the institution will pay greater heed to the needs of African countries and devote a major portion of its capital increase to investments in Africa. Needless to say, these countries' membership in the IFC will soon be subject to revision if the agency cannot make at least one investment in each of the member countries.

Allow me to say a few words on the Development Committee before going on to IMF matters. This Committee is now in existence and no one will deny that its results have fallen far short of what we had expected or would have liked to see. Of course, this situation is not due to any lack of ideas on the part of the Secretariat. No, it is we who are guilty of lacking the necessary political will to take the measures that could have been taken. We ask the member countries, particularly the industrial ones, to intensify their efforts so that the Committee may fulfill its role and succeed in stimulating an increase in the real flow of resources to developing countries. . . .

CANADA: JEAN CHRETIEN

Governor of the Bank and Fund

I am conscious that I begin my service as Governor for Canada of the Fund and the Bank at a time when governments face particularly difficult and urgent economic decisions.

In the last year some progress has been made in getting the world economy back on track. Rates of inflation are now somewhat lower. There is real economic growth in most countries. The volume of international trade continues to expand and the balance of payments situations of many countries have shown some improvement.

But as we know in Canada progress on these fronts has not been good enough. A considerable atmosphere of uncertainty continues to make the economic advance hesitant and unsteady.

Canada may not be untypical of many other countries. Certainly our rate of inflation is still too high and is impairing the growth of employment and trade that we need. In Canada we have too many people out of work, particularly young people. Continuing high levels of unemployment are, I know, a matter of serious social as well as economic concern in both developed and developing countries.

Although the correction of the massive payments imbalances in the world is proceeding, much more needs to be accomplished. The external imbalances of certain nonindustrial economies and some developing countries remain especially acute. In many developing countries the continuing need for more long-term capital constitutes an obstacle to progress. There is a limit to the role which short-term commercial credit can play in these circumstances, helpful as such credit is.

The Fund and the Bank are particularly appropriate forums in which to focus on these issues. These institutions were designed to help overcome these problems by providing balance of payments assistance in the one instance and development funds in the other. The Fund and the Bank have served the world well. But we must continue to adapt their policies and procedures to meet the growing and changing needs of the members. . . .

. . . The Secretary General of the OECD has raised an important question here in Washington this week. He asked whether certain countries should not now be adding further stimulus to their economies. It strikes me that this is the right question to be asking at this time. I have sensed that many of you share this reaction. Of course it would be most unwise to inject stimulus where that would merely make inflation worse. But the time may be at hand for a reappraisal of our policies. When I assumed my duties as Minister of Finance a few days ago I took the view that one of my first duties should be to re-examine the setting of our economic policies in Canada. I intend to complete this review just as quickly as possible.

Let me come back to the role of the Fund. The turmoil in the international economy in recent years may require somewhat longer adjustment periods. Indeed this is explicitly recognized in the Supplementary Financing Facility. But the basic purpose of the Fund, to provide temporary balance of payments financing on appropriate terms and conditions, remains unchanged. To confuse Fund assistance with long-term development financing can only aggravate our problems. In considering increases in the resources of the Fund and the Bank we should therefore seek to provide each institution with the resources it needs to perform its specialized role.

In the case of the Bank there appears to be a consensus that further funds should be provided as quickly as possible so that it can continue and indeed expand its lending activities. Canada strongly supports the proposal for a substantial general increase in the capital of the Bank. We believe negotiations to this end should be started right away. This is the view which the Commonwealth countries confirmed at our recent meeting in Barbados.

Negotiations for the replenishment of the funds of the International Development Association have now been completed. I know that all donor countries attach the highest priority to obtaining the legislative authority required to give effect to this agreement.

In deciding how much capital to provide to the World Bank we also have to decide what we want the Bank to be doing over the next several years.

There have been substantial changes in its activities. New emphasis has been placed on rural projects and projects to assist the urban poor. There are now proposals for a number of additional lending activities. The Bank of course must not spread its resources too thinly but at the same time it must respond to changing needs. In our view many of the proposals are worthy of consideration. We support, in particular, the idea that the Bank play a more prominent role in financing energy-related undertakings.

Finally, we welcome the proposal that the Bank prepare an annual Review of World Development. Such a review, as Mr. McNamara pointed out, could provide a basis for measuring the effectiveness of our development policies and identifying new needs.

Let me say in conclusion that, after what we have been through in the last few years, we are all more conscious of our mutual interdependence. Developing countries depend on prosperous markets in the industrialized world; prosperity in industrial countries is reinforced by stronger growth in the Third World. We must work together to achieve our potential. We will have to be hard-headed and practical but I think we can do it.

REPUBLIC OF CHINA: KUO-HWA YU

Governor of the Fund

On behalf of the delegation of the Republic of China to the Fund and the Bank, I would like to join my fellow Governors in expressing our warm appreciation to Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, and the Executive Directors and the staff of the Fund and the Bank for their dedication and efforts which have enabled these two international organizations to play increasingly significant roles in fostering economic development and seeking a workable monetary system. We have learned with deep regret that Mr. Witteveen for personal reasons has decided not to seek a further term of office. Mr. Witteveen has served with distinction and dedication during his directorship of the Fund and we wish to record our appreciation.

The persistence of high levels of inflation and unemployment, coupled with the external payments imbalance in many member countries, is still cause for concern. It is necessary for many countries to carry on extremely prudent and skillful demand management. We would like to urge that industrial member countries with strong external positions should ensure continued adequate expansion of real domestic demand, within the framework of reasonable price stability, so as to stimulate a more forceful and sustained world economic recovery.

We are pleased to note that the world economic activity has expanded over the past year and the economic outlook has improved during recent months. However, the renewed pressure for protectionism due to the high level of unemployment in many member countries is a matter for concern. Needless to say, resorting to restrictions on trade does not provide any real solution. Increased protectionism merely leads to misallocation of resources, disrupts economic harmony among nations, and particularly damages the economies of the developing countries which can least afford economic setbacks. My delegation endorses the Interim Committee's position that "special efforts should be made to improve market access for the exports of the developing countries.... Any tendencies toward protectionist trade policies cannot be considered acceptable from an international point of view and should be strongly resisted."...

... Turning to Bank activity, there is a general feeling that, other than its ordinary commitments, the Bank and IDA should play an even more active role in the task of channeling the flow of concessional assistance—the official development assistance for the least developing countries and long-term capital for the middle-income developing countries. In addition, the recently approved resolution for a selective increase in the Bank's capital should be implemented. The funds available for the Third Window should be increased to the original target, and the resources for IDA should be replenished.

With regard to developing countries' access to international capital markets, it is very important that the proposed Multilateral Guarantee Facility, International Capital Markets Information System, and other relevant plans should materialize in the near future. In the meantime, we would like to urge the industrial countries to take measures to lessen restrictions on capital outflows to developing countries, and to simplify the procedures for approving the issuing of securities by firms of developing countries.

In addition to external assistance, developing countries need to cultivate their ability to adapt quickly to changing world economic conditions. In this connection, I would like to mention briefly the performance of the economy of the Republic of China in adopting well-timed strategies for development and stability.

Following a slowdown in the economic growth in 1974 and 1975, our economy has regained momentum since early 1976. Real GNP increased by 11.8 percent in 1976, and by 9.0 percent in the first half of 1977, which is very close to the 9.5 percent average annual growth rate during the period 1961–72.

Trade balance on goods and services swung from a deficit of US$597 million in 1975 to a surplus of US$371 million in 1976. The major factors which contributed to the export expansion were (1) the export sector's ability to respond to the cyclical recovery of demand in the major trading partners, and (2) export price competitiveness continued to improve since the second quarter of 1974, which, in turn, was mainly attributable to the success in the containment of domestic inflation by the stabilization programs introduced in January 1974. The annual rates of increase in the GNP deflator were 4.7 percent and 3.7 percent, respectively, in 1976 and the first half of 1977.

Moreover, the income distribution of the Republic of China has tended to be more equitable, accelerating socioeconomic changes conducive to the process of self-sustained growth. The average income of the top 20 percent of the population was 5.3 times that of the lowest 20 percent in 1964. This figure was brought down to 3.8 times in 1976. In addition, positive efforts were made by the Government in such fields as mass education, tax reform, social welfare, and labor insurance, to improve the lot of low-income people.

My Government has attempted to make use of all available domestic and external resources for national construction, restructuring and modernizing the economy. As a highly open economy, we fully recognize the fact that the cost of protection will be prohibitive. My Government has committed itself to the trade liberalization policy. During the period from 1972 to the first half of 1977, my Government removed 1,613 items from the list of controlled imports. The case for multinational efforts to remove restrictions and expand global trade has become especially important in the current unsettled world economic situation.

In concluding my statement, I would like to pledge, once again, our full support and cooperation to further strengthen the constructive roles of the Fund and the Bank in seeking to promote economic welfare for the peoples of all member countries.

EGYPT: ABDEL MONEIM EL KAISSOUNI

Governor of the Bank

The Egyptian delegation has contributed a statement to this Annual Meeting which is being distributed in the usual manner. It would be an honor for us if you could find the time to read it.

However, knowing the pressures on your precious time I shall limit myself now to mentioning for your kind consideration the following three points:

1. The gap between the per capita income in the advanced countries and the developing countries is fast becoming dramatically wider and wider. With the rapid development of international means of communication and the ease of comparing living standards between one country and another, we create an explosion of hopes and expectations which cannot be fulfilled and which leads inexorably to discontent, frustration, and grave social, political, and economic difficulties on an international basis. I believe it is our urgent duty to do our utmost to remedy this state of affairs before it is too late.

2. In attempting to help the less developed countries to improve their standard of living, not only should the flow of assistance on a concessional basis be considerably augmented, but serious technical assistance should patiently be given for the implementation of their development programs until such time that they can implement their own programs efficiently and rapidly.

3. In giving the less developed countries sound and proper advice for the improvement of their financial and monetary policies, we should not overlook the fact that political and social considerations may prevent the rapid implementation of such policies. An austerity policy may be possible in an advanced country with a high standard of living. It may not be possible in a less developed country where poverty does not leave much room for austerity except on a patient and gradual basis and when coupled with a serious program of economic growth.

It gives me great pleasure and honor to participate in this Annual Meeting of the Boards of Governors and to address the distinguished Governors. At the outset, I wish to congratulate you, Mr. Chairman, for the penetrating opening address in which you have placed emphasis on the various international issues of particular importance to this meeting. I wish also to express our appreciation to Mr. Witteveen and to Mr. McNamara for their stimulating addresses. To the Executive Directors I would like to convey our thanks for the excellent Annual Reports of the Fund and Bank presented to this meeting. Finally, the Interim Committee and the Development Committee are to be complimented for the work achieved in the past year.

Before I turn to a discussion of a few issues, I would like to point out that my remarks should not detract from the importance of the points raised by the distinguished spokesman on behalf of the African Governors of the Fund and the Bank who has been persuasively and eloquently pleading the cause of the African Group. . . .

. . . Turning to the activity of the World Bank Group, we have to pay tribute to the efforts deployed by the Bank under the able and inspiring guidance of Mr. McNamara to increase the volume of financing provided to developing countries. However, the continued expansion in operations makes a sizable increase in the capital resources of the World Bank Group an absolute necessity. In particular, developing countries attach particular importance to the Fifth Replenishment of IDA which should ensure a substantial increase in the volume of concessional development financing provided by the Association.

Finally, I wish to seize this opportunity to place emphasis on the existing close relations between my country and the Fund and World Bank and the assistance obtained so far of which mention may be made of the stand-by arrangement with the Fund earlier this year and the active participation of the Bank and of IDA in the development efforts of Egypt. The Bank has also chaired last May a meeting of the Consultative Group for Egypt for which we are grateful both to the sponsor and to the various countries which graciously participated. Concomitant with such assistance which is enhancing confidence in our economy, substantial financing has been arranged with the Gulf countries through the Gulf Organization for Development in Egypt, as well as with other friendly countries. Egypt has been suffering from balance of payments difficulties and from internal inflationary pressures for the past few years. To tackle these problems various measures have been taken in many fields within the framework of an "open-door" liberalization policy. However, substantial modification of economic and financial policies had to be initiated with a view to adjusting the course of our economy. The stabilization efforts were given further momentum this year with the new measures introduced in the economic, fiscal, monetary, and credit fields with the support of the Fund coupled with an enlarged capital inflow from various sources to meet our development needs and to improve the maturity structure of external debts. In the meantime the law regulating the investment of Arab and foreign capital in Egypt has been amended in order to further encourage investors and to improve its implementation. The results so far achieved as regards the improvement of the balance of payments, the limitation of credit expansion within the ceilings established for the various sectors, the improvement of the budgetary situation, and the reduced reliance on short-term banking credit facilities—all bear witness to the successful performance of the new economic policy. An ambitious Five-Year Plan has been formulated and serious steps are being taken for its successful implementation.

To conclude my statement in a somewhat optimistic tone, I would like to stress that the medium-term prospects of Egypt's external sector are good, thanks to the growing earnings from petroleum exports, Suez Canal dues, tourism, remittances of nationals working abroad, and the serious measures taken to implement a rapid and important growth of its economy. But substantial external assistance will still be needed in order to forge ahead with our economic reform and to achieve growth with stability.

FIJI: H. J. TOMKINS

Governor of the Bank and Fund

I join colleagues in thanking our host, the Government of the United States, for the excellent arrangements under which we meet this year. I also thank the President of the United States for his warm words of welcome.

As usual both the Fund and the Bank have very competently analyzed for us the world economic and monetary scene. It is evident that both these institutions have again performed commendably in the face of an adverse and difficult world economic climate. I would like to voice my country's appreciation to President McNamara and Managing Director Witteveen and their Executive Boards and staffs.

I should also like to express Fiji's congratulations to Mr. McNamara on his re-election and our regret at Mr. Witteveen's decision not to extend his term of office. Fiji's thanks go to both of them for their distinguished services to the world community.

Over the last three years we have witnessed world economic dislocations of unprecedented magnitude. We experienced double digit inflation in the midst of a deep recession, a phenomenon which defied the traditional theories of the economic textbooks. Unemployment remains obstinately high in most member countries.

The major oil-exporting countries have accumulated enormous current account surpluses ranging from US$67 billion in 1974 to US$41 billion in 1976 and an expected US$37 billion in 1977. Some industrial countries, particularly Japan and the Federal Republic of Germany, were able to wipe out their oil deficits within a couple of years. The burden of these vast surpluses has fallen almost entirely on the non-oil primary producing countries, particularly the less developed nations, whose collective deficits have ranged between US$25 billion and US$38 billion over the last three years. Although a slight improvement is now expected, their global deficit for 1977 is still estimated at a daunting US$25 billion.

The financing of the current account deficits resulting from the shift of resources toward the oil producers has largely been achieved by the intermediation of commercial banks. Indeed they are to be commended on "recycling" on a scale which scarcely seemed conceivable at the time of the 1974 Annual Meeting. It must be questionable, however, whether this form of short-term financing can continue indefinitely since eventually the non-oil developing countries will be faced with a choice between unacceptably high debt service or a cut in living standards and a slowing down of development. This situation focuses our attention on the need to find additional methods of financing. It is essential to enhance the capacity of the Fund and of the Bank to assist with the financing of the adjustment process. . . .

. . . The Bank and its affiliates have had another impressive year of loan approvals and disbursements. The Bank's standing in the world capital markets remains *sans pareil.* It is important for this instituion's lending to developing countries to grow in real terms in the years ahead. As the Bank's Articles limit the volume of outstanding loans to 100 percent of subscribed capital it is particularly important that a general capital increase be accorded high priority. I therefore hope that the Bank Executive Directors' program for reaching agreement on this question by June 1978 will be fulfilled. I am glad to learn that IDA-V is now *de facto* launched. I support other speakers in urging that replenishment of the capital resources of the World Bank and its affiliates should be placed on a firm and dependable basis.

May I support the suggestion that the Bank should devote more of its resources to the development of alternative and renewable sources of energy, such as hydroelectric power. Needless to say I agree that per capita income should not be the only criterion for deciding whether a country should have access to soft funds. Small island economies face peculiar difficulties. To take just one example, the costs of transport, both internationally and domestically, for a small and scattered island community—remote from markets and sources of supply—are a very real burden. Yet, ironically, these additional costs appear in the national income accounts to inflate GNP and, on the present criterion, help to disqualify an island economy from easier terms.

We welcome the proposals for giving a new thrust and expanded role to the IFC—an organization which Fiji hopes to join before the next Annual Meeting.

I would like to conclude on a general note. It is the same point that the Governor for Fiji made last year. Like it or not we now live in a world of close interdependence. It now seems that economic recovery which appeared to have begun in 1975/76 has faltered despite the impressive growth of the United States economy in the first half of 1977. Recovery can only be maintained by the willingness of economically stronger members with low rates of inflation and payments surpluses to expand demand within their economies. We understand why these countries hesitate to stimulate demand because of the fear of rekindling inflation—one of the most pernicious of all economic diseases. But they have underutilized resources, including the most precious of all—manpower—and the rest of the world has spare capacity to supply them with imports. The Interim Committee in its Manila Communiqué last October rightly pleaded that the adjustment of external payments positions should be symmetrical and that countries with strong payments positions should ensure continued expansion in demand. We welcome measures recently taken by Japan and the Federal Republic of Germany. Deficit countries have little option but to contract when faced with external adjustment problems.

The international economic and monetary climate can only improve in an atmosphere of give and take. This message, I venture to say, is particularly pertinent for the economically strong—those most able to contribute to the solution of our common problems.

FRANCE: ROBERT BOULIN

Governor of the Fund

Fifty years ago the French writer Paul Valéry said: the time of the finite world is beginning. We, today, might add: the time of the finite economy has begun.

In recent years we have all awakened to a new reality—despite all the differences that still separate our countries, all economies throughout the world are closely interconnected. I would even say that we have experienced the truth of this in two regards, simultaneously.

Firstly, we have realized that none of our countries, during the economic crisis that developed in 1974 and 1975, was in a position to act alone and to save itself by its own resources: never before, I believe, has this interdependence been so profoundly and distinctly felt.

Then, too, recent developments in the relations between industrial countries, oil-producing countries, developing countries, and planned-economy countries have made us appreciate that this interdependence is no longer, as in former times, a matter of proximity and kinship; we all know now that the only economic horizon is the blue rim of this earthly globe. Universalism is no longer the sole prerogative of the thinker. It is also characteristic of production, of trade, of money, and of all the economic and financial life for which we assume responsibility in each of our countries.

Is not this the very significance of our Annual Meeting? Like all groups that are growing stronger, this one has far overflowed the bounds of the institutions that brought it into being. Now, its existence can be felt in everyday life, but let us remember it was the World Bank and the International Monetary Fund that first carried the torch.

Before proceeding to comment on the questions of the present time, may I take just a brief moment to comment on this revolution. Despite all the challenges it poses for us, it appears to me irreversible and beneficent.

As philosophers, let us acknowledge that this worldwide integration stimulated by the ferment of economic activity and trade is heightening the capacities of mankind. The emergence of the consciousness that we share common problems indicates a sense of solidarity that historians will doubtless recognize as a fundamental turning point.

As politicians, let us admit that increasingly open frontiers and the more and more numerous links forged by trade and exchange of all kinds are powerful guarantees of peace and understanding. Is there any friendship pact with surer and more far-reaching effects?

And lastly, as accountants—for a Minister of Economy and Finance needs to know how to count—let us realize that the standard of living all over the world is largely dependent on the development of an international economy in which countries are accessible to one another and each nation takes its rightful place.

This being so, our first concern should be to conserve what we have gained, conscious of the catastrophic effects of any backsliding. If there is one positive aspect, in these days when the results of our irksome efforts sometimes seem disappointing, it is certainly the fact that the worldwide outreach of our economies is standing the test. This in itself is a substantial result. While we may not regard it as spectacular, let us refrain from trying to undermine it. And let us not forget that there is some point in attempting to preserve the fruits of 25 years of dogged progress in a widening economic sphere. Nothing less is at stake than the peace of the world and the well-being of nations.

In these days of a gloomy economic scene and moral disquietude I thought it would be useful to reiterate this profound conviction at the beginning of my remarks. It is the principle underlying our work and the raison d'être of our assembly, despite all the day-to-day difficulties and routine work.

If some people are getting the impression that these opening words are far removed from the realities of today's world, I can disabuse them straightaway. In point of fact, I believe that as Governors of the International Monetary Fund we have to concentrate on what the experts call the balance of payments adjustment process. Its proper functioning is the prerequisite for the continuance of an open trade and payments system. And I think we have some reason for concern with regard to the slowness of the process.

As you will remember, in 1974 the international payments system confronted the most enormous disequilibrium it has ever had to absorb in conditions of free trade and payments. The disequilibrium was considerable in amount and disseminated worldwide. We all knew that this unprecedented situation was a challenge that we must not fail to meet. A balance sheet of claims and debts within the world community cannot provide a solution: at some time current transactions, visible and invisible, will have to be restored to equilibrium. We have all realized, too, that long years would be required for this.

Our present task, then, is the vigilant surveillance of the progress of this adjustment process, if the world economy is not to be allowed to settle down into a state of imbalance that could become structural or, at any rate, chronic. If such were the case, in fact, in the long run this situation would be fraught with dangers of commercial, monetary, or financial distortions, calling into question the fundamental gains whose price I have described.

Now, what do we find? Following a year, 1975, of diminished imbalances due to the repercussions of the economic crisis on trade, 1976 was marked by a swing back to a large surplus in the oil-producing countries and an even larger increase in the current deficit of the industrial countries.

For 1977, experts are predicting at this time a quasi-stabilization of the oil-producing countries' surplus on current account and of the current deficit of the non-oil producing developing countries. And they anticipate a yet larger deficit in the industrial countries' current account.

We cannot help feeling, therefore, that the progress achieved in four years toward the adjustment of payments balances is still very little and, let us admit it, less than what we expected.

Furthermore, the evolution of payments by main groups of countries does not reveal the profound disparities in the situation of their individual members. With protracted disequilibria in some countries, the deficit or surplus tends to become a permanent feature of their overall balance sheet.

Let us not become inured to this. If such a trend were to continue for a long time the results would most certainly be massive financing problems, greater instability of currencies, and, in the end, very serious repercussions on the levels of activity and employment.

Then, being aware of the existence and extent of these shortcomings, it is our task both to find the ways and means for more rapid adjustment and to adopt the necessary precautions in coping with the present difficulties. In this connection there are three points I wish to emphasize.

The first is an axiom backed by evidence and experience. Appropriate domestic policies are essential to a restoration of external equilibrium. This conviction was very much cherished by the founders of the International Monetary Fund. It is in no way outdated, and it should be remembered now when various countries, if they are not careful, could either be drawn into dangerous deficit or pile up large surpluses.

I know that some countries' freedom of maneuver is restricted by their concern not to worsen the employment situation, and that of others by a hesitation to stir up renewed inflationary pressures. In spite of this, I am persuaded that in pursuing our common objective of a return to better equilibrium in world payments we must still combine the resolute and complementary efforts of the deficit countries and the surplus countries.

The former need to control cyclical factors of inflation by a prudent management of global demand and a strict control of the money supply. But also, a considerable improvement in the situation of the economic units must be sought, by striking at the structural roots of inflation.

As you know, France has resolutely pursued this course for the past year. I will not describe our policies again, but will confine myself to reporting that they have begun to bear fruit.

- For a year the franc has, on the whole, remained stable. To our mind, that is a most significant achievement.

- Now that the trade deficit is being absorbed, our current payments in 1977 should show an imbalance less than half that of 1976.
- Internally, the slowdown in pay increases, in observance of the rule regarding the strict maintenance of purchasing power, is an accomplished fact.
- In line with the aim of stabilizing the liquidity rate of the economy, the creation of money is being strictly controlled.
- Public finance management is being oriented in the direction of a gradual return to the traditional rule of equilibrium, and the social security deficit has been made up.
- The rise in prices, which was a steep 13 percent one year ago, has been brought down to a much lower level for the past year, and now all the circumstances favor a more pronounced slowdown.
- The Government has abstained from drastic deflationary measures for a year, and has consistently taken the necessary measures to assure maintenance of a moderate rate of growth, and this will be obtained in 1977.
- Although one of the industrial countries with lowest unemployment, France is experiencing a real problem in this regard. The Government has formulated a direct action program that will make it possible to tackle the problem without running the risk of renewed inflation.

But the French Government is very much aware that these first results can be consolidated and reinforced only if the past year's efforts are continued. No one is more conscious than they of the time required for a genuine recovery from the inflationary ills that were afflicting our economies.

Therefore, my country maintains this same orientation in its policies and is making a lasting contribution to the international adjustment process.

But experience leads France to hope that the surplus countries, too, will contribute actively to the process, by stimulating their own demand in appropriate ways.

Generally speaking, these countries just now manifest a rate of growth that is tending to slow down high unemployment, underutilized production capacity, and often very sizable payments surpluses.

Of course, they must be watchful to ensure that boosting their domestic operations does not cause inflation to flare up again. But they now seem to have considerable room for maneuver and to be in a position to make a substantial contribution to the upholding of world demand and the reduction of international payments imbalances.

I am therefore pleased to see the initiatives recently taken in this direction. . . .

. . . But as you know, in another area we have been called upon to exercise our talents as visionaries. I speak about the creation of the new international economic order to which the international community has given its attention for the past several years. We have certainly not yet come to an agreement on what this means—and how could it have been otherwise, when the problem is immense and directly affects the interests of every nation? Therefore, however divergent our positions may be within the array of economic powers in today's world, it seems to me that we all believe in its necessity. Is not that itself a fact of great importance, permitting a different response to conflicts such as those that have afflicted the world in the past?

Such, in any case, is the conviction of France, which took the initiative of convening the Conference on International Economic Cooperation two years ago. I can assure you that our conviction has not changed. We attach fundamental importance to this new "North-South" dialogue, which should therefore be continued.

Allow me to note in passing that the gloom in the international community about the question of the new world economic order seems to hinder an objective approach.

It is true that on certain matters of special interest to the participants in the dialogue, and on which the discussion was not preceded by a long-standing tradition of working together, the Conference on International Economic Cooperation has not borne fruit. Because of this, there has undoubtedly been some disappointment.

Still, it seems to me that this starting point, while it has not led to agreement on everything, is a good starting point. I would like to make two remarks in this connection.

The first is that the dialogue has already shown that concrete results can be achieved. Thus, with regard to public aid for development, agreement has been reached not only on guidelines, but also on precise and detailed commitments concerning both the volume and the conditions of aid. In view of the importance of transfers of real resources in the development process, I believe that this agreement is quite significant. Likewise, with regard to raw materials markets—a key economic sector in most of the developing countries—it has been agreed that agreements will be sought on a product-by-product basis. In addition, the international community has undertaken to set up a common fund, in accordance with the integrated program for basic commodities adopted by the Fourth United Nations Conference on Trade and Development. France, which made such a proposal at this meeting several years ago, very much hopes that the negotiations on the statutes and functions of the common fund will proceed rapidly.

My second remark is the following: even with regard to matters on which agreement has not been reached, the Conference on International Economic Cooperation has played a particularly useful role. Within a new framework free of past constraints, and within a climate of cooperation in which all viewpoints could be expressed, the Conference has made it possible to recognize the critical problems that make our economies a single community, as I said at the outset. The map of this new world has been drawn. History has taught us that the voyages of the explorers portended new times. I believe that we can invest the Paris Conference with a significance of this kind.

In this spirit, we have agreed to continue the dialogue in all appropriate international forums. Some of the problems identified naturally involve the institutions that are meeting here. It is to these problems that I would now like to turn.

First of all, I must emphasize that we regard the volume of aid as of central importance.

Needless to say, an increase in flows of private capital to the developing countries is a positive contribution to the success of their efforts. I am therefore pleased that the work done within the Development Committee to expand the access of these countries to capital markets has led to key recommendations, the implementation of which should bring useful results. In particular, we hope that the guarantees offered by the World Bank and regional development banks will help creditworthy borrowers to overcome the difficulties that they may face and to assist them in making use of those markets.

Nevertheless, whatever progress can be made in this regard, we should be well aware that for many developing countries, and especially for the most impoverished ones, the volume of aid remains a decisive factor. The vicious circle of poverty cannot be broken by itself and growth, in order to be self-sustaining, first requires a take off in which external aid has a central role to play. Allow me to offer a few comments in this regard.

No one can deny that the present volume of official aid is far below what is required for the economic take off of the poorest countries.

The legitimate concerns that have been expressed about the quality of aid, in particular its conditions and its distribution, would be greatly eased if the international aid efforts were shared more equitably among the donor countries.

Likewise, the problem of indebtedness, which justly preoccupies the international community and which was discussed at length at the Conference on International Economic Cooperation, can really be solved for some countries only through an increase in the transfer of real resources.

It is precisely on this question—aid for development—that the Paris Conference has opened up the most encouraging prospects. Indeed, all of the participants have agreed that public aid should be increased substantially and that the efforts of the donors should be all the greater to the extent that their relative performance has been weaker up to the present.

For its part, France once again affirms its commitment to the international objective that each donor country should allocate 0.70 percent of its gross national product for official development assistance. We find that the effort made in this regard has varied considerably among the countries. We hope that the donor countries that are farthest from achieving this objective—and especially those that have the highest per capita incomes—will endeavor to meet it so that the total volume of aid will be increased and so that the common effort will be shared more equitably.

Having made this preliminary observation, I would now like to turn to the assistance that the International Monetary Fund and the World Bank are providing to the developing countries.

I have three comments to make in this connection.

First of all, greater flexibility in the operation of the compensatory financing facility—which France has firmly supported—has permitted a significant increase in drawings on the Fund. For 1976 and the first half of 1977, drawings on this facility totaled nearly SDR 2.5 billion.

Secondly, the World Bank's Third Window, to which France has made a significant voluntary contribution, has made soft loans totaling US$700 million to 26 countries.

Finally, the Trust Fund, thanks to the capital gains that it has realized in the first 12 gold sales, has begun to make loans to developing countries with the lowest per capita incomes.

We should continue our efforts to ensure an increase in real terms in the resources available to the World Bank Group to carry out its mission.

The negotiations on the Fifth Replenishment of IDA resources have now been completed. This will enable IDA to make loans totaling US$7.6 billion during the next three years. This figure attests to a significant increase in the resources of the institution in real terms, in line with the objective sought. In this connection, we are pleased that some countries have been able to join the traditional contributors for the first time. We sincerely hope that the recent agreement concluded in Vienna will not be jeopardized, so that the continuity of IDA's operations may be guaranteed.

With regard to the World Bank itself, a selective increase in its capital is in process. We are pleased to see that this operation is now well under way. This increase will enable the Bank, under the leadership of its dynamic President, to continue the expansion of its loan commitments. Over the longer term, the Bank's requirements for capital resources will have to be studied carefully at the proper time.

While the principle of a regular increase in the Bank's lending is a good one, we should make sure that the expansion of its operations continues to be compatible with sound management and the maintenance of its financial equilibrium, so that the institution will retain its excellent standing in financial markets.

Finally, we hope that the distribution of IDA credits and World Bank loans will give sufficient attention to the poorest countries, and will take into account the vital needs of people, who must not be viewed only from the standpoint of per capita gross national product. In this regard, particular attention should be given to the needs of Africa.

We also believe it highly desirable for the World Bank to step up its action to help exploit the energy resources of the developing countries. In this connection, we are pleased with the decision made recently by the Bank to play a more active role in the field of energy.

It seems to us that the rise in energy costs has made profitable the development of hitherto unexploited resources. Many countries are continuing to meet their energy requirements through imports, and are facing serious balance of payments problems.

An expansion of the World Bank's operations in this field would undoubtedly have a linkage effect, since it would attract private capital to projects that offer a satisfactory return.

I believe that the Bank would thereby make a twofold contribution: it would enable the countries concerned to accelerate their development by freeing them of the heavy burden of foreign dependence, and possibly by becoming exporters themselves; and it would favor the general process of balance of payments adjustment by correcting distortions in the trade of countries that are among the most vulnerable to the problems created by the energy crisis.

I note that this new orientation of the World Bank's activity—which has just been outlined but must still be approved—is in accordance with the recommendations made by the Conference on International Economic Cooperation.

To conclude my remarks, I would like to emphasize the imperative need of our time: to strengthen cooperation among nations in the economic, monetary and financial areas.

I am aware that this idea of international cooperation has long been on our minds. But it must be more concretely perceived by our public opinion and must be translated into even more tangible results.

Cooperation among nations will enable the industrial countries to return to sound growth with external equilibrium.

Cooperation among nations will enable the developing countries to overcome the obstacles that they face.

It is this cooperation that France seeks. We will continue our efforts to make it a reality.

GERMANY: HANS APEL

Governor of the Bank

The worldwide economic recovery has lost momentum. This is certainly true for most industrial countries, and it has consequences for the developing world. In view of the high unemployment prevailing in most countries, we cannot afford to remain passive. It was exactly for this reason that the German Government has now decided—for the second time this year—on measures to strengthen domestic demand. The earlier medium-term program for public investment in the order of DM 16 billion is currently being supplemented by tax relief measures and a substantial increase in government spending in 1978.

We are confident that the programs already under way and the ones currently under preparation, taken together, will accelerate economic growth again and enable the German economy to reach a growth rate of 4½ percent in 1978. The public sector deficit will rise from DM 33 billion in 1977 to at least DM 47 billion in 1978, equivalent to roughly 4 percent of our GNP.

I am not saying this merely to demonstrate our efforts to fight unemployment at home, but to make it clear that we do accept our responsibility for world economic activity. Over the past 12 months the deutsche mark has appreciated by 10 percent vis-à-vis the 16 currencies of our most important trade partners. This must have consequences for our exports. We know, however, that we live in an interdependent world. We wish to play our part in overcoming the present cyclical and structural difficulties.

At the same time, we too came to Washington with some expectations. We are pleased to note that other industrial nations also responded to the slowdown of economic growth with appropriate domestic actions. Individual countries alone cannot ensure a continuous expansion of world economic activity no matter how heavy a weight they carry in international trade. This burden has to be shouldered by many countries. This Annual Meeting of the Fund and the Bank is, in our view, the appropriate forum to combine and to coordinate our various economic measures and efforts in order to enhance and reinforce their effectiveness.

International solidarity has stood its test in recent years. With our common efforts we have managed to cope much better with the worldwide difficulties than we ourselves may have believed at the time. The severe balance of payments dislocations experienced by many countries have at least been alleviated. Some countries, in fact, have mastered their problems remarkably well. Up till now we have avoided entering the perilous road of increasing protectionism. Beggar-thy-neighbor policies cannot be the response to the challenges of our time. We also made headway toward greater price stability.

A foundation for further progress has thus been established. In contributing to a continuing and steady growth of the world economy Germany will always attach the greatest importance to keeping inflation in check. This guiding principle applies without reservation to our domestic economic policy. It equally determines our stand on issues before the IMF and the World Bank....

... Let me now turn to the work and the future role of the World Bank and its sister institutions. It is encouraging to see that the developing countries have made astonishing progress, mainly through their own efforts, despite the rather slow upturn of economic trends. Although they suffer from high oil prices and the recession in the industrial countries, they managed by and large to cope with their adjustment problems. This was due to their good export performance, internal measures, large inflows of private capital, bilateral assistance and support from international lending institutions, such as the IMF and the World Bank Group. The German capital market was again a major source of long-term funds for the Bank. It provided more than $1.2 billion in the last fiscal year.

Progress of the developing countries will very much depend on the improvement of the economic situation of the industrial countries and the growing integration of the developing countries into world trade. Also, trade among developing countries offers ample room for improvement. For the poorer countries, however, this will not suffice. There, indeed, an overall increase of ODA is warranted. My Government just decided to raise the development aid budget by 22 percent. This rate of increase is more than double the average growth rate for the 1978 budget as a whole.

Multilateral channels continue to play an important role. We prefer, however, to concentrate our support on institutions of proven efficiency rather than accepting a further proliferation of organizations and funds. The World Bank Group is accorded high priority. Our trust in the good performance of its institutions is reflected in three important decisions:

1. The German Parliament has approved our full contribution to IDA-V without any restrictions. With a contribution of more than DM 2 billion, this makes us the second largest contributor.

2. We will participate in the forthcoming capital increase of IFC, which

will enable it to promote private investments on a larger scale and redirect its activities more towards the poorer countries.

3. Germany will take up all its shares in the selective capital increase of the Bank proper, thus contributing to a further strengthening of the Bank's capital basis.

But this selective capital increase will not be sufficient in the longer run if we want to preserve a solid capital structure of the Bank.

If the Bank is to be placed in a position to meet ever-increasing and multiplying tasks in the years to come—let me just mention the need for increased activities in the energy and mineral sectors—it now appears urgent to make a decision on the further strengthening of the capital basis soon. All countries which participated at the London Summit and at the final meeting of the Conference on International Economic Cooperation agreed that such a strengthening was necessary in order to achieve an expansion of lending in real terms. It is in the common interest of all member countries that the good and solid financial basis of this multilateral financing institute be maintained and strengthened. Therefore, the Federal Republic of Germany supports plans for a further strengthening of the World Bank's capitalization, and it will make an adequate contribution toward that end. The targets for that capital increase and for the future increase of the level of lending should be in keeping with a moderate real growth of the Bank's operations. The annual real growth of GNP in the industrial countries could serve as an indicator for the target to be set for the annual increase of the level of lending. At the same time, the level of the capital increase should be fixed in a way so as to avoid having such exercises become necessary at relatively short intervals.

The dialogue between developing and developed countries has to be continued and intensified. New approaches and initiatives are welcome to us. We appreciate your proposal, Mr. President, to appoint a commission of eminent independent persons to look into the problems of the North-South relationship. It is a great honor for Germany to see Willy Brandt being asked by you, Mr. President, to assume the high responsibility of serving as head to this commission. It is our firm hope that this body, once it is established, will be able to make constructive contributions, including innovative ideas, toward the current overall dialogue on development policy.

There will be no easy solutions. The worldwide structural dislocations which can be overcome only gradually have aggravated the problems. But there is no reason to lapse into resignation. The close and active cooperation and solidarity practiced in recent years have helped us to make progress. What we need now is stamina, qualified judgment, and also patience. The tremendous economic and social difficulties of all countries do not only pose a challenge to our social order and its future, they also have brought about a degree of collaboration between nations that was unimaginable to earlier generations. My country stands firmly by its international commitments. If we assist one another then our present difficulties will give way to a prosperous and more equitable future.

GREECE: XENOPHON ZOLOTAS

Governor of the Fund

A feeling of uncertainty over the economic outlook overshadows our meetings again. The major industrial countries have not been able to reenter a path of sustained growth and there are signs that economic activity is slowing down again. The phenomenon of "slackflation" continues to beset the industrial world. Efforts to reflate the economy only through demand management have resulted in accelerating inflation without succeeding in bringing about a steady economic revival and a significant reduction in unemployment. On the other hand, efforts to control inflation depress economic activity and lead to socially and politically unacceptable unemployment levels.

The longer this situation lasts, the more dangerous it becomes. The industrial world cannot afford to allow high rates of inflation and unemployment to become chronic phenomena without running serious social and political risks; it is even possible that in the long run free democratic institutions might be undermined.

How are we, then, to confront this situation? How to revive the economy and reduce unemployment without generating new inflationary pressures? I think the solution lies in investment management policies in conjunction with demand management.

In the past, investment management has been subordinated to aggregate demand management, and this has worked satisfactorily in previous recessions. However, in the context of the present psychological inflationary climate and uncertainty, this approach has not worked; private fixed investment has not responded adequately. This difference between the current and past recessions is the crucial reason why industrial economies continue to orbit in the vicious circle of "slackflation." In addition to cautious demand management, we therefore need investment management if we want to pull the economies out of this stalemate. Investment will increase productive capacity and improve supply conditions and thereby avert inflation in the coming years.

The present weakness of investment demand cannot be considered merely as a cyclical phenomenon. Indeed, the combined effect of a number of factors has created an unfavorable climate for investment, at a time when there is a pressing need for structural adjustments requiring large capital outlays for sustained noninflationary growth. I wish to indicate some of the factors which, I believe, are crucial in this context:

- The chronic inflationary climate and the unpredictability of demand management policies in the face of conflicting aims have increased the degree of market uncertainty and have undermined business confidence. Particularly, persistent inflationary expectations, a kind of disease that one might call "inflationitis," is at the root of the problem.
- Inflation has created confusion and uncertainty regarding the relationship of accounting profits to investment yields.
- Investment costs have escalated faster than prices of final output.

• The dramatic increase in the cost of energy has affected investment plans adversely.

• Conservation and environmental considerations, implying increased marginal capital-output ratios, have greatly added to the cost of new investment.

The last two factors are of particular significance; they have rendered unreliable our ordinary measurements of capacity utilization, capital-output ratios, and productivity. If we are to overcome the effects of the environmental crisis and prevent further deterioration of the quality of life, considerably more investment per unit of output will be required than in the last 30 years. Moreover, the adjustment to the present and prospective high energy costs will necessitate substantial amounts of new investment. This process must be accelerated if we are to restore the flexibility of supply, necessary for the expansion of production under conditions of price stability.

It is by now clear that a substantial increase in the share of productive investment in GNP is essential in order to bring about an increased elasticity of supply in the short run and a return to historical trends of long-term growth. For this purpose, we urgently need an investment management policy in addition to demand management.

By investment management policies I do not mean increased government interference in private business decisions; nor a permanent change in the relations between governments and business. I mean a proper mix of government policies as a transitional measure designed to provide adequate stimulus for private fixed investment of the type and quality that is required and for the period that such stimulus is necessary.

Several countries have applied incentive schemes mostly in relation to regional development policies. A whole arsenal of measures, such as investment tax credits, investment grants, and allowances or state guarantees, has been used for such purposes. The precise mix should be determined by each government in the light of the particular circumstances prevailing in each country.

In addition to any such specific measures, however, I believe it is important to eliminate the effects of inflationary drag on investment, so that only real profits would be subject to taxation. In a market economy, a major investment effort, such as the one we need now, can only succeed if we create and sustain profit expectations.

In order to achieve quick results, we may also have to reconsider priorities and time schedules of social investment, particularly in relation to the requirements of environmental policies. The cumulative damage of decades of unregulated rapid industrial growth on the environment cannot be made up overnight, nor should the burden fall exclusively on a particular sector of the economy.

It is my firm belief that only a proper combination of demand and investment management policies will ensure the resumption of healthy growth and a reduction in unemployment, and will thus pull the industrial world out of the vicious circle we have been living in since the last recession.

On the monetary front, an important development of the past year has been some reduction in inflation differentials among the major industrial countries. From the point of view of the world economy, most significant has been the progress made by the United States in controlling inflation. However, although the world is in effect on a dollar standard, the burden of maintaining order in the international monetary system must not be considered exclusively an American responsibility. All major industrial countries should contribute in a spirit of cooperation and solidarity toward maintaining orderly conditions in foreign exchange markets by resisting tendencies to manipulate the exchange rates. This is what they have been repeatedly pledging in conference after conference. Now the new Article IV provides the institutional framework for international cooperation and surveillance over exchange rate policies, and it is hoped that it will mark a new era of orderly foreign exchange markets.

The preoccupation with inflation and unemployment in the industrial countries and with the need for maintaining order in the international monetary system should not be allowed to affect the maintenance—and indeed the expansion—of capital flows toward the developing countries.

The shift of surpluses from industrial to oil-exporting countries since 1974 has significantly changed the terms, the sources, and the distribution of financing available to the non-oil developing countries. Whereas prior to the oil crisis the bulk of the flow of funds to the latter countries consisted of official financing and export credits guaranteed by capital-equipment exporting countries, increased recourse to private sources, particularly to the Eurocurrency market, has taken place. According to BIS estimates, three quarters of the financing of balance of payments deficits in 1976 was provided by these procedures. Total outstanding debt of non-oil developing countries amounted to about $180 billion by 1976 and it is projected by the UNCTAD Secretariat to exceed $250 billion by the end of 1978. These developments have created concern over the vulnerability of the financial markets and the possibility of undesirable developments.

In order to allay these fears and at the same time to secure and expand the flow of funds to developing countries, the creation of an international loan-insurance scheme, inspired from the national export guarantee mechanisms and the OECD Support Fund, might be worthy of consideration.

The bulk of the funds needed by these countries will continue to be provided in the foreseeable future out of the OPEC countries' surpluses through the intermediary of the international banking system.

In such a scheme, the industrial nations and the OPEC countries would provide their collective guarantee to loans extended by international private banking institutions to developing countries. This could be subject to a global limit distributed among the guarantors so that each guarantor country's maximum commitment would be known at all times.

The guarantee would be extended at the request of the banks providing the loan and the premium should be paid mainly by the richer countries in order to avoid placing an additional burden on the borrowing country.

Similar to the prevailing practices of national export credit guarantee institutions, the proportion of the loan covered by the guarantee could vary depending on the borrowing country. It is particularly important, however, that the criteria should be such as to favor those countries which are in greatest need and which present better prospects for utilizing appropriately the channeled resources. The cooperation of the Fund and the Bank in this connection would be of great value. Ways to put this cooperation into effect should be explored. At the same time, since the purpose of the scheme is to facilitate and expand the channeling of funds to developing countries, care should be taken to avoid making the terms of Eurocurrency loans more cumbersome.

I do not think I can go into details at this stage. I only wish to point out some of the main attractive features of this plan.

Given their increasing needs for resources in addition to official aid, the advantages of such a plan to the developing countries are obvious. For the industrial countries, on the other hand, it would provide a means of enhancing the demand for their capital goods and thus ensure the steady expansion of their economies. International trade would also grow considerably. One further advantage of the scheme is that it will not require the payment of any funds by the guarantor countries, other than their share of the premium. Thus, it will represent no fiscal burden for them except as and when the guarantees may be called, and this should be rather rare.

Concluding, I would like to express my deep appreciation to the Managing Director, Mr. Witteveen, for succeeding in establishing the Supplementary Financing Facility which will substantially strengthen the Fund in providing assistance to member countries with serious payments imbalances. My appreciation also goes to Mr. McNamara for his continuous efforts to mobilize increased development assistance, particularly for the poorer countries. Finally, one cannot but commend the staff of the Fund and the Bank for the high quality of, and devotion to, their work.

INDIA: H. M. PATEL

Governor of the Bank and Fund

It gives me great pleasure to participate again in the Annual Meeting of the World Bank and the International Monetary Fund after a lapse of nearly two decades. During this interval, I am happy to note that the activities of the two institutions have greatly expanded. This is both a recognition of the increasing interdependence of the world economy as well as a tribute to the growing spirit of international economic cooperation.

Before I go further I would like to extend a very warm welcome to the newest members Guinea-Bissau and the Seychelles and the observers from Surinam, Cape Verde, São Tomé and Príncipe and Maldives.

The international economic crisis of the early 1970s dealt a severe blow to an orderly expansion of the world economy. The collapse of the Bretton Woods system of fixed exchange rates, the strong upsurge of inflation, and a radical change in the pattern of international payments in the wake of the oil crisis had profoundly disturbing implications for the health of the world economy. We were all very fortunate that at the time of this massive crisis, these two institutions were led by two men of great vision, courage and devotion in the persons of Mr. McNamara and Mr. Witteveen. Both of them have made an outstanding contribution in reshaping the policies of their respective institutions and in promoting the cause of international economic cooperation against heavy odds. The news of Mr. Witteveen's decision not to seek a second term came as something traumatic. The remarkable qualities of leadership displayed by Mr. Witteveen as the Managing Director of the IMF have made a deep impact on the evolution of the international monetary system in recent years. We as a developing country will always remember with gratitude his deep understanding of our problems and sympathy for our aspirations.

The world economy has no doubt recovered from the recession of 1974–75. However, we cannot but be seriously concerned about the underlying weakness of this recovery. There was a welcome revival of growth rates in major industrial countries in 1976 which contributed substantially to the growth of 11 percent in the volume of world trade in that year. On current indications, there is likely to be a considerable slowing down of the rate of growth of both the national income and the volume of world trade in 1977. Rates of inflation as well as unemployment still remain at intolerably high levels. The structure of international payments still displays an unsustainable abnormal trend. It is all the more disturbing to note that no immediate solutions are in sight to resolve problems of unemployment and inadequate capacity utilization coexisting with unusually high rates of inflation. In such an environment, the growth prospects of developing countries, notwithstanding vigorous self-help measures by them, are bound to be highly uncertain. The fact that despite a significant deterioration in their terms of trade, the current account deficits of non-oil developing countries are no higher in real terms than in 1967–72 is an indication of the harsh adjustment measures which they had to adopt in the face of unsustainable imbalances. Their capacity for further adjustment is severely limited and insistence on such adjustment will greatly affect their ability to deal with the massive problems of underemployment and unemployment that are facing them. This vital fact must not be lost sight of when we consider international monetary issues this week.

We are no doubt living in highly uncertain times. But there are also great opportunities if we have the vision to seize them. At a time when there is a sizable excess capacity in the industrial countries, the real cost of increased transfer of resources to developing countries would be very small. When other internal stimuli to increased economic activity in industrial countries seem to be rather weak, increased transfer of real resources to developing countries could well act as a powerful means of stimulating employment and greater capacity utilization in the developed countries. Thus both enlightened self-interest and the spirit of international solidarity suggest that an adequate transfer of real resources to developing countries should constitute an essential component of any viable international strategy for achieving world prosperity. I sincerely hope that our deliberations this week will be animated by this spirit.

In the uncertain climate for their economic growth, the non-oil producing developing countries had placed much hope on the outcome of the Conference on International Economic Cooperation which concluded in Paris last June. The results of the Conference have been described as being "more limited than had been hoped for at the outset." This could very well be the understatement of the year. No progress was made on the important and urgent question of alleviating the heavy debt burden of the developing countries. With regard to the establishment of a common fund for raw materials, there was agreement merely to continue further negotiations for its establishment in the United Nations Conference on Trade and Development where no progress seems to have taken place so far. The only outcome of any substance from the Conference was the agreement among developed countries to provide an amount of $1 billion in a Special Action Program for low-income countries. Viewed in the context of the total flow of assistance to the developing countries, this agreement can only be considered as very disappointing.

The latest Development Assistance Committee figures show that Official Development Assistance declined once again as a percentage of gross national product of donor countries from 0.36 percent in 1975 to 0.33 percent in 1976. In real terms also it was lower. In any global strategy for the alleviation of poverty, the role of international cooperation through adequate resource transfers from the rich to the poor countries can scarcely be overemphasized. It is, therefore, essential that each developed country adopts a time bound program to fulfill the internationally agreed official aid target of 0.7 percent of GNP. Simultaneously, adequate attention must be paid to the need for untying of aid as a means of improving the quality of development assistance. There is also an urgent need to adopt a new bold and imaginative generalized approach to the solution of the chronic debt service problem of developing countries. A failure to find an effective solution for this problem will greatly add to the uncertainty and difficulties already faced by the developing countries in implementing their development plans in an orderly manner.

We welcome the completion of negotiations for the Fifth Replenishment of IDA. However, it must be recognized that periodic uncertainty about the future of assistance from the IDA is potentially very disruptive of orderly planning processes in poor countries. I would, therefore, urge that the international community applies its mind without delay to the problem of finding ways and means of replenishing IDA in the future on a more secure and longer-term basis. This is a matter which ought to be studied by the management of the World Bank on a priority basis.

I welcome Mr. McNamara's proposal to provide its member developing countries between $30 billion and $35 billion in net financing over the next five years. I have no doubt that the main focus of the Bank will always remain on the special problems of low-income countries and the absolutely poor sections of their people. I am most appreciative of the fact that Mr. McNamara has placed before us such an imaginative and practical program when he is about to begin his third term as President of the Bank. I hope that during the coming years the Bank Group will not only have the resources that Mr. McNamara has indicated but its policies, programs and style of operations will be appropriately improved to ensure optimum results out of these resources. Time has also come for serious thought to be given to amending suitably the Bank's Articles of Agreement which were drawn up more than three decades ago under quite different circumstances. In particular, there is urgent need to adopt a more liberal attitude toward program lending. Excessive reliance on project financing is neither the most appropriate means of transferring real resources to developing countries nor is it an effective insurance against misuse of funds.

I welcome the proposal to set up a high-level International Commission under the Chairmanship of so distinguished a statesman and internationalist as Herr Brandt. It is to be hoped that the Commission will not only focus world attention once again on the various developmental issues but also help create a strong political will among all members of the international community to seek an early and effective solution to the scourge of poverty. It is not merely enlightened self-interest but a higher purpose which should motivate all of us to take up this challenge here and now.

Notwithstanding the need for increased transfer of real resources to developing countries, it is our belief that development cannot be simply imported. It is for this reason that the bulk of resources needed for India's development have always been raised domestically. We fully recognize that in matters relating to development, the primary responsibility is our own. We in India are now engaged in redefining the priorities of development with a view to eradicating poverty and destitution in the minimum possible time. Our strategy will be to pay much greater attention to the rural areas where much of the poverty exists, through the development of agriculture, infrastructure and small and village industries. We share Mr. McNamara's realization that prosperity may not trickle down and that growth has to take place at the source of poverty if it is to be eliminated rapidly. The task will require not merely resources but organization and management, a fact that has not been fully recognized. This will, however, not be at the expense of the modern industry, power, transport and other important sectors, all of which have their own complementary and mutually reinforcing role to play....

... I must also voice my concern at some recent restrictive tendencies on the trade front. It is disturbing to note that new restrictions are being imposed on goods exported from developing countries. For instance, the exports of textiles and garments from developing countries are facing stringent quota restrictions. These will surely tell on their export earnings and worsen their balance of payments difficulties. It would be particularly unfortunate if the first attempt to diversify exports away from primary commodities meets with barriers at the very moment of its success. The burden of adjustment to changes in the international economic situation should not, through ill-conveived protectionist policies, be transferred from the stronger to the weaker shoulders, particularly when developed countries have far greater resilience. Let not free trade lose all the virtues, which have been so vociferously preached to the developing countries, at the first whiff of some need for internal adjustment. Poorer countries in the international community need a congenial trade atmosphere in order to pursue policies which could result in faster rates of growth for their economies and thus ensure a reasonable standard of living for their populations.

In an interdependent world, there are important linkages between money, trade and development. It is essential that in any reform of the international monetary and trading systems, the interests of developing countries are not lost sight of. Our deliberations must be informed by the spirit that true integration of the world economy is unthinkable unless there is a conscious effort to narrow the gap between the rich and the poor countries. This is no doubt not an easy task. But we cannot give up the struggle simply because the journey ahead is rough and difficult. Surely, without a certain sense of adventure and vision, nothing worthwhile has ever been achieved in human affairs. Modern science and technology have made it possible as never before to ensure that chronic poverty need not be the inevitable lot of the majority of mankind. It is up to us to accept the challenge of devising appropriate institutional arrangements to convert what is feasible into a living reality. That is why we were deeply moved by President Carter's firm commitment in his remarks yesterday to the goals of world development and his concern for some 1 billion people who suffer from absolute poverty.

INDONESIA: ALI WARDHANA

Governor of the Fund

Since the breakdown of the Bretton Woods system, policymakers all over the world have been preoccupied with monetary reform, exchange rates, balance of payments adjustment, and after 1973, with the problems of the most serious postwar recession from which we have now, on the whole, emerged. Other developments were also taking place, but they do not, as yet, attract the attention which they in fact deserve. I am referring to the problems of economic development of developing countries. Those problems, so far, have not substantially affected the centers of economic power, and their longer-term nature makes them perhaps less dramatic and relatively less pressing in comparison with events related to monetary and balance of payments matters.

However, their importance cannot and should not be underestimated. After all, they affect the majority of the people of the world, living in adverse conditions, of which, according to the present World Bank report, hundreds of millions are from birth poor and destitute. The desire of the less privileged majority of the world to gain a standard of living more compatible with human dignity is growing stronger every day.

While problems related to exchange rates and balance of payments stability and also cyclical developments should continue to occupy us, the economic development of developing countries must be moved to center stage. The more advanced countries are rightly concerned about the seemingly sticky problem of unemployment, but the magnitude of unemployed people in developing countries is much larger and in human terms far more painful. I am not so much referring to problems of financing economic development, the solution of which remains vital, but rather to the actual situation in developing countries as they progress in their search for a better living.

Let me begin to respond to a question which sometimes has been raised. Is it at all possible to make progress in the field of economic development? This year's World Bank Report reveals a few facts. Yes, developing countries have shown that they are able to develop. In fact a number of them were less affected by the recent recession—the poorest among them by increasing their domestic agricultural production, and higher-income developing countries by applying responsible adjustment policies supported by borrowing. The figures on GNP per capita growth rates in the period 1950–60 show an increase of 2.4 percent, which moves up to 2.6 in 1960–70 and to 3.4 in 1970–75. The respective figures for the OECD countries are 3, 4.1 and 2.3 percent. The Fund's Report also confirms this situation.

The capacity for growth is therefore present and demonstrable. However, and here I come to the actual situation, the absolute per capita income is still very low and in a great number of developing countries the figures are dismally small, ranging from below US$100 to US$200 per annum. At that, one should not forget that per capita income is an average and many are living with less than the average.

As efforts to achieve growth proceed, the one dominant phenomenon surfacing from the process appears to be its lopsidedness. The economy, responding to inputs and the right fiscal and monetary policies, starts to expand, but some sectors expand more than others. Usually the stronger growth occurs in a smaller part of the economy.

I would like to state that no government in any developing country has ever, deliberately, aimed at such an outcome. When countries became independent their objective was to remedy the past with its skewed distribution of growth and income. In my own country one of the cornerstones of our nation's philosophy is social justice. All governments of developing countries would like to see economic development proceed on as broad a front as possible.

Unfortunately, what happened was that in a number of countries either economic development took place in too small a sector, or where the emphasis was on equity, growth remained slow or stagnant because the cost of distributing income to the mass of the people could not be sustained by the economy.

The problem of economic development in developing countries, after the bitter experience so far, is therefore not growth *per se* or social justice *per se,* but as the Annual Report of the World Bank states it: "Growth with equity is the challenge."

The increasing awareness in developing countries that the policies so far followed need correction in order to bring about changes in the emerging unequal growth is the most serious challenge to the governments and peoples of the relevant countries and of the world.

New priorities have to be set, new approaches have to be conceived, and new experience has to be gained in using both national and international resources.

All this is easier said than done. What is clear is that following the pattern of the countries in the developed North, as many did in the past, did indeed lead to growth in some, and to more equity in others, but not to growth and equity simultaneously. Incomes, accumulated in a few sectors, unless sustained for a long period and thereafter corrected by social measures, do not trickle down adequately and quickly enough to the majority of the people. Social measures alone, aimed at equalizing incomes, also do not prove to be satisfactory due to the lack of sustained growth. Unemployment remains high in spite of some growth and some equity because the multiplier effect remains regretfully small in both cases.

It seems clear that the priority should be given to reducing unemployment in those sectors in which it is high. In the majority of developing countries the countryside is teeming with unemployed and underemployed people, and also, increasingly so, the complex of their large cities.

At least four prerequisites remain necessary to be fulfilled. One is related to population control, the other to adequate food. The remaining two are an adequate infrastructure, and increasing investment in health, housing and education.

There should always be room for traditional enterprises which did and do generate more employment and more income, but they have to be supplemented by efforts on a large scale which would bring development directly to the sectors of the unemployed and underemployed poor.

There is no pattern in economic history which can be followed, and policymakers in developing countries and also those outside those areas should therefore try to invent a new strategy to achieve growth with equity and equity with growth simultaneously. For example, we have gained some experience with regard to the preparation, evaluation and financing of ordinary projects, but our experience in developing the countryside should be definitely substantially broadened. In my country, in our pursuit of our goal of growth and social justice we are—so far successfully—experimenting with providing resources to the thousands of villages spread over the length and breadth of our land, but we feel that much more can and should be done. Agricultural development is necessary, but eventually also industrialization. How to use the countryside for the purpose is a problem. Smaller-scale industries seem to be a logical approach because they involve more people and can be scattered over large areas. But what about technology, economies of scale, and therefore competitiveness? And then, what about the urban unemployed?

So far the world as a whole is not yet fully aware of the process of change which is emerging in developing countries. As I said before, it is understandable because we have been so preoccupied with monetary and balance of payments problems, with adjustments, and with the business cycle. They are all relevant and they need to be solved because otherwise economic development will be hampered, including that of developing countries. However, the time has come that we should bring the new problems as they emerge in developing countries to the forefront of our attention. After all, the world as a whole cannot grow and prosper if a large part remains depressed, because goods have increasingly to be produced to sustain growth and goods need markets and purchasing power which is insufficiently available if so many millions of people remain poor.

The time to devote more, far more attention to the problems of developing countries seems to be favorable. The international monetary situation, after the breakdown of Bretton Woods, appears to be settling down. We do not have an ideal, and perhaps not even too comfortable a situation, but we are spared the violent crises in exchange markets of the earlier part of this decade. Also, the recession, while not entirely over, has receded, and although there are still serious problems of inflation and unemployment in the industrial countries, the situation has improved. There remain the problems of the balance of payments for some industrial and a great number of developing countries. In this respect the supplementary facility in the IMF, for which we have to credit the Managing Director, Dr. Witteveen, and donors from the industrial and oil-exporting countries, will to a great extent, together with the envisaged quota increase and hopefully a second SDR allocation, assist countries to finance their balance of payments deficits.

What is worrisome is the possibility that the cyclical improvements, at this stage not including all industrial and developing countries, would falter. Signs of protectionism as a means to strengthen the balance of payments and safeguard employment are increasing. This self-defeating policy would harm the flow of goods from developing countries and in the end it would lead to a downward spiral of growth.

Altogether, however, conditions have become easier, and the time therefore is more suitable to ponder over some pressing, basic and longer-term problems presented by the changing situation and needs of developing countries. Resources, domestic as well as foreign, remain as necessary as ever. In view of the need of the developing countries to increase the rate of growth significantly, we would like to support a substantial increase in the capital of the IBRD. We sincerely hope that all member countries would be in full and early support of an increase of about 100 percent to maintain the Bank lending rate at a level of approximately 7 percent. However, we should also emphasize the change in objectives, in orientation, in development strategy and policy. The terrain is uncharted, much thought has to be given to attaining the goal of growth with equity and equity with growth. If the international monetary system has required much time and much thinking, policymakers in the developing and developed world should gird themselves for the task to find a coherent set of guidelines to steer the development process toward the new objective to step up growth and consequently incomes among the poor.

I would like to pay high tribute to Mr. McNamara, who was among the first to recognize the need for change and meanwhile has introduced lending policies more suitable for the new objective of growth with equity. We in the developing world owe him a lasting debt for his keen understanding of our changing problems and for his reaching out to the unemployed poor who can only be assisted by being included in the development process. His persistent call to improve their situation is not a call for charity but for a more correct approach to solve the problem of world poverty which, if unresolved, would eventually retard the international economy and produce a threat to stability and peace in the world. We are also grateful that Mr. McNamara is available for another term of office. . . .

. . . Finally, I would like to express our gratitude to our host country, the United States, which again has extended to us her warm hospitality and has enabled us to conduct our business in such a pleasant and efficient manner.

ISRAEL: ARNON GAFNY

Governor of the Bank

No nation has been left untouched by the economic events of recent years. But while the developed world is gradually emerging from the effects of economic disequilibrium, the non-oil developing countries are still in the midst of crisis, marked by recession and concomitant inflation. With a view to finding effective means of coping with the current situation, I would like to present for the consideration of this distinguished forum an expanded application of the cofinancing principle, which could provide resources to a sizable group of developing countries and thus aid in reactivating their economic growth. An introduction and institutionalization of the cofinancing feature to the international money markets, along the general lines that I will try to present here, would expand and affirm a possibility left today virtually untouched, namely, that the commercial banks would be encouraged and assured in the extension of enormously large funds, placed at their disposal today, also for the purposes of development. This end would be fostered by a token financial participation of the World Bank, accompanied by a "cross-default" clause, but—and this is much more important—by its active participation in scrutinizing projects before their adoption, supervising their implementation and monitoring the ensuing debt service.

In many of the middle- and higher-income developing countries, economic development has stagnated; for some it has even retrogressed. Expansion of the cofinancing principle within the suggested framework could launch development projects now shelved because of the Bank's financial constraints. Such an expanded cofinancing facility could serve as a bridge between the banking community and developing countries seeking readier access to capital markets. It could, in fact, be a common window at which the World Bank, the commercial banks and the developing countries meet, to the advantage of all.

In an effort to avert the socioeconomic consequences of prolonged crises in their member states, the Fund and the Bank have created various mechanisms, such as the oil facility, compensatory financing facility and extended Fund facility, the Subsidy Account or the Third Window. The Fund and the Bank are to be commended for the most effective role played by these mechanisms. Equally commendable are the more recent activities of Mr. McNamara and Mr. Witteveen in this sphere, specifically the efforts being made to increase the Bank's capital and the newly created Supplementary Financing Facility.

However, none of the existing mechanisms are intended to serve as solutions to the problem of long-term development financing. For the Bank and the Fund to foster socioeconomic development at a pace commensurate with the enormity of the problems confronting the developing world, new means must be found and developed.

The experience of my own country can well serve to illustrate the need and applicability of the expansion of the cofinancing principle. In the 20 years prior to 1973, Israel was able to maintain a 9 percent annual average rate of real economic growth, together with a relatively moderate rate of inflation. This was possible, in no small measure, because of the development capital made available to us by the World Bank as well as by other international and bilateral financial institutions. However, our situation has changed radically in the last few years, as has that of many of the non-oil exporting developing countries. While our balance of payments deficit quadrupled—from $1 billion in 1972 to $4.1 billion in 1975—our GNP, in real terms, remained virtually unchanged. Inflation ran rampant: following an average annual 4 percent rise in the late 1960s and 10 percent in the early 1970s, it reached, on average, 40 percent in both 1974 and 1975.

Through the combined effect of rigorous fiscal and monetary policy measures and the introduction of flexible exchange rate adjustments, Israel did succeed in 1976 in reversing this negative trend. The result is amply evident in the dramatic reduction of our balance of payments deficit. Nevertheless, we are still confronted with a serious balance of payments deficit, a high rate of inflation, and a stagnating GNP. In this respect the lack of sufficient capital resources to finance development projects has been one of the major causes of this economic stagnation.

Economic growth hinges, in large measure, upon the adequacy of financial resources. In the developed countries, for the most part, the need for capital is easily met by either the domestic or the international capital market, or some combination of the two. The economic position of the less developed low-income countries hampers internal generation of needed capital, as well as their major recourse to international capital markets. For some time to come, these low-income countries will continue to look to international and regional development institutions, as well as to bilateral aid, for the resources needed to strengthen their basic infrastructure. Only with the aid of grants and concessionary loans can they hope to make substantive progress toward eliminating the famine, disease and illiteracy which stifle their development.

Somewhere between these two groups—the developed and low-income developing countries—can be found a third group: the middle- and higher-income, semi-industrialized developing countries. Many of these countries have progressed to the point where their own economies are able to generate a significant segment of their capital needs. But, despite the substantial progress, internally mobilized resources cannot, for many years to come, meet their overall long-term development financing needs. The large scope of their capital needs makes it necessary that they turn to external sources.

While recognizing the middle- and higher-income developing countries' need for long-term development financing, the Bank has, understandably, begun to channel the lion's share of its resources toward alleviating the absolute poverty which still characterizes most of the low-income countries. As a consequence, the middle- and higher-income developing countries have had, more and more, to fend for themselves, and seek an ever larger portion of their needed development financing from other sources.

In the absence of better alternatives, during the last few years, developing countries have sought, and obtained, a marked increase in the flow of capital into their economies from commercial banks. Loans outstanding from the banking communities of developed countries to the developing countries are expected to reach almost $40 billion in 1977, as compared with $11 billion in 1973.

Some members of the banking community feel that this flow of capital to developing countries may have reached (and possibly have exceeded) "reasonable limits"; some loan recipients complain about the increasing toughness of terms and conditions. This relationship cannot, therefore, be treated as a permanent one. Certainly, developing countries can hardly hope to structure their basic development programs on this source of financing, unless—with World Bank cooperation and support—the international capital market could provide for a stable and significant source of development financing.

In order that the envisaged cofinancing facility would operate effectively, the Bank would have to undertake the evaluation and analysis of development project loans which in number and in scale exceed by far its own financing capabilities. Once commercial cofinancing would become available for a given project, the Bank would be expected to assume a supervisory role both in the project's implementation and in loan servicing. The Bank would thus be placing its universally recognized expertise, experience and standing behind projects which cannot be financed by the Bank due to its own budgetary constraints, but which it nevertheless considers worthy of financial support. Under the envisaged expanded cofinancing facility, the World Bank would be providing, primarily, analytical and supervisory services—with minimal funding; the banking community would supply a very large segment of the required financing; and the semi-industrialized developing countries to whom the Bank has had to limit the flow of its resources would be able to obtain additional resources facilitating their economic development.

Loans cofinanced by the Bank and private financial institutions would be expected to carry a kind of "cross-default" clause. Considering the Bank's repayment experience in the last two decades, inclusion of a "cross-default" clause would serve to reduce the risk element attached to any given project and might well serve to expand "country limits."

In the last few years, private commercial banks have extended almost $10 billion in new credits annually to oil-importing developing countries.

Were the World Bank to devote but a small segment of its lending capacity to the suggested cofinancing facility—$100 million or $200 million—it would serve as a leverage which could induce the commercial banks to extend funds which could well reach $1 billion or more.

Although some cofinancing arrangements do exist, it should be noted that of the 60-odd cofinanced projects, totaling $2 billion, into which the Bank entered in 1976, only 5, for a sum of $250 million, were concluded with commercial banks. A well-structured expansion of the cofinancing principle oriented toward the international banking community is, we believe, feasible. It should aim, primarily, at expanding the flow of private capital to the middle-and higher-income countries, including those developing countries which have been, or in the foreseeable future will be, phased out of the Bank's list of regular loan recipients. At a later stage, depending upon its successful development, the facility could well be expanded to include an even broader group of loan recipients.

As a result of both great effort and sacrifice on their part, and past support from the Bank and other sources, the semi-industrialized developing countries have made progress; yet, their needs are still substantial. The proposed facility could supply the resources necessary to sustain their continued development; at the same time it would strengthen the ties of these countries with the Bank, ties which, unfortunately, seem to be increasingly loose at present. Furthermore, activation of such a facility would ease the pressure on the funds available from the Bank for concessionary lending to the less developed, low-income countries. We trust therefore that the Bank will give the cofinancing facility the attention which, no doubt, it amply warrants.

A further means of improving developing countries' access to capital markets would be the establishment of an Export Credit Guarantee Facility. This, too, would require only minimal funding on the part of international and regional development institutions. The ECGF concept, presented by Israel at recent Annual Meetings and subsequently supported by several Latin American and Asian countries, has recently been the subject of a highly favorable report by the UNCTAD Secretary-General and, we trust, it will be carefully considered by the Bank.

In view of the Bank's current activities aimed at the expansion of its lending capacity, I would venture to suggest that the time is ripe for renewed consideration of the original Horowitz proposal, not merely in its somewhat abridged "Third Window" version, but on a far larger, and fuller, scale.

ITALY: GAETANO STAMMATI

Governor of the Fund

I wish to begin by expressing our own gratitude to the Government of the United States for its hospitality and courtesies and our appreciation for President Carter's address to our Assembly. We have also listened with interest to the address of President McNamara, which once again gave us a stimulating analysis of crucial aspects of development problems. We are very happy to learn that Mr. McNamara was appointed for another term as President of the World Bank.

Before commenting on economic developments in Italy and the world, I would like to pay a personal tribute to Managing Director Witteveen for all he has done, during these difficult years, to strengthen the world's monetary system and international cooperation. His competence, dedication, and personal accomplishments deserve our praise.

Developments in Italian Economy

When I addressed our Annual Meeting last year in Manila, Italy was in the midst of a severe economic crisis: the balance of payments had sharply deteriorated and inflation was accelerating at a rapid pace. Both developments were, to a certain extent, the consequence of earlier attempts to stimulate domestic demand and lift the economy from the recession, by means of reflationary monetary and fiscal policy measures. Moreover, unit labor costs were rising at a much faster pace than in competing countries. As expectations deteriorated, a foreign exchange crisis precipitated in October.

That crisis strengthened our determination to carry out the comprehensive measures of economic stabilization the Government had outlined upon taking office two months earlier; negotiations were then resumed with the IMF for a stand-by arrangement in support of our program, and these were successfully completed last April.

The Government action was three-pronged: credit was made scarce by the introduction of ceilings on bank loans and interest rates were allowed to rise to record levels; purchasing power amounting to nearly 3 percent of GNP was absorbed through additional taxation and higher prices for public utility services, thus helping to strengthen public sector finances; modifications of the wage indexation system and measures to increase productivity were agreed upon with the social partners in order to contain the rise in labor costs.

The effects of these measures have been striking. The annual rate of increase in consumer prices has been brought down from 22 percent in 1976 to 15 percent in the period January–July 1977, and a further deceleration has taken place in the most recent months. The balance of payments, which showed a current deficit of $2.8 billion in 1976 has improved since January moving into balance in the second quarter. We now expect the current account to be in equilibrium for the year as a whole, and possibly to show a small surplus, as against a $500 million deficit projected in the stand-by arrangement.

The implementation of the stabilization policies has helped to restore confidence in the Italian economy. In fact, during 1977 the exchange rate of the lira has enjoyed a remarkable degree of stability, despite the abolition, according to the schedule set by the Government, of the import deposit scheme and of the special tax on foreign exchange purchases, which had been introduced at the height of the foreign exchange crisis. Since January there has also been an inflow of short-term capital of about $3.5 billion, which, coupled with the good current account performance, has enabled Italy to increase its foreign exchange reserves by about $4 billion to $7.1 billion at the end of August. Moreover, Italy has repaid about $1.8 billion to private and official creditors, of which about $1.1 billion was to the IMF.

These achievements, however, have had a cost in terms of output and employment. Since March of this year there has been a sharp decline in industrial production of both consumer and investment goods. The number of workers employed by large corporations has declined by 1 percent, continuing a trend that started over two years ago. As a result of the fall in industrial production, productivity also declined in the second quarter. Unit labor costs have thus begun to rise again.

Under these circumstances, we fear the emergence of recessionary conditions which would hinder the continued implementation of our program. We are aware that the success of our strategy rests mostly on the consensus of the social partners and on the support of the Parliament. While we are determined to continue the pursuit of the stabilization objectives, the viability of our strategy in the present international economic juncture is now being increasingly questioned. Given the balance of payments constraints and the desirability to reduce inflation, we must follow a policy of containment of domestic demand, which would result in a modest growth of our GNP. This we are prepared to accept. What we are not prepared to accept is zero or negative growth, as this would make an untenable situation both economically and socially. Such an occurrence can be avoided, in our view, only through a better functioning of the international adjustment process which would alleviate the external constraint which dictates the course of our own economic policies. As the deliberations of the Interim Committee have shown, there are reasons for concern on this score.

World Economic Situation and Adjustment Process

The present state of the world economy is an uneven mixture of positive and negative aspects. Inflationary pressures have abated and inflation differentials have narrowed. However, unemployment and idle plant capacity are still very high. Investment demand continues to be insufficient to set in motion a self-sustainable recovery in industrial nations. In the Third World, the gap is widening between a small group of "higher-income" countries and the poorest ones. The former have managed to get through the 1975 recession without sacrificing their growth objectives, owing to their diversified economic structures and ability to attract foreign capital on a sustainable basis, while the latter have suffered a dramatic setback in their development efforts. International payments are still substantially unbalanced, more than three years after the oil price hike. The prospect that oil surpluses of around $30 billion a year will persist well into the 1980s, points to a picture in which the Third World and the smaller developed countries will continue to incur large deficits and accumulate debts.

We regard this unsatisfactory situation as resulting from the fact that the strategy to which we committed ourselves in the aftermath of the oil crisis and on which so many hopes were pinned has not worked. The Managing Director himself in his opening statement to this Meeting has acknowledged that the expectations on the functioning of the adjustment process have not been realized, and that a shift in emphasis of economic policies is now required.

Indeed the recovery that has followed the deep recession of 1975 has proved to be a weak one. After a strong upturn in the first half of 1976, real GNP of industrial countries grew only by 3 percent in the second half of that year. Output growth resumed at a brisker pace in the first quarter of 1977, but a slowdown in economic activity and in industrial production has been recorded in several countries in the most recent months. I take this as an indication that the deceleration of the upswing that had been generally forecast for the second half of this year might well be more pronounced than expected and thus lead to recessionary conditions extending into 1978. On balance, the stance of demand policies has not succeeded in creating the conditions for a resumption in investment activity, which is essential to remove the structural causes of the stagflation experienced during most of the 1970s.

The important changes that have taken place in relative prices of raw materials, manufacturers, and productive factors make it necessary to carry out a reallocation of resources consistent with the new price structure. A resumption of investment activity appears to be a prerequisite for the needed reallocation of resources. It should be encouraged by keeping global demand in the stronger and the surplus countries closer to the level of potential supply than is now the case. In the absence of such a policy, the adjustment process in deficit countries would have to be carried out in a dangerous context of underutilization of resources and of slow growth. This would be intolerable for many countries and would also reinforce the merging protectionist tendencies underscored in the last GATT report.

I may add that it is precisely to avoid such danger that at the Downing Street Summit it was agreed to commit the participating Governments, and I quote from the final Declaration, "to targets for growth and stabilization which . . . should provide a basis for sustained noninflationary growth worldwide." It was further agreed that countries adopting reasonably expansionist targets for 1977 "will keep their policies under review and commit themselves to adopt further policies, if needed, to achieve their stated target rates and to contribute to the adjustment of payment imbalances."

The spirit of that Summit, which calls for constant review and timely action, warrants at this time a shift toward policies designed to stimulate economic activity in the leading countries that are not affected by balance of payments constraints. Concrete steps by these countries are becoming all the more urgent now that major deficit nations in Europe and elsewhere are living up to their commitment of adjustment and stabilization. The new US administration has taken determined action to meet its international economic responsibilities. However, signs of uncertainty in the momentum of the US recovery are being detected, and it is to be hoped that they do not anticipate the emergence of a more pronounced slowdown. In Japan and Germany, the authorities are introducing measures to check the unsatisfactory evolution of economic activity recorded in the last few months, and it is important that they do not hesitate to take further steps if the stimulus they are now imparting does not prove adequate.

To the extent that the need to preserve monetary stability in surplus countries is deemed inconsistent with action to speed up the pace of economic activity, balance of payments adjustment will have to be stretched over a longer period of time. This recognition has been one of the reasons for setting up the new Supplementary Financing Facility in the IMF. To facilitate adjustment, surplus countries should also be prepared to expand long-term investment in productive activities in a greater number of countries than has so far been the case.

If economic activity picks up in the stronger countries, there will be scope for a moderate relaxation of the present restrictive stance in a number of deficit countries, without necessarily giving rise to renewed inflationary pressures, as there are wide margins of unused labor and capacity. In fact, in some countries a resumption of output growth might indeed contribute to check the rise in unit labor costs and to improve the climate of industrial relations.

In calling for a more active approach to economic management in present circumstances, we are aware that an element of risk is involved, but we cannot and should not disregard the signals for action emanating from a deteriorating economic environment. . . .

The World Bank and the Problems of Development

. . . The recent evolution of the economic situation of the Third World, to which I have referred earlier, poses new challenges to the international community, as it is becoming all the more urgent to redirect available resources to the poorest nations of the world. Measures of a general character have been discussed in the context of the North-South Conference and concrete steps are under consideration at the UNCTAD.

However, more specific action in favor of the neediest countries is required. The Governor for Belgium, in his statement on behalf of the EEC, has already indicated the initiatives the European Communities are taking in this direction. As regards the World Bank, I think there can be little doubt that it should commit its financial resources to the maximum extent possible to the task of reducing the gap between the "higher-income" countries and the most seriously affected ones. To achieve this goal, several avenues for action are available. Through its project-financing activities, the Bank should increase its efforts to fight poverty in urban areas, to promote rural development, and to encourage industrialization through the creation of small and labor-intensive enterprises. The Bank should also expand its technical assistance activities. Given the scarcity of finance, the multilateral institutions must act as planners in order to help allocate as efficiently as possible domestic and foreign resources. To this end, it would be necessary for the Bank to devote a larger amount of funds to the appraisal of suitable projects in the poorest among the developing countries.

As regards the so-called threshold countries, the Bank should mostly perform activities in the field of technical assistance, especially of the kind required to promote the access of these countries to international capital markets. In this context, the Bank should also consider the possibility of expanding its cofinancing operations in conjunction with private lenders for the benefit of higher-income countries. In this way the Bank could economize its ever scarce resources, while continuing to extend its expertise in the area of project feasibility and execution.

If the Bank is to play an expanded role in favor of the poorest countries, its resources should be adequately increased. The Fifth Replenishment of the IDA has recently been completed and it provides for a very substantial increase in the resources of this important soft-loan "window." Additional funds are however needed also to finance regular IBRD loans. Had inflation not accelerated far beyond our expectations in recent years, the IBRD would not need to consider a major capital replenishment today. With the recent selective capital increase, the Bank should be able to keep a level of lending of about $5.8 billion a year for some time to come. However, if the Bank is to increase its commitments in real terms, a general capital increase will be needed, to which all countries in a position to do so should generously participate.

I would like to add that through the expansion of its lending activity, the Bank can play a crucial role in fighting on a global scale the recessionary conditions which have prevailed since the oil crisis.

JAMAICA: DAVID H. COORE

Governor of the Bank and Fund

If the world community is serious in its commitment to world economic improvement on a lasting and meaningful basis then priority attention has to be given to the present situation and future prospects of the non-oil developing countries, of which Jamaica and most other Caribbean countries are fairly typical examples. It is this group of countries which, because they lack both oil and high technological capability, present the most severe challenge to the world economic community in the immediate future as well as in the long term. It is this group of countries which are at present bearing the burden of the adjustment process. It is, by and large, their deficits on current account that are the counterpart of the surpluses of the oil exporting countries as a group. By next year the industrial countries as a group will either be in balance or in surplus and the deficit is going to be shared—about $12 billion by the developed primary producing countries and $31 billion by the non-oil developing countries.

In the case of the more developed primary producing countries there is at least the prospect that, given better terms of trade, the inherent strength and flexibility of their economies will enable them to redress the balance in some reasonable time span. In the case of the developing countries without oil, however, no such prospect really exists under present circumstances.

They are not going to get out of their predicament unless assisted by a massive, concerted and well-organized effort of the total world community.

This effort has to be at three levels simultaneously:

1. Short-term adjustment through capital flows from all available sources, official as well as private.
2. Medium- and long-term finance for the restructuring of their economic base and the development of indigenous energy sources.
3. A continuing improvement in the volume of exports as well as in their terms of trade.

As we try to look down the tunnel of the next five to ten years it seems obvious that the size and complexity of this problem is as immense as its solution is vital for the social and political stability and sustained economic growth not only of these countries themselves but of the world community as a whole.

It is obvious that these countries are going to need flows of medium-term finance on flexible terms at a far greater level and on a more sustained basis than exists or is even contemplated at the present time.The Fund and the Bank are going to have to play the major role in providing these flows even although it is recognized that bilateral aid and commercial sources can and will supplement their efforts—and here I am talking about an effort that substantially exceeds anything now contemplated, even when we take into account the proposed Supplementary Financing Facility and the increases in World Bank capital currently being discussed and likely quota increases. A 50 per cent increase in Fund quotas, for example, and a similar increase in World Bank capital will be a useful start, but in the light of the deficits that have to be spanned and the expansion of their economic bases that the non-oil developing countries need, it is inadequate even in the short run.

It is conceivable, moreover, that the activities of the Fund and the Bank, even when taking place at the greatly increased scale that I am suggesting, may well fail in their purpose if those activities are not carefully coordinated and interfaced.

It seems to me, therefore, that the Development Committee should very specifically seek to examine how the resources, programs and operations of the Fund and the Bank can best be coordinated and combined in this effort. The Fund and the Bank have, and will continue to have, separate roles, but this should not be allowed to obscure the overriding necessity for carefully planned and coordinated action by both institutions in relation to these non-oil developing countries. The fact is that the need of the non-oil developing countries for balance of payments adjustment assistance on a continuing basis for a long while to come, as well as their need for fundamental restructuring of their economies, straddles the whole spectrum of the operations of both these institutions in a manner and to a degree which did not exist before.

I am aware that in practice there is consultation and collaboration in a variety of ways between the two institutions. I am suggesting, however, that this should not be just left to grow and develop in an ad hoc and unstructured way. I am suggesting that we should instruct the Development Committee, as a deliberate act of policy, to look at these two institutions not with any view to changing their essential character but with a view to seeing what is needed by way of improvement in their rules, their resources and their operational procedures so as to enable them to make the kind of combined contribution to joint programs of adjustment and restructuring that would truly speak to the predicament of the non-oil developing countries.

I believe that most people would agree in principle that such improvement is necessary. The fact is, however, that no adequate mechanism at present exists for even identifying the areas in which improvements in collaboration are needed, much less for implementing them when identified. The Development Committee appears to me to be ideally positioned for initiating this process.

It is vitally important, moreover, that the emphasis of any joint program should be the correct one—namely, that development and growth should be viewed as the major priority and that the reduction of unemployment to tolerable levels as quickly as possible be regarded as both an economic and social imperative. Such an emphasis will necessarily involve the recognition that any set of policies aimed at correcting imbalances in foreign exchange inflows and outflows have to be designed to operate over a longer time span than is the case with a developed country and that such policies have to take account of the political and social realities of each individual country with far greater sensitivity and understanding than has hitherto prevailed.

Obviously this will present increased challenges to the skills and resources of the Fund in particular. I have no doubt, however, that these challenges can be met if we, as the Governors of these two institutions, are prepared to provide the resources and to clearly indicate the directions.

JAPAN: HIDEO BOH

Governor of the Bank and Fund

It is a distinct honor for me to state the views of the Japanese Government before this distinguished audience for the first time as Governor for Japan. I should like, first of all, to express my deep appreciation to the United States for its courtesy and hospitality. I also should like to extend my hearty welcome to the representatives of the Republic of Guinea-Bissau, the Republic of Seychelles, our newest members. I am pleased that the Republic of Surinam, the Republic of Maldives, the Democratic Republic of Sao Tome and Principe have applied for membership in our organizations.

Entering the decade of the 1970s, the world economy was soon rudely awakened by two crises: the monetary crisis and the oil crisis.

Before these crises, we were sailing on a prosperous voyage, supported by the fixed exchange rates and stable supplies of oil and primary products. These two changes, however, created a furious storm and broke the compass, after which we were compelled to reconsider the basic structure of the world economy. International balance of payments have deteriorated drastically; prices have risen rapidly; recession has been prolonged. We are now confronting a period of disturbances unprecedented in the history of the postwar world economy.

Thrown into the stormy sea, each one of us has concentrated our efforts with the greatest use of our collective wisdom. We have applied the spirit and the framework of international cooperation to the maximum extent possible. As a result, we succeeded in drawing a chart establishing the future course of our new international monetary system in Jamaica. At the same time, we have overcome many difficulties, and have survived the severe test of inflation and recession. At present, I am glad to note that the world economy is definitely in the process of recovery.

Nevertheless, despite this recovery, I must caution us all in observing that the aftermath of the crisis remains in a variety of forms.

First, plant and equipment investment is lagging, and consumers are cautious in spending. Autonomous recovery in the private sector thus seems to be feeble. Under such circumstances, unemployment is still a serious concern to us all. In particular, the problem of unemployment among young people is a cause of frustration in many countries.

Second, while demand is generally weak in each of our economies, the rate of inflation varies according to the country. In some countries, inflation is still high; in others which seem to have succeeded in keeping inflation under control, cost increases have been exerting strong upward pressure on prices. An inflation syndrome resulting from prolonged inflation still persists deep in our mind.

Third, sizable budget deficits are a serious problem in many countries. If such a situation remains unchanged, a tremendous burden might be shifted to future generations. We economic policy makers must also respond, within the limited government resources, to the diversified needs of our citizens in placing more importance on the better quality of life.

Finally, a discrepancy in the pace of balance of payments adjustment is emerging. Throughout the world, one sees a tendency toward polarization between the countries in stronger payments positions and the countries facing balance of payments difficulties.

In short, all these factors are creating uncertainty for businessmen, consumers, governments and in international relations. We are presently living in a time of uncertainty, lacking a firm confidence in the future course of our economies, although trying our best to discover new equilibria.

The most important and urgent task before us is to restore and strengthen confidence in the prospects for our future economies. This can only be done through the framework of international cooperation and solidarity since we are inextricably bound together in today's world.

We, who are responsible for economic policy and management, should aim at harmonization between domestic needs and international requirements. In today's world of growing interdependence, if one country yields to the temptation of protectionism in pursuing its own benefits, it would cause a great loss, not only to the world as a whole, but also to one's own country. We reject protectionism. The nightmare of the 1930s must not be allowed to come back.

At this juncture, I would like to refer to the efforts that Japan has been making in view of the foregoing toward harmonization between domestic needs and international requirements.

First and foremost is Japan's effort to achieve concurrent internal and external equilibria by generating domestic demand.

We have experienced three years of moderate economic recovery since the spring of 1975 when our economy bottomed out. However, the present process of recovery in Japan alternates between progress and pause. It lacks the strength of autonomous recovery in private domestic demand which was characteristic of the past economic recoveries of Japan during the period of high growth.

In order to cope with such a situation, we have introduced various stimulative measures, centering up to now on the expansion of public investment, a fiscal measure which engenders large demand-creating effects. Government expenditures for the current fiscal year will increase 17.4 per cent, which far exceeds the nominal growth rate of 13.7 per cent envisaged in the official economic outlook. Furthermore, government expenditures on public works will increase 21.4 per cent, and front-loaded disbursements have been encouraged in order to ensure their earliest possible effects on the economy. These already-adopted measures have gradually been permeating each sector of our economy, and we are beginning to see the signs of favorable results of these measures in our economic activities.

Furthermore, the Japanese Government announced the Comprehensive Package of Economic Measures early this September. The Comprehensive Package we are determined to implement includes additional investments on public works and other stimuli reaching approximately \$7.5 billion in the total scale of works and the reduction of the official discount rate to 4.25 per cent, the third one for this year. By implementing the measures, we aim at a sustainable recovery of the Japanese economy.

At the same time, we are pursuing our policy goals in various fields. We intend to take necessary measures designed to stabilize employment and to adapt the industrial structure to the important changes in the economic environment. In spite of the sizable budget deficits, the Japanese Government is firmly determined to launch the Comprehensive Package of Economic Measures. We decided to take action for two reasons: first, to attain stability and equilibrium in our domestic economy, and second, to contribute to a sound development of the world economy. The real growth rate of 6.3 per cent Japan attained in 1976 was the highest among the industrial countries. A target of approximately 6.7 per cent is appropriate for fiscal 1977, due to the accumulated efforts in the past and the expected efficacy of the new measures.

Nevertheless, our efforts in this direction must not undermine our fight against inflation. The annual increase in consumer prices in Japan stands at a rather high level. Accelerating inflation cannot be lived with. We must resolutely follow the path leading to sustained noninflationary growth, even if it requires untiring and painstaking efforts.

In addition, the Japanese Government decided on the External Economic Measures last week. Needless to say, we have been doing our utmost in the fields of trade, capital transactions, international financial cooperation and development assistance. The External Economic Measures we are determined to pursue vigorously as an integral part of the Comprehensive Package of Economic Measures will certainly consolidate our efforts to date. We will actively participate in the Tokyo Round of multilateral negotiations. We will explore various possibilities to further promote imports. I do not wish to see our exports cause a serious market disruption for our trade partners. I am pleased to note that the amount of capital being raised by non-Japanese in the Tokyo market has rapidly been expanding, and it is noteworthy that a substantial part of that capital has been flowing into developing countries either directly or through international organizations. . . .

. . . At this stage, I would like to take up the problems concerning the activities of the World Bank Group and our economic cooperation to developing countries.

The World Bank has played a pioneering role in advocating the importance of the North-South problem, in particular, the problem of persisting poverty in the South. We all recognize that the World Bank has continually taken the initiative in enlightening the people of developed countries to the problems in the South, and that it has encouraged efforts toward self-reliance on the part of developing countries and has provided positive financial support. I wish to pay tribute to the excellent leadership and deep insight President McNamara and his predecessors have shown, without which such remarkable achievements could not have been made.

For its part, Japan also has continually been extending its positive support to the activities of the World Bank Group. For example, we subscribed to a substantial share in the Fifth Replenishment of the International Development Association which is presently the most urgent task for us all. We have already completed the necessary domestic procedures and notified the International Development Association of our subscription. We urge that other member countries which are not yet in a

Efforts toward self-reliance are vital to establish the stable growth of the developing world's economies. At the same time, it is needless to say that the official development assistance on concessional terms plays an important role for such development.

Japan has rapidly increased the amount of its official development assistance as its economy has grown, and Japan will make further efforts to expand its official assistance, both effective and substantial, in the future as well. I can assure you that Japan will concentrate its efforts on more than doubling the amount of its official development assistance in the next five years. It is in this spirit that we decided to subscribe to the share of $114 million in the Special Action Program agreed upon by the Conference on International Economic Cooperation. Our share represents more than 10 per cent of the total amount of $1 billion envisaged in the Program.

Many people in developing countries are still living in absolute poverty. It is the most urgent task before us in today's world to meet the basic human needs of these people. What we have to do now without hesitation is to lift these people up from hunger.

Almost two thirds of the population of developing nations inhabit rural areas. The greatest emphasis should be placed on the development of the agricultural sector, particularly, the expansion of food production. In my analysis, this is the crux for a global development strategy.

I believe it is most appropriate and opportune that the World Bank Group and other international development financial institutions have been giving priority to agricultural development in their activities for the past several years.

For its part, Japan intends to put more stress on agricultural development in bilateral economic cooperation. Japan has already been providing food assistance on a grant basis. On top of it, Japan initiated a program in fiscal 1977 to provide grants for developing countries in order to support their plans to increase food production. Consequently, the total amount of our food assistance on a grant basis has more than doubled.

There is a saying in Buddhism that "helping others helps oneself," which means that benefits for others and for yourself are, in essence, inseparable. Your benefits will be realized only after you bring benefits to others. One who looks to his own selfish interests to the disregard of position to do so make their best efforts to complete the procedures at the earliest feasible time in order not to jeopardize the activities of the International Development Association.

Furthermore, the Bank of Japan has responded favorably to the requests of the World Bank in extending many loans. The World Bank has satisfactorily been floating its bonds in the Tokyo capital market.

Japan, as a member of the Asian Development Bank, the Inter-American Development Bank and the African Development Fund, also has been supporting the activities of regional development financial institutions. We are committed to continue our financial cooperation in a positive manner not only to the World Bank Group, but also to other international development financial institutions.

At this time, I would like to express my views on development assistance.

others, however capable he may be, can never attain Nirvana. That is the spirit of Buddhism. In today's world, where interdependence is essential for our existence, this is an aphorism we have to keep in mind and to embody in our daily efforts.

With the spirit of international cooperation and solidarity, we must intensify our collective efforts to achieve a shared prosperity for all. In this time of uncertainty, we should begin our task by restoring confidence in our societies with patience, ingenuity and courage. Japan, for its part, is committed to such ideals. Together, let us set sail for a new and prosperous voyage.

KOREA: YONG HWAN KIM

Governor of the Bank and Fund

Let me begin by echoing the words of other speakers in expressing my sincere gratitude to the Government and people of the United States for their gracious and unfailing hospitality each time the joint IBRD/IMF Annual Meeting takes place here in Washington.

I take particular pleasure today in offering my warmest welcome to the Seychelles and Guinea-Bissau who have recently joined the IBRD and IMF, thus establishing closer relations with member countries in our common pursuit of economic prosperity.

At this point, I would also like to pay tribute to the inspired leadership of Mr. McNamara, President of the World Bank Group, and Mr. Witteveen, Managing Director of the Fund. Through their creative and dedicated work, they have made a far-reaching contribution to international economic stability during the last year, particularly in helping member countries achieve economic growth and improve their balance of payments.

In reviewing recent economic trends, it appears that the pace of world recovery, which had gained momentum in the latter half of 1975, is starting to show some signs of faltering. Many member countries continue to suffer from high inflation and unemployment. The non-oil producing developing countries, in particular, are still faced with severe and growing current account deficits, with every indication that these deficits will pose a problem in 1978. In contrast to this, however, the current account balances of the majority of the developed nations continue to improve.

In the light of this growing disparity in the relative prosperity of various member nations, I believe that the stability and growth of the world economy as a whole rests to a large extent on the actions that the industrial nations take to stimulate their economic activity, for example, by increasing investment.

It is my view that a reduction in the high rates of unemployment and an acceleration in the rate of economic growth cannot be brought about without an easing of inflationary pressure on the one hand and the promotion of moderately expansionist policies on the other. If the advanced countries take this line of approach, they will be contributing greatly to supporting the developing nations in moving toward external equilibrium and equitable economic growth.

This is especially true in view of the increasing interdependence among the nations of the world. When a large and powerful nation throws a stone into the pond, the ripples can overturn the fragile economies of the developing world. Similarly, expansionary domestic policies by the advanced countries, even if moderate ones, work through the system and materially assist in promoting balanced economic growth and the elimination of poverty throughout the world.

I cannot stress enough the need for greater resources from both advanced nations and international institutions to be channeled into the economies of the developing countries. I firmly believe, too, that this course of action will ultimately turn out to benefit not only the recipient countries but both rich and poor nations alike.

I would contend that the advanced countries should, on the one hand, bring about an increase in the flow of concessionary funds by rapidly raising their contributions to the official development assistance target of 0.7 per cent of GNP and, on the other, help to remove the restrictions which at present inhibit developing countries in international capital markets.

I would also appeal to advanced nations to support the World Bank Group's efforts to expand the supply of development loan funds which are readily available for developing economies.

The importance and influence of the IMF has grown greatly in recent years, and I believe that the Fund should be given added powers to assist member countries overcome short-term balance of payments problems.

There is no doubt in my mind, however, that the first priority for us all must surely be to create an international climate in which developing countries can greatly increase the volume and value of their exports. This will of course entail the full and active support of the advanced economies.

It goes without saying that the provision of direct aid cannot compare with the exchange of trade in providing a base for economic development, I would make the analogy that while direct aid may provide the bricks, external trade represents the vital cement that poor nations urgently need to build secure and lasting economic prosperity.

I think it is important that we all bear in mind that the new trade barriers erected by some industrial nations during the past two or three years have constituted one of the principal sources of hardship for the developing countries. These new barriers have in some cases set back years of hard work in countries where the painstaking progress toward industrialization and the elimination of poverty is just beginning to take root.

It is of paramount importance, therefore, that the advanced nations take the appropriate measures for immediate action to remove or alleviate the various tariff and nontariff barriers on imports from developing countires. . . .

. . . I would like now to turn to the activities of the World Bank. I particularly want to applaud the Bank's activities in two areas. First, its lending policy with regard to agricultural and rural development is vitally important to the world, not only because of the ever-growing need to increase food production but also because it reaches the very heart of rural poverty in the remotest corners of the earth. Second, I believe the Bank is taking a very necessary step in expanding and redirecting its investment in urban areas to give greater emphasis to improving transportation, electricity, basic education, and, most importantly, housing development in the poorer urban communities. I am totally committed to supporting this pattern in the Bank's lending policies.

With regard to the lending resources of the Bank, it is gratifying that the Board of Governors has given its blessing to a Selective Capital Increase. This should not, however, in my view overshadow the urgent need for a further expansion of the Bank's capital stock sufficient to permit continuation of the present level of commitments in real terms. From the discussions held in the recent past by the Executive Directors and in other distinguished international fora in different capitals, it is evident that there is a consensus in favor of an increase in the Bank's capital stock apart from the special increase approved recently. Therefore, I hope that the Executive Directors will make a recommendation to the Board of Governors on a General Capital Increase at the earliest possible date.

In conclusion, I would like to say that a spirit of cooperation and persistent endeavor has seen us safely through times of hardship in the past. I have every confidence that these same qualities together with an attitude of self-sacrifice and a determination for action on the part of all member countries can now pave the way to a better future.

LAO PEOPLE'S DEMOCRATIC REPUBLIC: BOUSBONG SOUVANNAVONG

Governor of the Fund

Since His Excellency Nouhak Phoumsavanh, our Deputy Prime Minister and Minister of Finance, is unable to participate personally in these Annual Meetings, he has asked me to convey to you his warmest greetings.

Thus, it is a pleasure for me to present in his place the statement of the delegation of the Lao People's Democratic Republic. It is also a pleasure to express our deep appreciation for the excellent planning of these meetings and for the documents submitted by our two institutions and their efficient hard-working staffs. I hope that these Annual Meetings will be fruitful.

May I also take this opportunity to congratulate and welcome the Republic of Guinea-Bissau, the Seychelles, and the prospective new members.

Before speaking of our relations with the Fund, the Bank, and its affiliates, I should like to give you a brief description of my country's situation. From the moment it was founded two years ago after a long, stubborn struggle against colonialism and neocolonialism, our Republic has faced numerous difficulties, such as:

— the hostile activities of imperialist circles and of the reactionaries;

— social scourges inherited from the old regime;
— the burden represented by hundreds of thousands of soldiers, policemen, and officials of the old military and administrative apparatus, whom we are continuing to support until they become productive;
— an alarming inflation, with its concomitant rising prices;
— the large-scale damage and destruction of almost 30 years of warfare;
— and, finally, the backward state of the economy, which is a subsistence economy.

In these circumstances, my Government has focused on solving certain immediate problems. First, it is undertaking a vigorous struggle to defend the country's independence, revive and develop agriculture, revive forestry and industry, develop education and culture, and advance public health. A priority objective is normalization of the people's economic life. In pursuit of these objectives, my Government has clearly defined policies for stimulating agriculture and forestry above all, as the basis for industrial development. The immediate task assigned to industry is to meet the people's need for farm tools and basic consumption items. But this does not mean we are neglecting basic industry; special attention is being given to the development of hydroelectric power and mining. In addition, certain financial and monetary measures have been taken, including the issue of new currency in place of the old, the careful management of foreign exchange, the adoption of a new wage system and of a new tax system to foster agricultural and industrial production, and appropriate credit policies for agriculture, industry, and commerce.

Today, despite the numerous additional difficulties created by the enemies of our regime, despite all the misunderstanding of our policies, despite the economically restrictive measures taken against our country, we have been able to achieve several fundamental successes. Thus, security reigns in our country, the Lao People's Democratic Republic is consolidating itself with each passing day, the social scourges are eliminated, illiteracy is progressively disappearing, health services are developing, agricultural production is expanding, and many irrigation projects have been carried out with the participation of the masses. In spite of this year's severe drought, about 70 per cent of all arable land has been sown. Future harvests, however, will depend on the weather and other conditions. In addition, forestry has been reactivated, lumber and forest products are being exported, and factories are again producing tools and goods to serve the workers. The people are better supplied and their life is much better than before. All this progress, achieved in such a short time by a small country barely emerged from a long war, holds promise, we believe, for the future. It cannot be denied that the people feel nothing but pride in it, and that their confidence in the new regime is growing daily.

Many other difficulties remain, of course, due to the mistrust and even hostility of which our country is the object and especially to the fact that the structure of our economy remains backward.

It is true that it is impossible to solve all the problems at once in less than two years. But we are convinced that the lines of policy we are following are right, and we are certain of the patriotism of our people, which enabled them to prosecute the struggle for national liberation victoriously and should now enable them to build an autonomous, independent economy. It is also true that we will be unable, by our effort alone, to surmount all difficulties. That is why our country continues to seek the assistance and cooperation of friendly countries and of the IMF and the World Bank and its affiliates, on the basis of respect for our country's independence and sovereignty and of the mutual interest of all the parties. In this regard, we are pleased that cooperation between the Lao People's Democratic Republic and these two institutions is steadily advancing. The facilities my country has been able to draw upon as a member of the Fund, and the loans we hope to obtain soon from IDA, are providing and will continue to provide support for our stabilization and development efforts.

The reports presented by the Managing Director of the Fund and the President of the Bank have clearly revealed that there is a crisis in the world economy, marked by a limitation in production, high unemployment rates, and persistent inflation in most countries, particularly the less developed. In the face of this situation, the two institutions have made intense, praiseworthy efforts, but unfortunately the results have not proved fully satisfactory. It is therefore essential to deal with current needs by setting up new financing facilities, especially for helping the most seriously affected countries. It seems that although the agencies established so far are designed for the transfer of technology and equipment from the developed to the developing countries, the latter are often confronted with restrictions and political discrimination. There is no doubt that this is harmful to intercountry relations and to the world economy itself.

Particular attention should be paid to the "special cases" in which member countries can benefit from program loans. The various categories of "special cases" have been fully enunciated by the Executive Directors, but in our view it is necessary to devote more thought to the terms and procedures under which these loans are granted. Harsh loan conditions are often the reason why member countries may not be able to accept the loans without risking a further decline in their people's standard of living, already seriously affected and very low. Another factor is that time-consuming loan procedures would be inappropriate in cases where a rapid transfer of external resources is called for.

One of the fundamental needs seen by the developing countries is for stabilization of raw material prices and of foreign exchange earnings they produce. Here again, a comprehensive long-term solution must be found that will establish a new pattern of economic relations capable of stimulating and accelerating growth in the most seriously affected areas of the world.

As the Conference on International Economic Cooperation did not produce any very encouraging results, solutions to the problems associated with raw materials, development, energy, and finance should be sought in other forums. The Development Committee, for example, might set up an annual program immediately to increase the flow of real resources from the industrialized countries through the various existing funds.

Those are the thoughts that the Lao delegation wishes to put before this meeting.

Before finishing, I would like to repeat our congratulations to the President of the Bank, the Managing Director of the Fund, and their staffs on the excellent work they have done for the progress of the two institutions.

LUXEMBOURG: JACQUES F. POOS

Governor of the Bank and Fund

A year ago early signs of an upturn in the first six months of 1976 warranted a certain optimism. This feeling has not been borne out by the evolution of the economic situation, and the remarks of Managing Director Witteveen have confirmed that the outlook is still disquieting.

This persistence of economic uncertainty at the international level is resulting in difficulties for countries with an open economy.

In this connection, please allow me rapidly to describe how the economic depression is affecting the Grand Duchy of Luxembourg. I shall also refer to the development of international liquidity and the conditions for covering international deficits.

Finally, it is evident that the depressed world economic situation is not calculated to solve the problems of developing countries. The operations of the World Bank will therefore be analyzed in the light of this evolution.

As regards the international economic situation, we have noted with interest that most of the large industrial countries are aware of the risks of stagnation and that they have therefore launched programs to stimulate the economy.

Unfortunately unemployment showed a further increase in 1977, attaining a rate of 5.5 per cent in the industrial countries. This extremely high rate cannot be sustained in the long run without social disruption.

Unutilized capacity amounts on average to 10 per cent of GNP; investments have still not returned to the level they were at before the crisis. Inflation, stabilized at too high a level, flares up at the slightest relaxation of vigilance.

This situation has had serious repercussions in Luxembourg, always largely dependent on the iron and steel sector despite diversification efforts now in progress. Surplus capacity and the menace of unemployment are concentrated in this dominant sector.

Despite the initiatives of the European Community and rationalization endeavors, in 1977 the iron and steel sector will barely surpass its 1976 production level, already regarded as a historic trough. Nothing less than a concerted effort on the international scale can draw that industry out of its present stagnation. It follows that our GDP will increase by hardly more than 2 per cent this year and that the forecasts for 1978 are limited to 2.75 per cent.

On the inflation front, disparities are still very high. Thus, within the OECD, inflation rates range from 1 per cent to 22 per cent on an annual base, which obviously do not further the economic and monetary stabilization efforts.

In Luxembourg, the monthly consumer price index, with a within-year increase of 6.2 per cent by August 1977, is appreciably lower than the 1976 level. Unless an international flare-up pushes prices to new heights, this success in the fight against inflation should be confirmed.

Demand-pull inflation and wage inflation seem at the present time to be increasingly replaced by an inflation resulting both from the insufficient use of production capacity and from the repayment of profits, the profits being chanelled into financial assets instead of used to reconstitute and expand productive capital.

In the face of this situation, a passive attitude is inopportune. Inflationary expectations must be actively combated. To this end there must not only be a regulation of demand, but also a regulation of supply.

At the London summit talks the major industrial countries were in mutual agreement that recovery should not be pursued to the detriment of the fight against inflation. Nevertheless, the slowdown in recovery could not be allowed to bring about a further increase in unemployment.

In the field of employment the Luxembourg Government has introduced additional procedures for consultation with the social partners. Its efforts have resulted in a plan of action in which the various measures are triggered by the attainment of successive levels of unemployment. This plan operates under the supervision of a tripartite commission that institutionalizes and continues a dialogue already initiated at the level of an economic policy committee.

The results of this policy are conclusive: during the year 1977 Luxembourg had less than 0.6 per cent unemployed in ratio to its active population.

In view of the persistence of inflation and the rise in unemployment, increasingly large sectors of the public are questioning the efficacy of market arrangements for the improvement of this situation. Can our societies afford to debar a large number of unemployed from active life for any length of time?

In the fight against structural unemployment and inflationary expectations, it is necessary to establish medium- and long-term goals. The role to be played by the private and the public sectors, and the distribution of their tasks, should be re-examined. The productivity of government departments should be improved, which is indispensable in restoring their image in the public eye. Such demands as improved control of subsidies and grants, or social supervision of the evolution of productivity would also merit discussion.

Since 1974 the budgetary policy of the Luxembourg Government has been aimed at dynamic equilibrium in the medium term. This conforms to the recommendations on full employment and price stability drawn up by a group of experts headed by Professor McCracken, under the auspices of the OECD.

To create a climate favorable to investment, the Government has extended fiscal incentives and has established a National Credit and Investment Corporation.

A country that exports three quarters of its production is heavily dependent on the international situation. Luxembourg therefore welcomes the recent recovery measures adopted in particular by the Federal Republic of Germany to attain the proposed objectives. Indeed, it is vital for the leading industrial countries with favorable payments balances to attain the rates of growth established, by expanding demand within the limits of their anti-inflationary policies.

Dependence on international trade makes Luxembourg extremely vulnerable to any form of protectionism, overt or concealed. We endorse the recommendation of the OECD Council of June 23 and 24, 1977, which reaffirms the political commitment to avoid unilateral restrictive measures on trade, and also the artificial stimulation of exports. In fact, such measures would procure a temporary competitive advantage in comparison with the reprisals they would certainly entail. They would really penalize the weakest and poorest countries. . . .

. . . In the second part of my remarks I should like to speak about the situation of the developing countries and the activities of the World Bank Group.

It is encouraging to note that some developing countries have increased their per capita income by an average of about 50 per cent over the last ten years, either through their petroleum earnings or through their industrialization programs.

Moreover, some of these economies have continued to grow—though at a slower rate—even during the recession in the industrial countries.

Nonetheless, these scattered optimistic signs are not enough to brighten a picture that remains grim: the cost of imports, and especially that of services, has risen substantially. The terms of trade have continued to deteriorate in 1977. Surging population growth partly offsets the overall growth rates. The stagnation of the world economy and the adjustment problems of the industrial countries have led to a decrease in unrequited transfers to the developing countries.

The depressed level of investment in the industrial countries has also been accompanied by a fall in direct investment in the poor countries, which have thus been obliged to rely very heavily on external financing. Almost a third of net public borrowing has been through the private market, and some countries have reached the limit of their borrowing capacity. It goes without saying that between a fair distribution of resources and security, the banks will choose the latter criterion for allocation. For this reason, it is the poorest countries that are bearing the costs of the world recession. Their access to the resources of the banking system is beginning to be subject to increasingly unfavorable terms.

It is, therefore, not surprising that the countries which were among the poorest ten years ago are still lagging behind. A resurgence of protectionism would have its first effects on them.

In view of this situation, on June 23 the Governments of the OECD member countries reaffirmed their intention to increase their official aid for development effectively and substantially.

The European Community, which is the foremost supplier of aid for development, is particularly aware of its responsibilities. Thus, agreement has been reached (at the initiative of the EEC countries) on the common fund envisaged in the comprehensive program of the UNCTAD for basic products.

The Community has thus played a key role in agreement on the need for specific action to assist the poorest countries. The proposal for such action, made at the International Conference on Economic Cooperation in Paris, is now being discussed actively within the Community and should be implemented early in 1978. The EEC countries, including Luxembourg, will contribute US$385 million to a special IDA account. This action reflects the intention of the EEC members to increase the volume and effectiveness of their aid for development within the framework of an expanded international efforts.

The Government of Luxembourg, aware that fundamental human rights go beyond the political and social context to embrace economic needs, reaffirms its intention to progressively attain a volume of public aid for development equal to 0.7 per cent of its gross national product.

The increase in aid provided by Luxembourg in recent years has always been far in excess of the overall budget increase. This willingness to do more has already been shown in its participation in the Third Window and in the Subsidy Account.

In 1978 the Government intends to make a special effort of the same kind at the international level. The provision for loans in the 1978 budget will be increased by about 72 per cent, while the over-all budget increase is 8.8 per cent.

Luxembourg likewise supports the liberalization of regulations governing the operations of capital markets, which would facilitate the access of creditworthy countries. It favors the expansion of direct investment on terms guaranteeing respect for national sovereignty and, of course, providing reasonable assurance of the safety and protection of the capital invested. A means should also be sought to guarantee the stability of export earnings. The discussion of this subject could usefully be referred to the Development Committee.

While respecting the competence of the governing bodies of each institution, it would be in everyone's interest to step up efforts to ensure a coordinated approach in the timetable and methods for increasing and replenishing the resources of the multilateral institutions. An exchange of views on this matter within a working group is certainly justified.

During the forthcoming 1977/78 legislative session my Government expects to obtain parliamentary approval for the special increases in the capital of the Bank, the increase in the capital of the International Finance Corporation, and the replenishment of IDA resources. It has also requested authorization from Parliament to make a first advance payment to IDA, in order to contribute to the continuity of that agency's operations.

The officials of my country are likewise prepared to place the resources and infrastructure of Luxembourg's capital market at the disposal of the World Bank and its affiliates, within the limits of that market's capacity.

In addition to the actions I have mentioned, the Government of Luxembourg reiterates its willingness to participate in the capital of the various regional development banks. For any of these banks, a setting of quotas at levels consonant with the actual possibilities of the contributors would be to the advantage of all parties concerned.

It only remains for me to stress once more our determination to support every effort to strengthen international monetary and financial cooperation. We regard this as the only means of preventing an overbearing selfishness that threatens to crush the weak and to provoke conflicts.

In this spirit, I sincerely hope that this Annual Meeting will enable us to reach a consensus on the goals of balanced growth that we seek.

MALAYSIA: RICHARD HO UNG HUN

Alternate Governor of the Bank

I wish to tender the sincere apologies of the Minister of Finance, Tengku Razaleigh Hamzah, for not being able to address this important gathering personally, owing to urgent commitments at home, which have necessitated his early departure soon after the opening ceremony of these joint Annual Meetings.

Allow me now to join fellow Governors who have preceded me in recording our thanks to Mr. McNamara and the management of the World Bank for the excellent work done during the past year. A great deal of work has been put in on improving the lot of the very poor, and Malaysia shares the confidence reflected in his address yesterday as President, the World Bank. I also wish to go on record to pay tribute to Mr. Witteveen for his able guidance of the Fund and many member countries through a period of very complex monetary and financial problems. Malaysia regrets his decision not to make himself available for another term as Managing Director, but we wish him well.

We meet here today in the midst of recent developments in the world economy which continue to give us cause for concern. Most countries still face the problems of serious inflation, slow growth, and high unemployment, while many also experience balance of payments difficulties.

This far from happy picture in the international environment has adversely affected the economy of the developing world. For many developing countries, the continuing need for stable and sustainable economic growth has compelled them to incur substantial borrowing, resulting in a mounting external debt burden. Of significance is the fact that an increasing amount of such borrowing has been obtained from private sources on terms they can ill afford. This problem has become especially acute for the poorest of the developing countries, and for them the only way out of this difficulty seems to be a rapid mobilization of international efforts to provide additional resources on concessional terms.

In view of this, it is appropriate that this assembly of Governors, who are largely responsible for the orderly functioning of the world economic and monetary system, address itself with a renewed sense of urgency to the problems facing our world today and, in particular, those affecting the developing countries, and take active steps to overcome them. In this regard, I would like to suggest three areas in which Governors may wish to focus their attention over the next few days.

First, steps should immediately be taken to promote a faster rate of expansion in private investment and world economic growth, and for this it is essential that there be rapid trade expansion. Both theory and experience have shown us that the unprecedented economic progress during the period after the Second World War was based on rapidly expanding world trade. It is in such an environment of trade expansion that opportunities are generated for undertaking new investment and creating more employment.

Instead there have emerged protectionist tendencies in several countries. This is a matter of grave concern as protectionism by its very nature is merely a short-term palliative and not a long-term cure for the problems of excess capacity and unemployment. On the contrary, it will only lead to a contraction of world trade resulting in stagnation of world economic growth such as the world saw in the early 1930s. For the developing countries in particular, many of whom are dependent on exports to generate the resources for financing their development, protectionism may indeed prove to be the last straw.

Second, immediate steps should be taken to increase the flow of real resources to the developing countries, especially for projects in the socio-economic field. It is through development on a broad front that we can ensure an improvement of the standard of living for those in the developing world. I wish to emphasize that life with basic needs such as adequate food, shelter, and facilities for personal development should be the legitimate right of every human being. Often we are overly preoccupied with political rights. While these are important, they have little meaning if we cannot meet the legitimate economic needs of our people.

It is therefore heartening that, under the leadership of Mr. McNamara, there has been increasing emphasis in the World Bank on financing projects which directly benefit the very poor who constitute about half of the population in the developing world. In this regard, Malaysia applauds the World Bank's research efforts and its lending program directed toward helping countries undertake projects to eradicate both rural and urban poverty. We note with approval that the World Bank has also begun a detailed analysis of the major development issues, and of the cost and benefits of policies which will enable the Bank to cope more effectively with its role as the world's major development institution. Indeed, we believe that it is through such a critical analysis and review that the Bank will be able to evolve techniques that will increase its effectiveness.

Over the past 30 years, the World Bank has played a significant part in the progress of many developing countries, especially in helping to develop their basic infrastructures. Now that the Bank is embarking on a program to meet more directly the needs of the very poor, it would be a great pity if it were limited by inadequate resources.

It is therefore timely for the management and member countries to be giving urgent consideration to raising the capital of the World Bank to a more realistic level. Unless the financial resources of the Bank are so raised, indications are that it will be impossible for it to fulfill its role. We support wholeheartedly the view that urgent steps must be taken to gear the organization and staffing of the Bank to meet the challenges ahead. In this context, the Bank would do well to increase the participation of developing countries at its policymaking level to provide greater empathy and feeling needed to complement the understanding, which already exists in large measure in the World Bank, of problems facing the developing countries.

In view of the pressing need for additional resources in the developing countries, we would strongly appeal to the donor countries not to allow the recent slowdown in their economic activity to adversely affect their aid programs. This, I fear, appears to be the case, since official assistance of members of the Development Assistance Committee, both in real terms and as a percentage of GNP, has fallen in the past year. Despite difficulties encountered, the developed countries should fulfill in earnest the United Nations target of providing 0.7 per cent of their GNP as aid to developing countries because of the pressing need for such assistance. While the case for such aid is clear, it is perhaps not inappropriate to ask the developing countries to take measures in their domestic economies to ensure that the maximum benefits may be derived from this aid since ultimately the primary role and initiatives for development rests with themselves. . . .

. . . It should be the vital concern of all of us that the eloquent speeches heard within this hall be translated into meaningful measures which will ensure that the fruits of growth reach the very poor, and quickly, by embarking upon more projects aimed at poverty eradication and the closing of the gap between the haves and the have-nots. Let us not be carried away by our own eloquence in economic abstractions, lest we fail to distinguish the woods from the trees. For the very poor, poverty is very real, and I am confident that this stark fact must be constantly borne in mind and viewed in the cold light of rationality in our deliberations. For our ultimate objectives are, after all, that those who hunger must have food, that those who thirst must have drink, and that those who are naked in the face of the elements must have shelter. Without this basic freedom from want, even elementary social services such as education and health belong to the realm of dreams and hopes. Such are the realities of the problems we face, that we cannot afford to fail in our efforts which have already come a long way toward fruition from the early days when men of conscience, vision, and good will first conceived the idea of the IBRD, now more simply and widely known as the World Bank.

MAURITIUS: VEERASAMY RINGADOO

Governor of the Fund

I would like to express to you, Mr. Chairman, my warm and sincere thanks for your eloquent address. As you so succinctly put it, "human needs are more than economic."

We meet annually around this time of the year for about a week and then we part. Thereafter we keep ourselves apart until we meet again in the following year. For myself I have been attending such annual gatherings for ten consecutive years. During those years we have discussed a wide range of subjects. We have identified the problems facing both the developed and developing countries and advocated measures for resolving these problems. And when at the end of the year we take stock of our achievements we find that on balance our problems have multiplied despite our best efforts. We find that we have only scratched the surface, and the hard core remains unresolved.

It was long ago that the Pearson Commission produced an excellent report and the message conveyed was summarized in just three words: Partners in Development. It looks as if we have all forgotten this message. The theme of Mr. McNamara's message can also be summarized in three words: Basic Human Needs. I am happy to note that this theme is in accord with the McIntyre report on the establishment of a new international economic order. The McIntyre report prepared by a Group of Commonwealth Experts contains laudable and practical recommendations. I am strongly of the opinion that this report is a seminal document and should receive serious consideration by the international community. In fact, we already have good technical reports at our disposal but what is lacking is the will to implement the necessary measures. The study to be carried out by Mr. Willy Brandt should investigate in depth the gap between precept and practice instead of going over the same ground covered by the Pearson Commission and the McIntyre Group.

The developing world is relieved that the World Bank is ensured of the distinguished services of its President, Mr. Robert McNamara, for another term of office. We are grateful to Mr. McNamara for laying stress on the basic human needs which must be satisfied to overcome poverty. As he said, it is not difficult to list them; these are food, shelter, and public services. We recognize that the World Bank has made a substantial contribution toward the development of agriculture and public services. The housing sector has not, however, received the same degree of attention by the World Bank; we hope that an equal emphasis will now be laid on this basic need.

We cannot talk about satisfying the basic needs without also discussing the means of financing these needs. It is widely recognized that the World Bank cannot mobilize additional resources without first increasing its capital stock. This problem is not insurmountable provided the right conditions are created for attracting capital. Serious consideration should be given to changing the voting rights of member countries so as to ensure a greater weight for developing countries. This is one of the recommendations made in the McIntyre report.

The World Bank should also give serious consideration to spreading the foreign exchange risks among borrowers. I am aware that the World Bank has been studying this matter for some time. I urge the World Bank to arrive at an early solution of this problem. Again, the method of computing the commitment charge on loans approved by the World Bank should be reviewed. The practice at present is to impose a commitment fee on the whole undisbursed portion of a loan. It would be more appropriate to draw up a schedule of withdrawals and to charge commitment fees only on the amounts not withdrawn by the specified dates. ...

... Finally, let me reiterate that the McIntyre report is a workable blueprint for action on the new international economic order, and I am sure that this report will become a *locus classicus* on this subject. What the newly appointed Commissioners should do is to explore ways and means of implementing the new international economic order. The Commissioners should not merely produce another report, and the advice I wish to offer is the one given to the man who asked the way to Oklahoma and was merely told "I wouldn't start from here."

MEXICO: JULIO RODOLFO MOCTEZUMA

Governor of the Bank and Fund

Latin America's position has been clearly and brilliantly set forth by the distinguished Governors for Argentina and Brazil. I shall therefore confine my remarks to the specific case of Mexico.

For the past ten months a new administration has guided the political and economic destiny of the Mexican people. President López Portillo, who was Governor of the International Monetary Fund and the World Bank for Mexico, has inaugurated an era of tranquility, confidence and security and has rekindled a common desire to achieve the high purposes that have been laid down for our community.

Mexico comes to this meeting with ten months' experience in dealing with the most serious crisis that the present generation of Mexicans has known. The combination of inflation, unemployment, contraction of international trade, recession and deficiencies in the financial system undoubtedly took many of the countries represented here by surprise. In the case of Mexico, the eruption of the crisis was accompanied by the loss of an exchange rate parity that had remained stable for 22 years.

When the drastic change in the parity of the currency occurred, the flight of capital, which had been under way for more than a year, became massive. Coupled with this was the withdrawal of capital from the Mexican banking system, which was also very heavy. Inflation rose to unprecedented levels, reaching 5 per cent in October and 6 per cent in November.

The new Government assumed office on December 1, 1976. The new President of the Republic, José Lopez Portillo, stated the basic points of his program in his inaugural address, called upon the people for their help and inspired a recovery of confidence and the support of the nation.

The incoming administration immediately began a reorganization of the administration of the public sector, a matter of particular importance in a country whose public agencies and enterprises have grown to a large number operating in such diverse economic fields as petroleum, railroads, electric energy, iron and steel, and urban transport.

In preparing its budget, the new Government clearly stated its intention to manage public expenditure rigorously and with strict observance of the priorities that the country demanded.

In order to regulate a basic aspect of financing the Public Debt Law was enacted, strengthening the participation of the Congress in determining the structure and limits of internal and external credit and introducing a proper system of programming.

Financing by the banking system has been organized so as to ensure the availability of credit for productive investments in priority sectors. The new system makes resources available for use by small and medium-scale entrepreneurs and for support of a basic products program.

The economy has been reactivated on the basis of a joint effort of the Mexican people through a strategy known as the Alliance for Production. The Alliance has been given key support by the workers, who have deliberately limited their demands. For entrepreneurs, the commitment consists of investing and creating jobs. In several branches of industry, those with the greatest impact on economic development, this investment effort has already begun.

We have adopted an incomes policy which has strengthened the role of the State in the economy. As a result, the increase in public sector revenue has exceeded our expectations.

After the worst of the crisis, we have succeeded in significantly reducing the rate of inflation, which has recently been held to 1 or 1-1/2 per cent a month. There has been a noteworthy improvement in the balance of payments, the deficit having been reduced by about a third. Confidence in the financial system also has increased, which is reflected in a significant rise in bank deposits. This has required a systematic policy of incentives for saving and investment, the establishment and strengthening of mechanisms to attract savings, and stimulation of the securities market, in order to firm up the financial support of the economy.

A substantial reduction has been achieved in the rate of increase of external borrowing. The external debt of the public sector had multiplied fivefold during the previous four years, reaching nearly US$20 billion. In 1976 alone external credits totaled US$6 billion. In contrast, the target set for 1977 is US$3 billion.

Mexico has met its external debt commitments promptly. I am pleased to tell you that my country has received an excellent response from the international banking system in its lending operations this year.

As part of the program laid down by the new administration, which clearly states the long-range objectives for the country and which must deal with the crisis of the moment, we have complied with the agreement concluded with the International Monetary Fund, as its missions to Mexico can attest.

The results of the measures taken by President López Portillo have surprised many observers.

We believe that we have dealt successfully with the most critical aspect of a difficult situation. But much remains to be done to guarantee collective prosperity and well-being. In the months and years ahead our task will be to continue the economic discipline that has been instituted, to promote saving and productive investment, to generate employment and production, and thereby to achieve a more sound and just economic system.

In another connection, it should be remembered that up to 1976 the proven reserves of petroleum in Mexico were estimated at 6 billion barrels. Recent research has identified the extent of enormous deposits of petroleum and gas.

At the beginning of this year the proven reserves within our territory were fixed at 11 billion barrels. Subsequent exploration has added more than 3 billion to that figure. Research and exploration are continuing with a view to re-evaluating the real and proven potential of the Mexican deposits.

As you know, Mexico nationalized its petroleum 40 years ago. Since then my country has been able to develop a rationalization policy for petroleum exploitation and the processing techniques. It has now acquired considerable technological expertise in all areas of petroleum and petrochemical production. The Petroleum Institute is widely recognized as a research and engineering center of the highest quality by reason of its contributions in this field.

Furthermore, investments are being made in an amount that will make Mexico a very important producer and exporter of primary and secondary petrochemical products in a few years' time.

The situation I have described evokes a crucial problem. The projects on which Mexico is engaged in connection with the latest discoveries of petroleum call for extraordinarily large investment programs, and a suitable material and technological infrastructure for their development exists in my country. However, in the next few months it will be requiring additional credit not envisaged when our arrangement was concluded with the International Monetary Fund, for these discoveries are more recent and entail modifying the initial program.

We do not hold that petroleum constitutes the basis of our country's economy, or that it will do so in the future. Mexico has an infrastructure and capacity for expansion in the area of agriculture, mining, and industry. In all these fields of economic activity the nation has skilled human resources to exploit the existing resources and to make them productive for the benefit of all.

An adequate management of petroleum products will be an additional element in President Lopez Portillo's economic policy, not only enabling Mexico to come out of the present standstill but also stimulating its development, bringing its balance of payments into equilibrium, and guaranteeing the country's capacity to make payment on its international obligations. It will thus be in a position to accomplish effectively the long-term aims it has set for itself, giving the people remunerative, productive employment, and satisfying the purposes of the nation as regards social justice.

I am convinced that the case of Mexico, by reason of the characteristics I have described, can be considered exceptional in the international context. We are moving out of a critical condition to a situation in which we shall be able to overcome factors having a negative impact on the proper functioning of the economy.

But Mexico, like the great majority of countries, is affected by the present world situation of inflation and unemployment.

In Manila a year ago, the experts diagnosed a recovery of the economic system. Good omens indicated that the world economy had during the previous year emerged from the worst crisis in 40 years. The expansion of production, a lessening of inflation, and the growth of world trade were indicators permitting a moderate optimism.

But the predicted expansion in the rate of economic activity has yet to become a reality. The Reports submitted to these Meetings by the authorities of the IBRD and IMF compel us to submit to a realistic examination of the state of the various national economies and the outlook for the international system.

By and large, the prevailing features are the increase in prices, an inability to expand production and reduce unemployment, the protectionist trend in international trade, and the deficit on current account of a great many countries. The negative effect is accumulating and worsening with the phenomenon continuing over time.

For the developing countries, with their frail economic structure, the slowness of recovery means deferring the legitimate hope of sound functioning in their national programs.

Structural solutions effective over the medium term are required to alleviate inflation and unemployment and to make adjustments in the external sector of the economy. This standstill in economic expansion should be no more than an incident in the process of accomplishing global objectives. For that purpose, concerted action is required. It is the only way to ensure that the various economic policy instruments act harmoniously and without hindrance. It is the only way to reconcile the fundamental interests of developing countries and industrial nations. And only by concerted action will it be possible to lay the foundations of a stable and equitable order.

NEPAL: BHEKH B. THAPA

Governor of the Bank

I add my own words of thanks to the President of the United States of America for honoring us with his thoughtful and refreshing address. President Carter set forth the current thinking of the U.S. Government on world economic and development problems and opportunities, as well as the policy measures and commitment that they call for, has provided, I believe, a correct and positive setting for us as we prepare ourselves to usher in a new era of world economic cooperation.

In these very difficult years, we have been fortunate to have had the services of two men whose qualities of leadership, foresight and, above all, dedication have earned for our common organizations the faith and trust of the international community, which alone can render our mutual goal a viable proposition. In his four short years of office, Mr. Witteveen has not only helped the Fund and the world to withstand the test of a critical period in the history of international monetary affairs, but he has also made imprints of a more enduring nature which successfully demonstrate the dynamic properties of the Fund. We are all sorry that Mr. Witteveen has decided to leave the Fund after the expiration of his first term, but we respect the decision that he has taken for personal reasons. We are pleased that Mr. McNamara will continue to be with us, and I congratulate him for his reappointment for a third term as the President of the World Bank.

Taking stock of the developments in the international economic scene since we met last in Manila, the forces which set the world economic order in turmoil three years ago appear to be in the process of being accommodated. With the expected rate of real GNP growth of 4.5 per cent in industrial economies and the rate of inflation dropping significantly, the industrial world should be more capable now than ever to move away from the confines of its own national interest and act in harmony with the demands of contemporary international economic reality. We already see hopeful signs both in monetary and fiscal affairs and development assistance.

As far as the developing world is concerned, the experience of the majority of countries in this group in the aftermath of the economic upheavels was traumatic in that the economic growth rates were already too low. In the face of high import needs of capital goods and food items, deterioration in their terms of trade has had the effect of eroding the purchasing power of their exports significantly. Despite the marked improvement in export performance during the latter part of 1975 and through 1976, the deficit in their current accounts is still sizable, and consequently they are laden with a mounting debt burden. Some of these developing countries may now have begun to show some results in their efforts for economic growth. But for the poorest of the poor, their economies continue to be disturbingly stagnant.

One of the greatest needs being felt by the developing countries, especially the least developed ones, is the need for substantial long-term financing. This will, by keeping their debt servicing requirement low, enable them to tide over the difficulties until the adjustment policies adopted by them begin to take effect. In this context I commend the setting up of the Supplementary Financing Facility, which is aptly called the Witteveen facility. I share the view of many of my colleagues from the developing, and also some of the developed countries, that the conditionality of borrowing from Fund facilities should be sufficiently flexible so as to take into account the special conditions prevailing in the borrowing countries. The need for borrowing from the capital markets for a longer term, with an interest subsidy from Fund facilities, is also being increasingly felt by the developing countries. Mr. McNamara has told this assembly with his usual eloquence that even with stringent financial measures the poorest countries may not hope to add more than US$30 to their per capita incomes in eight years.

While we all look forward to the proposed study on a World Development Report, my delegation for one is not sure that such a study can further reveal new dimensions of poverty, when what is needed is action on what we know already. For a country like Nepal, the strategy is clear, and this strategy has been clearly prescribed in President McNamara's statement also. First, we must allocate resources within the country in a manner that spreads the benefit of such investment to a larger number of people. Second, when we are starting with a per capita income of US$100, there will not be much to redistribute unless we do everything that we can to substantially increase the rate of growth itself.

As far as the first point is concerned, let me assure you that my country is already being guided by the strategy of decentralizing investment as well as employment and income opportunities in order to meet the basic human needs of a vast majority of the people in rural areas which have been left behind by even what little development that has taken place. Nepal's policy and strategy in this respect are firm and clear as, indeed, directed by no other than our Sovereign himself. Accordingly, in our development programs, highest priority has now been accorded to integrated rural development, which alone can cater to the basic needs of our people. In Nepal's context, development means rural development, and rural development means meeting the basic human needs of the society.

However, for the second part of this prescription, the economy is so far behind, and the need of such vast magnitude, that nothing short of a miracle in international development assistance can boost investment to a level which can produce a respectable rate of growth. We are pleased that in December 1976, the first meeting of the Nepal Aid Group was held in Tokyo under the aegis of the World Bank. We look up to this group not only as a *via media* for expanding international resource flow, but also as a mechanism for attending to the accompanying problem of absorptive capacity that is inherent in the complexity of the development process of a least developed country like my own.

Sepaking of the transfer of resources to the developing countries in general, the result continues to be discouraging. In volume, both ODA and total flows taken as a percentage of the combined GNP of the Development Assistance Committee (DAC) member countries is reported to have slid further back to 0.33 per cent and 0.96 per cent, from 0.36 per cent and 1.05 per cent, respectively, of 1975; although a few of the DAC members have raised their contribution in terms of share of their GNP, and some of them have in fact crossed the 0.7 per cent mark, while that of the OPEC countries which leaped to a $8 billion mark in 1975 from nearly $2 billion in 1973, registered a little shortfall in 1976. Furthermore, a recent study on financial flows has revealed the paradox that among the aid recipients, the higher the level of income, the higher the volume of resources, and the poorer the country, the lower the volume of resource flows. Again, as the analysis revealed, in spite of a substantial increase in the flow of resources of non-oil developing countries, the overall terms hardened. Looking at the distribution of ODA on a bilateral basis—it has little consistency with what has been committed by the international community to narrow the gap in income levels. This will rather aggravate the unevenness in income levels that exist even among the developing countries.

This is not to imply, however, that the efforts have not been made to correct the distribution, terms, and quality of ODA in recent years. As a result of the deliberations held in different forums of developed and developing countries, additional resources to tide over the immediate needs of the least developed countries have been committed. One such welcome example is the commitment made in the Conference on International Economic Cooperation (CIEC) for contributions of $1 billion by the developed countries in the form of a Special Action Program. The provision that use of these contributions should be highly concessional will go a long way toward relieving the poorer countries from the difficulties they are facing or which are beginning to build up in servicing the debt. In fact, some of the developed countries have started changing their previous bilateral loans to grants, and we hope that others will not fail to follow suit in the near future. While these are all welcome steps toward the right direction, there seems to be a lack of a mechanism that ensures continuity and automaticity in the resource flows, especially through multilateral channels.

In recent years, the local cost financing and slow disbursement have become areas of concern to poorer countries. Because of the low domestic savings and the need to concentrate investible resources in infrastructure buildup, there have been increasing budgetary constraints to providing recurring expenditures to maintain the completed projects. Underutilization of capacity-created infrastructure is sure to take place until appropriate sectors of the economy are ready to derive full benefits. It is time, therefore, that bilateral and multilateral flows alike be channeled in an appropriate blend of foreign exchange as well as local cost, according to the merit of each case. The relevant Articles of Agreements of the World Bank, IDA, and the ADB, which constrain them to advance their loans and credits only in special circumstances, should hence be amended because the local cost constraints being faced by the poorer countries have now become a rule rather than an exception. Another reform urgently needed in this respect is further untying of aid, a matter which has now been under consideration by DAC member countries for some time.

Turning toward the future resources of the Bank and IDA, it is a matter of great satisfaction that the agreement to replenish IDA resources to the extent of well over $7 billion for the coming three years has been agreed upon. We hope that legislative action for ratification wherever necessary will be completed soon. It has been reassuring for my delegation to listen to the very positive remarks by the Governors from most of the developed countries with regard to the IDA V replenishment, World Bank capital increase, IMF Supplementary Financing Facility, and Seventh General Increase in Quotas. We all feel more confident now than ever before that both the Bank and the IMF will be able to assist the member nations to achieve greater stability and progress.

NETHERLANDS: W. F. DUISENBERG

Governor of the Bank

Economic growth slowed down appreciably during the second half of 1976, and appears to stay at a low level during this year. The Annual Report of the Fund emphasizes—in my opinion correctly—the impact of a disappointing development of gross fixed investment in industrial countries. Investment failed to take over the role of stockpiling which served as the main stimulus to recovery at an earlier stage.

I am not too optimistic about the longer-term prospects. The international economic recovery has a narrow basis, supported as it is by only a relatively small number of countries. To strengthen their external position many deficit countries have to follow restrictive demand policies. This obviously has a depressing effect on the rate of economic growth in the world as a whole. Moreover, uncertainty exists on the extent to which investment in the industrialized countries will pick up and contribute to the process of recovery.

In my opinion, recent experience has taught us that more expansionary budgetary policies as such provide no guarantee for sufficient growth of investment in fixed assets on a more permanent basis. A reduction of the high rate of inflation and structural improvement of profits are indispensable as well, and under present circumstances of equal or even more importance than the general expansion of aggregate demand. My country has made considerable efforts in both areas and will continue to do so. . . .

. . . I now turn to development and the work of the World Bank Group. During the past twenty-five-year period the economic growth in the developing countries on the average equaled the growth experienced by developed countries, even if account is taken of the rapid population growth in the developing countries.

However, the rapid economic growth enjoyed by the developing countries did not result in elimination of poverty. The economic prospects of especially the lower-income countries are rather dim. I shall not now dwell upon the causes of these developments, but limit myself to some remarks regarding the role of the World Bank Group.

The World Bank Group, under the able and dedicated leadership of Mr. McNamara, is making a distinct contribution to enhance the standard of living in the developing countries, and the Bank has taken the lead in exploring new directions in development assistance. I wholeheartedly welcome the recent decision of the Executive Board to reappoint Mr. McNamara for a third term as President.

I agree fully with Mr. McNamara's statement this morning that the attack on poverty cannot be forgotten or forever delayed and that political decisions should be made. Therefore, I very much support Mr. McNamara's proposal that a distinguished group of commissioners, under the chairmanship of Willy Brandt, be convened to help remove the roadblocks to more effective international development cooperation.

What should be the general policies to be followed by the World Bank Group? With respect to IDA, its policy to focus its resources increasingly on the poorest countries and the poorest parts of the population will yield results only if the development strategies of the countries concerned aim at ensuring equal opportunities, and at channeling the external finance primarily to the poorest people. The Netherlands Government strongly endorses present IDA policies, and we are satisfied that the principal criteria underlying the eligibility for and allocation of IDA funds will continue to be applied under the Fifth Replenishment. Moreover, ongoing IDA assistance to the poorest countries not only will meet basic needs, but is also likely to enhance the efficiency of national policies, so that countries may become, at least partially, creditworthy for Bank loans.

In my opinion, the Bank should continue to lend to higher-income countries, or capital surplus countries, in those cases where countries are either not able to satisfy their capital requirements elsewhere, or are in need of technical assistance. Especially co-financing and nonfinancial assistance rendered by the Bank can be of vital importance to the countries concerned. I would submit that these higher-income countries would rather pay a higher price for continuing Bank assistance than face termination of Bank lending. Hence, I would propose to give serious consideration to a differentiation in lending conditions between higher- and lower-income countries.

In addition, the Bank should be ready to extend loan guarantees in conformity with the recommendation of the Development Committee. The cooperation with private capital in general, with a view to increasing the resource flows to developing countries, deserves serious attention of the Bank.

I would like to reiterate my strong preference for IFC to encourage and financially assist the development of local enterprises in the poorest member countries. I trust that IFC adheres to the same objective and I hope that we may anticipate some innovative projects in this respect.

The Netherlands attaches great importance to IFC's activities in the field of the development of and access to capital markets. I expect IFC to put into practice the recommendations of the Development Committee on the promotion of capital market activities for the benefit of the developing countries.

In view of the forthcoming discussion on the future role of the Bank, I think it is appropriate to pay due attention to the Bank's capital requirements and related policies.

I wish to confirm that the Netherlands Government strongly favors a substantial general capital increase of the Bank. The Netherlands supports an increase that will permit the Bank for a reasonable period of time—say at least for the next five years—to increase its lending in real terms.

It would be unfortunate and even counterproductive if the subject of a general capital increase would again have to be presented to the member Governments in a few years from now. It seems to me that a general capital increase in the order of 100 per cent is appropriate and it is equally important that this capital increase is effective as soon as possible.

A substantial capital increase might in itself provoke new problems. May I just touch upon one area which I feel deserves special attention in the future.

The larger the Bank's lending operations, the more attention should be paid to the borrowing prospects. The ever existing uncertainties on the availability of funds and the access to capital markets could become a predominant problem. Borrowing might become a bottleneck in times when, as happened in the past, major capital markets are effectively closed to foreign borrowers. It is for this reason that I would like to suggest that governments of capital lending countries consider allowing an exemption for the World Bank, as well as for the regional banks, from any restrictions on the access by foreign borrowers to their domestic capital markets. In practice this may not mean much for the countries concerned, but for the Bank this constitutes an important addition to the required flexibility in borrowing.

I remain confident that the Bank Group will respond adequately to the challenges ahead and I am pleased to conclude my remarks by expressing the appreciation of my Government for its very valuable work for the benefit of the developing countries.

NEW ZEALAND: R. D. MULDOON

Governor of the Fund

I, like previous speakers, am pleased to note that during the past year economic and financial conditions have improved in many countries. Recovery from the world recession of 1974-75 has continued in 1977, although—as recognized at the last meeting of the Interim Committee—it has been slower than expected and unevenly distributed. A further slight reduction in the external imbalance between deficit and surplus countries seems likely this year, but inflation rates generally remain unacceptably high, despite the persistence of substantial unemployment and excess plant capacity in most countries. As yet—with business confidence still badly shaken—there is little sign of a resurgence in investment, without which there can be no sustained growth in the world economy.

Such generalizations, however, mask the very wide disparities in the circumstances of individual countries. These are well known to us all. What concerns me almost as much are the widely differing views on general policy prescriptions needed to achieve adjustment and restore economic stability. With such a high degree of interdependence of the economic fortunes of individual countries, a cooperative approach is essential to achieve rational international adjustment.

Last year in Manila, the Interim Committee concluded that external payments adjustment should be symmetrical as between deficit and surplus countries. Both have a responsibility to implement domestic and exchange rate policies which will lead to a reduction in the present unsustainable external imbalances. But to what extent is this principle being followed?

Many deficit countries, including New Zealand, have been maintaining strict demand management and incomes restraint policies, along with other measures, designed to reduce inflation and to encourage a switch of resources away from consumption into net exports. These efforts have produced some commendable improvements in their external positions. In New Zealand's case, the current deficit has been reduced from in excess of 14 per cent of GDP in FY 1974/75 to less than 7 per cent in FY 1976/77. This has not been achieved without real social costs. Living standards in New Zealand have fallen sharply and the rate of unemployment, although low in comparison with some countries, is historically high. Yet despite our efforts, and those of other deficit countries, large external imbalances still remain.

I regret, however, that some "strong" industrialized countries have not managed to expand their economies to any substantial degree and are still running sizable surpluses. Too much attention is being paid to the financing of external deficits and adjustments by deficit countries, while far too little attention is being given to the root cause of those deficits and the resultant debt accumulation. It is forecast by the IMF that, although the surpluses of the major oil exporters will decline from an estimated $39 billion to an estimated $35 billion for the first half of next year on an annual basis, the industrial countries will move from a deficit of $1 billion to a surplus of $7 billion. We have then the continuation of these combined surpluses at a rate of some $40 billion for the third successive year after falling from higher levels in 1974 and 1975. The corresponding deficits will exacerbate the already existing debt servicing problems of a number of countries, and add to the extent of adjustment required by deficit countries in order to achieve sustainable balance of payments positions.

I am particularly concerned at the persistent large deficits in the developed primary producing countries, projected to continue at about $10 billion, and in the non-oil developing countries at $25-30 billion. Mr. Witteveen's observation yesterday that primary commodity prices have declined markedly in the middle months of 1977 highlights our cause for concern. While this may help industrialized countries to reduce their inflation, it almost certainly implies some reduction in export earnings of the primary producing countries, including developing countries who can least afford it.

Despite these developments too many of us are saying with apparent resignation that these massive surpluses and deficits will be with us for some years yet. The result is of course that the debt service ratios of the deficit countries will continue to rise to an unacceptable level. These overall figures of about $40 billion should be compared with total ODA flows of about one third of that amount and increased indebtedness of the deficit countries of about two-thirds of that amount.

While the Annual Report of the Executive Directors of the IMF is, I think, realistic in respect of the developed primary producers, I believe that it is dangerously optimistic in respect of the non-oil developing countries. These massive deficits are not simply annual figures, they create a cumulative rise in debt. To speak euphemistically of an "adjustment process" which is of course largely one-sided is to obscure the reality that what is being required of deficit countries is in essence a reduction in their standard of living. Despite the dozens of international conferences that have taken place each year—all intended to improve the standard of living of the peoples of the developing countries both in absolute terms and in relative terms—the fact is that since 1973 the relative position of these countries has worsened. Conference after conference has concentrated on palliatives rather than cures.

In a country such as New Zealand it is possible, albeit with considerable difficulty, to deliberately reduce the standard of living of the people with no great damage to the democratic process. In many countries of the developing world, however, it is not possible and indeed in some of them democracy is a fragile plant. If the major industrial countries lack the political will to make the necessary adjustments, and many of them do, how much more difficult it is in the developing countries. Two things are essential. The first is not just a halt to expanding protectionism as many are advocating but a reversal of the protectionist policies which in some cases have been adopted for a very long time. Mr. Olivier Long said in his statement to the Interim Committee that the value of trade subject to new protectionist measures in the last three years alone has been equivalent to \$30-40 billion per annum. There must also be a reversal of the massive decline in the terms of trade of the primary producers which has taken place since 1973. That these moves are politically difficult is accepted, but what must also be accepted is that to take these steps is in fact enlightened self-interest in the longer term.

In spite of the optimistic terms of the Annual Report it is in fact becoming increasingly more difficult to recirculate the proceeds of these continuing surpluses, and the ability of many countries to service accumulating debt is diminishing. The end result will inevitably be not just economic instability but political instability and a decline in the availability of markets in those countries for both industrial exports and oil. There is already less confidence in the international financial system than has been apparent for some time, and for the first time for many years we are hearing and reading instead of the term "rescheduling" the more ominous world "default."

I believe that the Supplementary Financing Facility established by the IMF will help some countries finance their deficit, although the terms and conditions on which it will be available may make it inappropriate for use by some of the countries who most need it. Again, it is a palliative rather than a cure. We cannot say to a poor country, "we will pay you much less in relative terms for your goods than we used to pay, but you need not worry as we will lend you the balance at market rates of interest providing you take the steps to lower the standard of living of your people."

New Zealand is uniquely placed to understand these difficulties because while we have suffered more than most from declining terms of trade and the impact of agricultural protectionism we have nevertheless the ability, and indeed the will, to make the adjustments that are necessary in the short to medium term. Given the pain and anxiety that it costs us, however, we can clearly see how much more difficult it is for the poorer countries. It is my earnest hope that much more attention will be given to the necessity for increasing the earnings of these countries; then correspondingly less attention will be needed to the financing of their deficits.

This question goes beyond the area of finance or even the economy in the broader sense. It is a political question of the greatest importance and it sits fairly and squarely on the Cabinet tables of all those countries in whose power it lies to work together to diminish these surpluses and deficits. I repeat, that to do so is in the long run simply enlightened self-interest.

NORWAY: HALLVARD BAKKE

Alternate Governor of the Bank

I am speaking on behalf of Denmark, Finland, Iceland, Sweden, and Norway.

The Nordic countries are firmly convinced of the need to achieve more equitable relations between developed and developing countries. We regret that progress in the international negotiations on North-South issues has so far been slow and insufficient. The recent Paris Conference made but few advances. There were, nevertheless, some positive achievements. We welcome in particular the concrete commitment to substantially increase the volume of aid which will bring us closer to the UN target of 0.7 per cent of GNP. It is high time that the declining aid trends should be reversed.

We would also like to stress that a fairer and more equitable sharing of aid efforts must be achieved. We think we are justified in asking that the larger industrial countries with strong economies or balance of payments surpluses should carry a greater share of the rich world's aid responsibility. We recognize with appreciation the steps already taken by the OPEC surplus countries in respect to development aid and hope that in future they will continue to contribute financially to the various multilateral development organizations in accordance with their economic capacity.

Looking ahead toward continued North-South negotiations, the Nordic countries attach particular importance to progress on the pressing problems of commodities and debts. In this connection, let me point out some of the main measures we believe should be taken:

- implementation of an Integrated Program for Commodities, as dealt with by UNCTAD IV, with a view to achieving an improved market stabilization for a whole range of commodities including the early establishment of a Common Fund to finance buffer stocks;
- the establishment of an additional soft-term arrangement for the compensation of shortfalls in the poorest countries' commodity export earnings, as foreseen in the Nairobi resolution on the Integrated Program for Commodities;
- agreement on international features which could provide guidance for the treatment of debt burden problems hampering the development capacity of individual developing countries. Special attention should be given to debt relief measures with regard to official aid credits to the poorest countries.

International measures of this kind are not sufficient in themselves. Changes in the world economic order will benefit the poor only if coupled with reform within countries. Determination to carry out such reform is, therefore, vital for the process of development.

Governments pursuing determined policies of redistribution of wealth and productive assets, such as land and capital, face a tremendous task. Their own resources are limited. Factors beyond their control unfortunately often thwart their development goals. Those developing countries must be able to rely on the active support of the international community.

During the last decade there has been a change in the approach to development. Instead of economic growth with supposed "trickle down" effects, new types of projects, directly aimed at the poor, have come into focus. Such a policy will improve the quality of life for millions of people in our own generation and will, at the same time, secure a sounder basis for new generations in the developing countries.

The ultimate aim for development effort, through all plans and projects, is a better life for the individual. A major concern for the World Bank is, therefore, how to reach the world's most deprived men, women, and children, improve their conditions, and in this way raise the social and economic level of their societies.

In its policies on rural development and small-scale enterprises the Bank Group has set a good example. To strengthen this trend there will be a need to create efficient national institutions designed to channel international means to this type of development.

We believe that the World Bank has an important role to play in the implementation of a basic needs strategy in the developing countries and that the Bank's resources should, for this reason, be primarily directed toward:

- programs which benefit the most underprivileged; and
- countries committed to the concept of social progress within their societies.

Needless to say, social progress entails respect for basic rights and human dignity.

We suggest that the Bank Group further concentrate its investment activities to assist in overcoming the main obstacles to development. Unemployment is taking staggering dimensions. According to ILO around 40 per cent of the labor force of the Third World, or some 300 million people, are either unemployed or grossly underemployed. Only remunerative and productive work can save them and future generations from abject poverty.

To adapt the activities of the Bank to a changing international environment, the Nordic countries suggest that particular attention be paid to the following:

- country programing procedures designed to strengthen the link between Bank activities and the development priorities and basic needs of the developing countries;
- improved opportunities for effective participation of developing countries in the decision-making process of the Bank and IDA;
- softening of the lending terms of the Bank;
- increase in the share of resources devoted to program lending and local cost financing.

These and other questions belong to the ongoing discussion on the future role of the World Bank Group. The President of the Bank has in this regard submitted a thought-provoking report, which the Nordic countries welcome. It is now up to the Executive Board to work out a concrete program of action. The objective should be to further strengthen the evolution of the Bank Group as a development institution, fully responsive to the needs of its poorest members. We share the views of the President on this score. The reappointment of the President is a warrant for a continued and realistic process of change in this direction within the Bank. Negotiations on the increase of the Bank's resource base should go hand in hand with the discussions on its future role.

Last year the Annual Meeting of the World Bank Group was held in an atmosphere of gloomy predictions about the Bank's—not to say IDA's—future. The discussions on the resource situation had come to a halt. The Bank's position as a front runner in implementing new-style projects was in jeopardy.

Today we have reason to be somewhat optimistic. A general understanding on a substantial increase in the capital of the Bank has been reached. The agreed objective was a lending volume of US$6.8 billion in fiscal year 1979 and to increase thereafter the level of lending in real terms. The Nordic countries welcome this understanding. We take it that the modalities for its implementation will be negotiated promptly.

Turning to IDA, I join previous speakers in expressing satisfaction with the outcome of the Fifth Replenishment, hoping, however, that the remaining gap will be filled at an early date. We are anxious to see the agreement on IDA come into force as soon as possible.

Some countries in Africa and Asia have recently gained independence and political sovereignty after struggling for freedom with devastating effects. The Nordic countries urge the Bank Group to channel substantial aid to the reconstruction effort in these countries. We would also express the hope that in the near future all the peoples of Africa will reach full independence and that the Bank Group at that time will without delay be ready to play an active role in their development effort. Pending independence and fully fledged development aid programs, we believe that the way the Bank can support development toward independence in this area is through increased assistance to those African countries carrying the heaviest burden in the liberation process.

To conclude, political independence is hollow if it does not go hand in hand with the right and possibility to influence and direct one's own economic and social development. Political independence does not by itself change the pattern of commerce, industry, and monetary affairs. Unequal economic relations remain, reflecting an unjust distribution of economic power and of the wealth of the world.

We, therefore, support the efforts to create a new international economic order, based on justice and equality, between as well as within nations.

In these efforts the World Bank Group has a vital contribution to make.

PAKISTAN: A. G. N. KAZI

Alternate Governor of the Bank

It is gratifying that the overall economic conditions in many parts of the world show distinct improvement compared with the conditions two years ago. After stagnation in 1974 and a decline in 1975, the gross national product of the industrial countries registered significant growth in 1976. The volume of world trade also expanded following a sizable decline in the previous year. However, certain features of the current economic situation still give cause for concern. The level of unemployment in most developed countries is still distressingly high. Inflation is still a serious problem. The speed of economic recovery has recently slowed down. The disconcerting coexistence of relatively slow growth, sluggish investment, and high unemployment with persistent inflation constitutes a major challenge for the world economy. We are, however, heartened by the statement made by President Carter that effective steps will be taken to counteract the recent manifestations of sluggishness in the U.S. economy, which will contribute to general economic well-being of both developed and developing countries.

For the poorer non-oil producing developing countries, the prospects of progress remain clouded. A critical problem facing these countries is to accommodate the large balance of payments deficits being experienced by them. The current account deficit of these countries at $26 billion in 1976, though smaller than the unprecedented level of $38 billion reached in 1975, was still sizable and three times as large, in nominal terms, as it was during the early 1970s. The projections for 1977 do not indicate any improvement in the situation. Continuance of such large deficits over the past three years has given rise to a rapid increase in the international indebtedness of these countries. The proportion of borrowing on hard terms has also increased. The heavy burden of debt servicing is now acting as a serious constraint on their economic growth.

There is urgent need for an increased flow of resources on concessional terms from the developed countries and multilateral agencies to the less developed countries. As was pointed out by Mr. McNamara in his forthright action-oriented speech, an expanded program of external capital aid along with domestic policy reforms is imperative if the poorer developing countries are to attain even the minimum desirable rates of economic growth. Official development assistance is the only effective instrument for transferring resources on concessional terms to support the development programs of low-income countries. It is neither feasible nor desirable for the poorer countries to borrow on hard commercial terms.

In this context it is rather disheartening to note that official development assistance in real terms declined in 1976 as compared with 1975. While the GNP of developed countries rose by 5.4 per cent in 1976, the official development assistance provided by the developed countries declined from 0.36 per cent of their GNP in 1975 to 0.33 per cent in 1976.

The emergence of OPEC countries as a significant new source of concessional transfer of resources to developing countries has been one of the welcome developments in recent years. The aid disbursed by OPEC countries was about 3 per cent of their GNP, which is commendable considering the nonrenewable character of their wealth and the fact that they are themselves in the process of development. We also greatly appreciate the contribution made by Saudi Arabia toward the setting up of the Supplementary Financing Facility of the IMF.

It is also a matter of great satisfaction for my country that an agreement has been reached on the Fifth Replenishment of IDA funds. We greatly appreciate the unremitting efforts made by the World Bank for this purpose and the generous contributions made by the industrially developed donor countries despite their own economic difficulties. We also welcome the contribution made by Saudi Arabia and the United Arab Emirates to IDA funds.

The lending by the World Bank has acquired a significant place in the total transfer of resources to the developing countries. The increase in the volume of lending by the Bank over the past decade has been a commendable feature of its operation. We are happy to note that a consensus has been reached on increasing the capital of the Bank which will enable it to maintain the rising tempo of its operations. In widening the capital base of the Bank, an effort should be made to maintain the voting power of developing countries at least at the present level.

Along with a quantitative increase in Bank lending, it is important that a part of the Bank's lending should be made available in a flexible and quick-disbursing form. The Annual Report of the World Bank has discussed in some detail the policy on program lending. It is gratifying that the Executive Directors and the management of the Bank agree that there is a distinct and additional role that the program lending by the Bank has to play in making an effective transfer of resources to developing countries. The actual lending in this form has, however, been far below the level of 8 to 10 per cent of gross lending which was forecast as a reasonable expectation of the quantum of such loans, on the basis of the policy adopted by the Bank. I hope in future the Bank will be more liberal in identifying cases, within the stated policy, which are considered suitable for program lending. . . .

. . . It is now almost universally recognized that the problems of underemployment, poverty, and inequality are inherent in the existing economic structure and that economic betterment of the poorest nations cannot be brought about without a fundamental reordering of the present global economic system. The gap between the average income of the developed and developing countries has consistently widened, and there is no hope that under the present world economic order this gap will be narrowed down in the foreseeable future. Despite prolonged discussions and debates on various aspects of the new international economic order at several international forums, unfortunately no significant progress has been made in bringing about the required structural changes for reshaping the world economy. It has to be appreciated that the Third World is not demanding a drastic redistribution of the existing income and wealth of the developed countries. It is only seeking equality of opportunity and the right to share more equitably in future growth.

The developing countries find their frustration growing at the lack of progress in implementing the new international economic order and the failure of North-South dialogue to produce tangible results on most important issues of international economic cooperation. Three years have passed since the historic Sixth Special Session of the General Assembly formulated a package of minimum basic changes required in the international economic order to create a more just relationship between the developed and developing countries. We have gone through a marathon negotiating process in Paris on ideas and suggestions evolved in the General Assembly with highly disappointing results. The matter will have to be further considered in the appropriate organs of the United Nations. We would also welcome other positive steps in this regard. We hope it will be possible to obtain a broad consensus on the constitution of the proposed Brandt Commission. We also support the commissioning of the study entitled "World Development Report" which we hope will concretize an acceptable framework for international action.

On account of the inequities of the present international economic order, the developing countries have had to bear a disproportionately large share of the sacrifices involved in the adjustment to recent developments in the world economy. What is particularly worrisome at the moment is the increasing trend toward protectionism in a number of industrial countries. Instead of liberalizing their trade policies to help developing countries overcome their problems, a number of developed countries have taken recourse to restrictive trade and payments policies which are aggravating their problems. It is evident that policies to counter high levels of unemployment, particularly in labor-intensive industries in the industrial countries, are finding expression in increased protectionism. Industrial countries have applied quantitative limitations on imports in the form of quotas and licensing procedures. In particular, a number of countries have taken measures to further restrict imports of textiles and garments from developing countries under the plea of preventing "market disruption," a phrase of which the exact connotation is not clear to us. It should be recognized that the development process requires structural shifts in trade flows. The industrial countries should accept these shifts rather than resist them. With their advanced technology, diversified economies, and broad resource base, it should not be very difficult for the developed countries to find other ways and means to reduce unemployment without hampering the growth of the developing countries. Such protectionist policies are at variance with the policy statements of the developed countries and their commitments in such forums as the Tokyo Round of multilateral trade negotiations. It cannot be overemphasized that developing countries would not be able to attain even modest growth targets unless, among other things, special measures are taken by the industrial countries to reduce barriers to exports from those countries.

Another pressing problem needing urgent attention is the management of international liquidity. The Fund Report shows that official reserves increased from SDR 146.8 billion in 1972 to SDR 235.6 billion in May 1977. However, over this period there has been no increase in the holdings of SDRs with the result that the proportionate share of SDRs has consistently declined. This development is not consistent with the agreed objective of a gradual reduction of the role of gold and of reserve currencies in the international monetary system. This situation must be corrected if the objective of making the SDR the principal reserve asset is to be attained. The proportion of SDRs should be increased. At the same time, appropriate steps should be taken to enhance the reserve characteristics of the SDR.

The crisis of the recent past has had its worst manifestations in the developing countries on account of the structural inequities of the existing international economic order operating relentlessly against them. Unless there is a concerted effort on the part of the international community to reverse the present trends, the chances are that a number of developing countries will lose their economic viability and will face social upheavals of intolerable proportions. In this process the developed world cannot remain unaffected. What is urgently needed is a fundamental reorientation of the international economic order and a more imaginative approach to the problem of reordering economic relations between nations.

PARAGUAY: CESAR ROMEO ACOSTA

Governor of the Bank

The Thirty-Second Annual Meeting of the World Bank finds Paraguay at an unusual point in its economic, financial and monetary history. Although the likelihood exists to achieve an 8 per cent growth in GDP for the current year, this does not remove the possibility of recession, given the country's economic vulnerability as a developing nation sensitive to adverse external factors beyond its control and its lack of that internal dynamism which allows self-sustaining growth.

Economic vulnerability of this kind is the bane of Latin American and Caribbean countries, which, "after two years of serious deterioration in their balance of payments situation and one year of marked falling-off in their real product," began a clear recovery of lost ground in 1976.

Nevertheless, the inflation which has continued to dog most Latin American and Caribbean countries, with the exception of a few, Paraguay among them, is an indication of lack of solidity in the favorable situations they might enjoy.

Perhaps more than in recent years, the developing countries need increasing and ongoing assistance. As the end of the United Nations Second Development Decade approaches, they are still without sufficient external financial resources and still unable as a group to achieve the 6 per cent annual growth rate in gross product postulated by international development strategy. Much less are they able to show self-sustaining economic growth.

Considerable emphasis has been placed on attaining a rate of 0.7 per cent for official development assistance and of 1 per cent of GDP in the total resources flow from the advanced countries. But these targets can only be reached with greater political support in the capital-exporting countries, more realistic policies and more positive evaluations.

For the majority of developing countries, the practical results of no more than a slight advance toward these targets would be import restrictions, lower development expenditures, balance of payments deficits and reduced growth rates.

The accumulation of financial resources in some oil exporting developing countries roused great expectations and new hopes among oil importing developing countries. It was thought that balance of payments surpluses in the former would mean better prospects for the latter. There was also hope that the multilateral financial institutions would serve as the channel for triangular relationships operating to the advantage of the weaker countries, but such hopes are so far nothing more than a beautiful illusion.

Like Paraguay, many countries have made enormous sacrifices to achieve a positive balance of payments situation, but there is absolutely no doubt that perhaps more now than ever before these nations need concessionary external financing if they are to achieve self-sustaining growth. This position can only be reached through adequate mechanisms for maintaining positive balances of payments and the opening of product markets with equitable and remunerative prices, credit financing shelters and conditions favorable to sustained development.

The initiative lies with the advanced countries and depends on their political will, with respect to the multilateral financial institutions, to increase their direct aid, their loan guarantees or their bond purchases. Assistance in these forms would not preclude more positive action by private lenders. The stimulation of financial flows could be pursued under the control of multilateral institutions like the World Bank, so that maximum benefits are obtained.

There has recently been mention of introducing a "Special Development Tax" on the income of the developed countries, to be used to finance direct cooperation or to subsidize interest payable by the less developed nations. In the opinion of the Paraguayan delegation, this may be a reasonable means of improving international cooperation and the prospects of the developing world, since it would avoid the higher costs likely to result from disequilibrium, transformation and change in economic relationships, with their widespread prejudicial effects.

During fiscal year 1976/77, Paraguay has had the advantage of World Bank loans, at an average interest rate of 8.37 per cent, for a total of US$40 million for agricultural and industrial development and improvement of education. Given the general situation in the country, we expect this cooperation to produce significant advances in the sectors mentioned.

We wish to make a special point of mentioning Paraguay's appreciation of a soft loan for US$4 million, to be used in developing rural education.

With considerable effort, Paraguay was able to expand production and trade significantly in the first half of 1977; agricultural production rose markedly, while both timber production and beef sales went up again. The sharply increased agricultural production happily had a noticeable multiplier effect on manufacturing, transportation, trade, services and, hence, on the generation of employment opportunities. Estimates are that GDP will rise by more than 8 per cent for 1977, 0.5 per cent more than in 1976.

Although the consumer price index rose 7.7 per cent, a larger increase than for the first half of 1976, this can be ascribed to two main factors: an increase in the national income, with demand pressures on domestic prices, on the one hand, and on the other an increase in the monetary liquidity of the market. The wages and salaries index also rose, by 3 per cent, while the official minimum wage remained unchanged.

The national budget showed a balanced development in the first half of 1977, continuing the favorable trend of 1976. Revenues exceeded expenditures by G408.1 million, increasing by 31 per cent and 30 per cent, respectively. It should be mentioned that the consecutive surpluses achieved since 1974 have contributed positively to Paraguay's monetary stabilization.

The means of payment rose 37 per cent (G8,770 million) and savings deposits 23 per cent (G4,233 million) in the first half of 1977—considerably more than in the corresponding period of 1976 (5.8 per cent or G1,158 million, and 9.8 per cent or G1,553 million, respectively). The sharp increases in 1977 stem from the 36.4 per cent (G10,061 million) rise in currency issue by the Central Bank of Paraguay, in turn based largely on foreign exchange revenues and on a 55 per cent growth of international reserves. Through the minimum reserve requirement on banks, the Central Bank reabsorbed G4,085 million of the G10,061 million from the banks. Currency issue reached G37,691 million on June 30, 1977. On the same date, means of payment totaled G32,522 million, savings deposits in local currency G23,016 million, and savings deposits in foreign currency at banks G4,766 million, equivalent to US$37.8 million.

Public sector financial obligations to the Central Bank of Paraguay showed a slight increase of 1 per cent, compared with an 8 per cent drop in the first six months of 1976. This difference stems from the greater demand of the National Treasury for financing of short-term liabilities. Autonomous agencies and State enterprises carried out net amortizations, reducing their financial liabilities by 6 per cent. Central Government liabilities, on the other hand, increased by 17 per cent.

The balance of net Central Bank lending and rediscounting to the nation's other banks declined by 7 per cent, equivalent to G311 million. The National Development Bank, after effecting a net amortization of G471 million in the first half of 1977, showed a liabilities balance of G3,560 million on June 30, 1977. The nation's other banks were granted G160 million in new net rediscounting, leaving them with an outstanding balance of G694 million on that date.

In the first half of this year, the balance of bank lending to the private sector grew by 10 per cent, equivalent to G3,634.7 million, compared with the G1,922.0 million increase in the first half of 1976. The balance of the National Development Bank's loan portfolio to the private sector rose by 1 per cent, and that of commercial banks by 18 per cent. These increases amounted to G68.7 million and G3,524 million, respectively. The National Development Bank's loans to the private sector totaled G14,329.8 million, while those of the commercial banks totaled G23,034 million, on June 30, 1977. Similarly, the Livestock Fund granted G42 million in new net loans to livestock breeders in the first half of 1977, raising the outstanding balance to G4,089 million.

Paraguay's foreign trade expanded significantly in the first six months of 1977. Exports grew 80 per cent to US$146.6 million, while imports grew 9 per cent to US$96 million. Thus, the trade balance registered a US$50.5 million surplus, compared with the US$6.8 million deficit in the first half of 1976.

As a favorable result of the positive trade balance plus the net receipt of foreign capital, the balance of payments closed with a US$92.3 million surplus in the first half of 1977, considerably in excess of the US$25.1 million surplus for the same period of 1976.

Net international reserves continued to climb, this time by 55 per cent in the first half of 1977, equivalent to US$83.2 million, to a total of US$234.7 million on June 30, 1977. In the first half of 1976, net reserves increased by 19 per cent, equivalent to US$21.4 million. We note with satisfaction that the increase in net reserves represented 78 per cent of the total currency issue by the Central Bank of Paraguay as of June 30, 1977.

External debt rose by 6.8 per cent, equivalent to US$28.3 million, in the first half of the year, bringing it to a total of US$483.8 million on June 30, 1977, 84 per cent owed by the public sector and 16 per cent by the private sector. Capital repayments of US$15.6 million and interest payments of US$8.3 million were made in the first half of this year, for a total of US$23.9 million, representing a 28 per cent increase in combined amortization and interest payments over the first half of 1976. External debt payments in the first six months of 1977 represented 12 per cent of export revenues for that period.

In summary, the economy of Paraguay, as a developing country, has experienced revitalizing progress—the result of several years of effort and sacrifice, which is now reflected in its internal order and healthy administrative organization. Favorable elements in this situation are the peace, security, and free enterprise prevailing within its borders. This year, Paraguay is taking its place among the countries which have best consolidated their balances of payments; added to this is a massive influx of foreign capital, boosting the nation's monetary reserves by 55 per cent in the first half of this year.

Hydroelectric dam construction programs are also helping to strengthen the national economy. One of these projects, Itaipu, being carried out jointly with Brazil, will be the largest in the world; the other two—the Yacyreta and Corpus dam projects—are in an advanced stage of study with the Argentine Republic. The three dams combined will be producing more than 25 million kilowatt-hours of electric power in the not-too-distant future. This will make the region a highly favored one from the standpoint of energy availability, and spectacular changes are expected there. As basic projects contributing to economic integration and social well-being in Latin America, they will, of course, give rise to a need for improved technical and financial assistance from international financial institutions.

Considering these efforts, we sincerely believe that Paraguay—a country of relatively less economic development and lacking a coastline—deserves new approaches and more generous criteria with respect to soft-loan treatment and other support actions to help it consolidate a satisfactory level of self-sustaining growth.

Finally, we wish to express our gratitude for all the efforts of the authorities of the World Bank and its affiliates, especially its President, Robert McNamara, and to laud their outstanding management, as reflected in part in the Annual Report. We urge them to continue working with the same perseverance and vigor for greater international cooperation, and for the development and well-being of our peoples.

ROMANIA: MIHAI DIAMANDOPOL

Alternate Governor of the Bank

Please let me begin my statement by greeting the presence, for the first time at the Annual Meetings, of the delegations of Seychelles and Guinea-Bissau—countries who have become members of the World Bank and the Fund since last year's meeting. We are equally pleased that during this meeting new countries—Maldives and Sao Tome and Principe—are coming to enlarge the family of the World Bank and International Monetary Fund member countries.

I would also like to take this opportunity in order to express the high appreciation that the Government of my country attaches to the work of the World Bank and IMF Annual Meetings, the activities carried out within these international institutions for contributing to solving some of the important problems of world economic and financial life.

The present world economic outlook confirms certain tendencies toward improvement, as compared to the situation a year or two ago. Despite this, we have to take into account that the present economic and financial conditions in most parts of the world are far from being satisfactory. Developing countries are the most severely affected by the negative phenomena still prevailing in the world's economy: by instability and disequilibria in the financial and monetary area; by raw materials price fluctuations of the main export item or items of these countries; and by the barriers raised to the access on the developed countries' markets.

But the most worrying evolution is the deepening of the inequalities between developed and developing countries. We have reached today the situation where the developed countries account for two-thirds of the total world income, while the developing countries—with more than half of the world population—have only one eighth of the world income. The studies regarding the future evolution of the gap do not foresee important positive changes. The accentuation of protectionist policies is also a cause of concern and might severely affect the whole world economy and mainly the situation, already very difficult, of the developing countries.

During this period of important shifts and of deep changes in all fields of the economic and social life, the countries' fundamental interests claim for placing the international relations on a new basis, as equitable as possible, and for close cooperation between all countries of the world for solving the great problems ahead of us.

Accordingly, my country is endeavoring to set up a new international economic order for ensuring equitable economic cooperation, the observance of each country's right to be the master of its national resources, for world economic stability, for large access of all countries—mainly of the developing countries—to the achievements of advanced science and technology, essential conditions to close the gap between developing and developed countries.

In the process of recovering the gap in the economic area, as the President of my country Nicolae Ceausescu stated, a main role has to be played by each country's work and domestic efforts, the mobilization of all its human and material resources with a view to increasing its productive forces. But at the same time, the external conditions under which this effort is carried out, the nature and the volume of the external aid extended to the developing countries by the international community, are of great importance.

In our opinion, the domestic effort of each country and the international economic cooperation to support this effort, must become a concept of action and its implementation has to actively contribute to eradicating underdevelopment.

Narrowing the gaps requires, at the same time, the establishment of a fair ratio between the prices of raw materials and the prices of products of manufacturing industries, the development of free trade without barriers and artificial discriminations—developing countries having to take advantage of the generalized system of preferences—as well as the permanent improvement of the international monetary system, taking into account the interests of all countries but mainly of the developing countries....

...I will join the other distinguished Governors speaking before me, in underlying the initiative and steady preoccupation of Mr. McNamara, President of the World Bank, which have made it possible for the Bank to experience in 1976-77 new positive results in the field of extending financial and technical assistance to developing countries. During the last year, the World Bank continued to support the developing countries' efforts by granting an important volume of credits in view of implementing projects in the fields of agriculture, industry, power, infrastructure, health, and education, etc.

It is obvious that in comparison with the great financial needs of the developing countries it is required that the Bank channel additional means. I would like to inform you, Mr. Chairman, that the Government of my country agrees to a substantial increase in the World Bank's capital, an increase which is to allow a growth in real terms of the Bank's commitments for a long period of time.

At the same time, I would suggest that the Bank's allocation of funds to support the member countries' development programs, would take into account not only the per capita national income—which could not constitute the unique criterion in this process—but also the total efforts the respective countries undertake to this end. Moreover, it would also take into account the magnitude of the national income share allocated for social and economic development, as well as other criteria justifying a more rational and efficient distribution of the Bank's funds and stimulating the mobilization to an important extent of domestic resources for social and economic development.

Also taking into account the magnitude and nature of the projects, we are confident that the Bank would prove more flexible, as far as financing several categories of costs is concerned. The automatic elimination by the Bank of local-cost financing, for the single reason of per capita national income level, is not of the nature to support the efforts of the countries committed to a large and intensive process of economic development. Improvements are also required in favor of all developing countries with reference to the general terms under which financing is provided (for the way of establishment and for the reduction of the interest rate and for the increase of repayment terms and grace periods) and for the reduction of the periods required for projects analysis and appraisal.

The decisions taken with respect to linkage of the duration and grace period of the credit to the level of the per capita national income, and not to the nature of the project to be financed, as would be normal and results from the Bank's Articles of Agreement, have to be improved.

With respect to the activity of the Development Committee, we consider this as the right time to elevate its activity from the stage of preparing studies to submitting proposals and concrete solutions with a view to ensuring the acceleration of the transfer of real resources to the developing countries.

Romania, as a socialist developing country, is undertaking steady efforts for economic growth and increasing its people's welfare. During the present Five-Year Plan, 1976-80, my country is continuing the policy of development in a high rate of the productive forces, of industrialization and introduction of modern science and technology in the whole economy. We attach particular attention to the intensive development and modernization of our agricultural production. The large investment program for which a share of 30-33 per cent of the national income is consistently devoted will ensure Romania's transformation into an industrial-agrarian country, in which the industry will play the leading role for the social and economic development of all regions of the country.

Romania is constantly developing her foreign trade and economic cooperation with all countries of the world, irrespective of their social or political systems. The provisions of the plan are successfully fulfilled. On this basis, the money supply is sound and balanced, the prices are stable, ensuring a steady growth rate of all branches of the national economy.

This year, since my country experienced the catastrophic earthquake of March 4, the Romanian people are undertaking steady efforts to overcome the consequences of the disaster and implement our development programs.

Mr. Chairman, to conclude, I would like to express my conviction that the close cooperation between all countries of the world for identifying new possibilities to solve the major problems in the field of the international financial relations will undoubtedly contribute to the achievement of new results to the best advantage of all countries. Within this joint effort both the World Bank and the IMF make an important contribution. I would like to point out our satisfaction with the efforts of the World Bank and the IMF staff and Executive Directors as well as with Mr. McNamara's and Mr. Witteveen's permanent preoccupation to find solutions to the difficult situations that face the international economy and finances. We cannot but regret Mr. Witteveen's decision to leave the IMF. On behalf of the Romanian delegation we wish him good health and ever greater success in his future activity.

SOUTH AFRICA: OWEN P. F. HORWOOD

Governor of the Fund

I wish to join with other Governors in expressing appreciation to the distinguished Managing Director, Mr. Witteveen, for his contribution to the work of the Fund. We have learned with regret of his decision to relinquish his post next year, and we wish him Godspeed for the future. At the same time I should like to congratulate Mr. McNamara on being reappointed President of the World Bank for a third consecutive term.

The Executive Directors and staff of the Fund and the World Bank Group deserve to be congratulated on the exceptionally high standard of their respective Annual Reports this year. Unfortunately the picture of world economic conditions painted by these lucid and informative Reports, although in some respects better than that of last year, is far from satisfactory. The world economic situation is still characterized by subnormal economic growth rates, high unemployment, excess plant capacity, widespread inflation and, in many countries, also persistent balance of payments problems. The real disturbing feature is that this is the position which prevails *after two years of so-called cyclical economic upswing in the main industrial countries.*

Clearly there is something wrong in the world economy. Moreover, as the Fund Report candidly puts it: "In the short run, the scope for improvement in this situation is limited."

The first aspect of the present world economic scene which I find particularly worrying is the failure of private fixed investment in plant, equipment and construction to increase according to the normal cyclical pattern. I would not describe the situation as one of "Keynesian secular stagnation," but it is a fact that in most countries profit expectations have for some time now been an inadequate spur to capital outlays. Certainly there has been a widespread lack of business confidence. This state of affairs is also reflected in the depressed conditions on the major stock exchanges in the world.

The reason for this lagging investment are not entirely clear and appear to differ from country to country. They include political and economic uncertainties, the energy problem, the effect of expected wage increases and cost-price relationships in general on the profitability of investment, and the difficulties created for business by governmental and private action in the environmental field.

A second disturbing feature of the present situation is the growing protectionism in the field of international trade. In the circumstances this is understandable—from an individual country's point of view, the continued existence of surplus capacity and unemployment inevitably leads to increased pressure for measures to encourage short-term import replacement. For this reason, I would not be surprised to see a proliferation of protectionist measures in one form or another if the world economic situation does not improve soon. From an international point of view, of course, one must agree with the Fund Report that restrictions on trade would not provide any real solution to the present economic problems and could have "effects destructive of prosperity in the world economy." However, in my view the main responsibility to avoid increasing protectionism rests on the major industrial countries, rather than on the developing countries. It is up to the industrial countries to set the example in this respect and to take measures to expand international trade.

A third disconcerting feature of the present world economic scene is the overhang of international indebtedness which threatens many developing and some industrial economies. Some countries, including my own, have been successful in *adjusting* their balance of payments deficits, instead of merely *financing* them. But many others have continued to run abnormally large current deficits and, in the words of the Fund Report, "have relied on external borrowings at rates and costs that were not sustainable, either from their own standpoint or from that of their creditors." Considerable use has been made of credits from commercial banks and there has been a shortening of maturity schedules and a rise in interest costs. The result has been a disproportionate increase in debt service payments to be charged against receipts from export earnings and from net inflows of capital.

Opinions differ as to how critical this international debt problem has become. Although I am not a member of the "doomsday school" in this respect, I do believe that the dangers inherent in the present situation should not be shrugged off too lightly. The transformation of the international structure of payments surpluses and deficits brought about by the oil price increases, together with the expanded role of commercial banks and other private sector institutions in recycling the resultant massive oil surpluses, have created a new situation in which a series of international defaults could disrupt the functioning of the international monetary system.

All of this brings me to what is clearly one of the crucial issues before this year's Annual Meeting, namely, the extent to which Fund-Bank member countries should now adopt a more expansionary policy stance. I have for years been on the side of those who have argued that the basic cause of world inflation since the middle 1960s has been excess demand, and that this excess has been related to the substantial increase in international liquidity produced from time to time by large deficits in the balance of payments of the United States. It was on this expanded liquidity base that an inordinate amount of domestic bank credit and money came to be created. I was therefore pleased at the general tenor of the speeches made by Governors at last year's Fund-Bank Annual Meeting in Manila, which emphasized the importance of curbing inflation through restrictive fiscal and monetary policies and which rejected the notion of any long-term "trade-off" between inflation and unemployment. I also welcomed the emphasis placed on balance of payments *adjustment* as opposed to mere *financing*.

Basically my views on these matters remain unchanged. Indeed, notwithstanding the considerable costs involved, the success attained in my own country during the past year in improving the balance of payments, largely through the application of restrictive monetary and fiscal policies, testifies to the validity of this conservative approach.

However, in the changed circumstances of today, the logic of this same approach now leads me to add my voice to those arguing for moderate additional economic stimulation in those major industrial countries which do not suffer from balance of payments constraints at this juncture. Excess demand is an evil, nationally and internationally, but insufficient demand in countries with relatively strong balance of payments positions is also undesirable. If these countries cannot afford to adopt an expansionary policy stance, which countries can? For these reasons I believe that measures to bring economic growth rates in these countries closer to the targets set earlier this year can now be justified.

Against the background of the serious economic problems which have continued to confront Fund and Bank members, I am especially gratified at the improvement during the past year in the economic situation of my own country.

Although the rate of economic growth in South Africa has declined, our balance of payments on current account has been transformed from a substantial *deficit* in the earlier part of 1976 to a large *surplus* in the first half of 1977. In addition, we have made progress in reducing the inflationary pressures in our economy. These achievements can be ascribed in large measure to the application of fiscal and monetary discipline.

In these respects we have fared better than most other countries in the group referred to in the Fund's Annual Report as the "more developed primary producing countries." Nevertheless, we continue to share many of the problems experienced by this group, which has been particularly adversely affected by a cumulative deterioration in its terms of trade. For members of this group further improvement in their principal markets, i.e., the main industrial countries, is therefore of special importance. ...

SPAIN: JOSE MARIA LOPEZ de LETONA

Alternate Governor of the Fund

For two years now, Spain has been occupied in the great effort to build a future for itself in a climate of peace, civil liberty and democracy. The course we have embarked on is long and difficult because, as you are aware, political institutions cannot be changed like a theater set; neither are democracy and civil liberties firmly secured by isolated acts, but by the gradual acquisition of social habits, political practices and appropriate modes of thought. And our economic difficulties are inevitably affecting this process of political transformation.

In this sphere, our problems are similar to those faced by many other countries at present: high inflation fed by a rising spiral of costs and prices, a heavy deficit in the current account balance of payments, high unemployment and the type of problem associated with alterations in the supply and demand structure imposed by the new set of relative prices prevailing in the world economy since the rise in energy costs. In addition, however, our situation has certain peculiar characteristics, due, for the most part, to our political evolution. It was only after the difficulties strewn along the road to the general elections had been surmounted, and after the elections were finally behind us, that we could plan an in-depth attack on the economic imbalances that had burdened us for more than three years.

The Spanish Government recognizes that our economy must moderate its inflation rate progressively and reduce its external deficit as the prerequisite conditions for finding a new path of stable development with low unemployment rates. In July, the Government began to implement the adjustment processes by which to accomplish these objectives and has now formulated a general economic policy program, to be submitted to Parliament immediately. It is based on acceptance of sacrifices we deem necessary, the will to make our economy more flexible and our society more just, and the desire not to add to the protectionist tendencies now threatening the world economy. We expect results from this program that, although gradual, will prove substantial and solid. And like other countries with similar problems and aims, we are confident that international cooperation, carefully channeled by those countries with greater strategic weight in the world economy, will evolve from its present precarious situation in such a way as to facilitate our efforts and not hinder them. . . .

SRI LANKA: RONNIE DE MEL

Governor of the Bank and Fund

I consider it a great privilege to participate in the Annual Meetings of the Bank and the Fund for the first time and to have this opportunity of addressing this distinguished assembly as the representative of the new Government of Sri Lanka, which assumed office in July this year with a majority unprecedented in the parliamentary history of my country.

Permit me at the very outset to welcome the appointment of Mr. McNamara for a third term. This is a fitting tribute to his untiring efforts to promote world economic development and international cooperation. It is with profound regret that we note that Mr. Witteveen will not be seeking a second term. This assembly will no doubt join with me in paying a tribute to his contribution to increasing international monetary cooperation and particularly to the establishment of the Supplementary Financing Facility, which will no doubt play an increasing role in the adjustment process of the deficit countries.

We also welcome President Carter's speech and his firm commitment to the goals of world development, especially in relation to the billion who constitute the world's absolute poor. In this respect, the President of the United States has provided an element of valuable support for the basic human needs strategy which in one way or another has received the continuing attention of Mr. McNamara over the past several years. We see the proposal to set up a high level international commission under the chairmanship of the former Chancellor of the Federal Republic of Germany, Herr Willy Brandt, as being essentially complementary to these initiatives. We must hope that the work of this commission will focus on the major structural changes required in the rules governing the operation of the world economy in the 1980s.

Let me divide, as is customary in these meetings, my remarks into sections concerning both the Bank and the Fund, respectively. Nevertheless, I should preface my comments by saying that in a certain sense, this division seems artificial; both institutions although formally divided *de jure* have to cooperate in ensuring corresponding domestic adjustment efforts and the realization of an overall pattern of payments surpluses and deficits that is consistent with an adequate level of world economic activity.

I think that the Joint Communique of the Commonwealth countries, which is a microcosm of this body, comprising developing and developed countries, in Barbados, which was issued after the Conference last week, captures the essence of the problem in three short sentences. I quote: "Ministers warned that the non-oil developing countries do not have the capacity to finance the large deficits which are projected for them. What is required is a willingness to share equitably in the deficits which are a corollary of the projected surpluses. A major immediate contribution should be made by a deliberate program of economic expansion directed toward expanding international trade by industrialized and surplus countries, coupled with a transfer of resources in real terms to developing countries, as a basis for sustained stimulus to economic activity both in the developed and developing countries."

In this context we find most encouraging the measures being adopted by certain surplus countries already, to revive what Mr. Witteveen has told us is a "pace of recovery that has faltered." We agree that all of us gathered here have a mutual interest in promoting recovery without rekindling inflation. It is only on the basis that the fear of a resurgence of inflation can be set at rest that the pleas we have heard for additional issues of special drawing rights, for measures to increase real resource transfers to developing countries, and, in particular, for ensuring an adequate capital increase in the World Bank, and the suggestions made for at least a 50 per cent general increase in quotas in the IMF—all of which proposals I need hardly say we unequivocally endorse—can find a sympathetic echo in the minds of surplus countries. Yet it remains difficult for us to understand the paradox, to which attention has already been drawn by the distinguished Governor of Sweden, namely, the declining share of official development assistance by surplus countries against a background of global excess capacity accompanied by an increase of absorptive capacity for aid among many non-oil developing countries.

In regard to the structural surpluses of nonindustrial countries it is essential that more durable solutions should be sought in the period that lies ahead of us. The system has in the past relied heavily on recycling these surpluses through the private banking system but this has had the unfortunate effect of adding to global liquidity in national currencies, undermining to that extent a role for a reformed SDR by reinforcing fears of inflation.

The Witteveen facility has to be viewed as a short-term response to the problem in order to discipline countries which have over-borrowed but the monies that have been raised so far are far from adequate in relation to the amount targeted. There is undoubtedly room for improvement in regard to the conditionality of both the Witteveen facility and the extended Fund facility, although there is increasing evidence that the Fund is taking account of social and political realities in particular cases and in particular countries. It may well be that the amounts which surplus countries are willing to contribute to multilateral facilities may be larger if the conditionalities involved and the pace of adjustment involved were more compatible with sociopolitical reality.

One remedial suggestion to attract such funds that has been made is that countries in structural surplus should be enabled to lock up their capital in perpetuity in the form of real consols whose rate of return is indexed against world inflation. This means that, in effect, countries in surplus will part with the right to recover their capital for an adequate real return and this poses obvious difficulties. On the other hand, many such countries prefer to undertake joint ventures on a basis of equity investments which unfortunately are particularly slow to implement, as a way both of hedging against inflation risks and of permitting the recovery of the capital sum in the market place at a time of the investor's choosing. It should not be beyond the realm of practical imagination for a scheme to be devised whereby countries in structural surplus are offered an investment instrument which could go a long way toward protecting their capital against inflation and at the same time provide for the return of the capital that would have been borrowed. The one suggestion I would make in this area is that serious thought be given with the Fund/Bank complex to the devising of such an instrument.

I turn now to the grey area between the Bank and the Fund of which I have spoken. We support the need to ensure that periodic IDA replenishments do not suffer from the uncertainties that currently plague them. One of the more welcome developments of the international monetary reform has been the recognition that all countries, and not merely developing countries, require a rather longer period of time within which to bring about the necessary domestic adjustment in their economies. Existing facilities for this are still too limited to ensure that the time period for effecting adjustment is right or adequate. It is true that the extended Fund facility now envisages a three-year program of adjustment. If, as one would hope, more countries were to have recourse to this facility, there is scope then for complementing it with a more systematic replenishment of IDA resources so that the World Bank could also complement the role of the Fund; and secondly, to link the extended Fund facility to the export expectations underlying a medium-term plan. In other words, the direction of reform that I would envisage is for the aid element in a medium-term program of adjustment to be reinforced by more assured IDA replenishments, while the export earnings element of foreign exchange resources is sought to be insured against by linking the facility to the relevant export norm. All of this follows from a recognition of the central fact that the process of adjustment does not divide neatly into the institutionalized compartments we have at present, namely, the Fund and the Bank; and the orderly development requires mechanisms that involve the closest possible cooperation between institutions which are geared to, after all, the same basic purpose. Having said this, I want, at the same time, to dispel any illusion that my remarks may have created that we wish to convert the Fund into a development agency. Its role as financial disciplinarian must always remain paramount. What is at issue is not the fact of conditionality but the nature of conditionality and to ensure that these are built into a set of reformed medium-term adjustment facilities.

I now proceed to matters clearly within the purview of the Bank. Mr. McNamara's address to us has emphasized a particular role for the Bank, as distinguished from the Fund. What I have found particularly striking and appropriate is its concern over the narrowing of the so-called widening gap, as a matter of pure arithmetic, between the growth rates of developing and developed countries. Mr. McNamara in his speech has focused on a basic human needs strategy and on protecting the nutritional requirements of the poorest 40 per cent. It is in this context that we should focus on the need for reinforcing a potential area of complementarity between the Fund and the Bank. While inevitably for any deficit country adjustment is a necessary fact of life, this must globally mean, if all countries are obliged to adjust together, a shortfall in demand to the point when overall world economic activity must decline. On the other hand, we note that it would be idle to expect any single country to be owed a living by the outside world in order to permit it to enjoy a level of consumption well in excess of available resources. What I think Mr. McNamara appears to be saying is, that, while the bottom 40 per cent is to be protected maximally against the nutritional hazards of adjustment, this protection must phase simultaneously into a program of productive employment generation in the medium term.

My only interest in emphasizing this is that my own country, Sri Lanka, has been long regarded as being somewhat of a model country in terms of the physical quality of life index, a concept that has now been widely publicized by the Overseas Development Council and other organizations. Sri Lanka has, inter alia, a literacy rate of 82 per cent, life expectancy of 68 years, and an infant mortality average of 45 per thousand. Yet, premature adjustment in a country such as ours, and no one denies the reality of having to adjust, must inevitably lead to a sacrifice of nutritional standards, unless adequate time is afforded to substitute productive employment for the consumption subsidies that are given in Sri Lanka. There is, in fact, a genuine case for adjustment disciplines with Fund support within a framework of improved facilities, compared with three years ago but which are still inadequate, to be geared simultaneously to poverty focused programs by the World Bank, if social dislocation is to be avoided and a framework of liberal democracy preserved in the land.

What all this leads one to suggest in the territory of the Bank, as distinct from the Fund, is a set of criteria for aid allocation that differs in some degree from past procedures. My suggestion is simply that World Bank, and indeed Aid Group, assistance might be apportioned on a basis which takes adequate account of a country's quality of life on the basis of either targets which countries might be willing to set for themselves or in terms of a reward for recorded accomplishments. I am saying this because, in practical terms, the need for adjustment is often expressed as a need to increase public savings, which is the only variable over which any government has a measure of significant and statistically accurate control. Yet it is precisely in this area that an undue compression of public savings can impair the quality of life of any country and nutritional standards already achieved to politically and socially unrealistic levels. What we are looking for, in short, within the Fund/Bank framework is a combination of adjustment measures that is complemented by an adequate program of productive employment creation to protect the needs of the absolute poor.

Finally, a word on how we see our tasks ahead in Sri Lanka. The new Government in Sri Lanka is pledged to restore a more liberal economy with greater reliance being placed upon private initiative both foreign and local in order to implement a well-planned program of development to bring about the needed domestic adjustments within a reasonable time. The new Government in Sri Lanka is also deeply committed to parliamentary democracy, human rights, and social justice.

In the view of my Government, we in Sri Lanka have continued to depend far too long on commodity assistance handouts at government-to-government level—for a whole decade in fact—without any prospect of the domestic policy changes required to phase out that dependence. My Government intends to introduce these domestic policy changes, to move albeit slowly and gradually from consumption to investment, savings, and development. Once the necessary guidance and support from the IMF is forthcoming, we would be looking for assistance from friendly countries for the most part during a difficult transition period when the agreed policy framework is being established.

Several important elements of the policy are already in place. First we have introduced a strong monetary policy involving for the first time a positive real rate of return—an 18 per cent interest rate for deposits for an 18-month period with no return to any depositors for earlier withdrawals. The fundamental rationale behind an anti-inflationary policy is that nothing is more disruptive of investment and confidence than the entrenching of inflationary expectations consequent upon a money supply increase that was inordinately high in a pre-election year in my country.

Second, we are making our exchange rate more responsive to the underlying trends in the economy. And third, we have defined in precise geographical terms, a 200 square miles area close to our main sea and air port within which a free trade zone or an economic recovery authority (ERA) will operate in order primarily to generate the new export development that is required in association with both local and foreign investors. This will rely heavily for its success upon the rich human resources available in abundant measure in Sri Lanka. The authority will be empowered to work out negotiated concessions with investors so that we can have investment with long-term interest in the country's economy. We are also preparing the necessary framework concerning the legislative and fiscal guarantees that are customary for all investors to expect these days and an institutional mechanism for speedy decision making. My Government is, therefore, under fire to make the right decisions that have been long overdue, and the value of this experiment is that, given a helping hand from the outside world and appropriate time for adjustment, a country that has shown a demonstrable willingness to help itself will have been able to make a success of it within a democratic framework.

Finally, let me summarize my country's viewpoint on the issues about which I have been talking here.

1. We share the concern displayed at these meetings for reviving the world economy without rekindling inflation.

2. In that context, we endorse the need for:
   (a) an adequate capital increase in the World Bank;
   (b) a general increase of at least 50 per cent in IMF quotas;
   (c) additional issues of suitably reformed SDRs;
   (d) measures for increasing real resource transfers to developing countries.

3. We see the need for a more durable solution to the problem of the structural surpluses of nonindustrial countries than has been evident in the past and would suggest the exploration, within the Fund/Bank complex, of the question of a suitable investment instrument.

4. We support the closest possible cooperation between the Fund and Bank so that developing countries can have the facilities necessary to effect needed domestic adjustments over an adequate time period without sacrificing their development efforts while preserving a framework of liberal democracy; this would no doubt imply certain revisions to the currently existing extended Fund facility in conjunction with provisions for IDA replenishment on a more assured basis.

5. We fully support the developmental strategy outlined to us in Mr. McNamara's opening speech and see in this an area for combining adjustment disciplines with Fund support with poverty focused programs under World Bank auspices.

6. We see the need for the evolution of a set of criteria for aid allocation which takes adequate account of a country's quality of life.

7. We see the new Government in Sri Lanka as restoring a more liberal economy with greater reliance being placed upon private initiative within an agreed policy framework involving the country and the Fund/Bank complex of institutions, and the Aid Group.

Three essential elements of that framework are already in place: (a) an anti-inflationary monetary policy; (b) an exchange rate that is responsive to the underlying trends in the economy; (c) the establishment of a 200 square mile export zone, close to our main sea and air port, which we trust would launch Sri Lanka into a new era in its development.

Let me conclude my remarks by thanking you, Mr. Chairman, and the Fund and the Bank and also the President and Government of the United States, for the excellent arrangements made for this Annual Meeting. We in Sri Lanka hope that the economic despair and gloom that beset the world in the last few years will gradually be dispelled by the growing spirit of cooperation and interdependence among developed and developing countries.

SWEDEN: GOSTA BOHMAN

Governor of the Bank

It is an honor for me to speak as representative of the five Nordic countries—Denmark, Finland, Iceland, Norway, and Sweden.

We are meeting in a time of uncertainty in the world economy. The rate of growth in industrial countries has not increased sufficiently to ensure a sustained recovery from the world recession of the past few years. As measured against the OECD growth scenario, 1977 now seems to have become the second year of underachievement. And at the same time, we have not managed to reduce the rate of price increases to a satisfactory extent.

These problems of the world economy have hurt most nations. Among the industrial countries, problems at present are particularly pressing for a number of the smaller industrial countries.

Looking back we can see that the external accounts of the smaller industrial countries combined have deteriorated year by year, while the trend for most major countries has been a different one. There are several reasons for this.

While several important countries chose a very cautious policy, the smaller ones have, in general, tried to safeguard employment during these difficult years through a relatively expansionist demand policy.

Small and open economies are, in general, more vulnerable to developments abroad than those of many other countries, among other things because of a large marginal propensity to import.

Taken together, the smaller industrial nations have been forced to take too high a share of the OECD deficit. The burden of adjustment in the world economy following the oil price shock of 1973 has, to a very high degree, been placed on the smaller countries.

If we are going to set the world economy on the right course again, it is imperative that there is more rapid growth in those countries with strong external positions. Some measures in this direction have recently been taken, but we are far from confident that these will be sufficient. We are especially worried by the generally weak development in fixed investments in business.

We feel that there is room for more expansion in countries with strong external positions. Their low rate of capacity utilization makes this possible without the risk of an increase in inflation. Some further expansion might even reduce inflation by releasing productivity reserves built up in industry during the recession.

A well-functioning adjustment process requires that expansionary measures be directed to a greater degree toward domestic demand, thereby reducing current account surpluses. Further, in certain cases exchange rate changes may play a constructive role in the adjustment process.

Without major contributions of this kind to the adjustment process the foreign trade of many countries will be seriously hampered. There are already unfortunate signs of a new mercantilism. One element in this development is resorting to various types of aid to export and to import competing industries which will further hamper an efficient international division of labor. Moreover, this is not in line with the declaration of the London Summit, the OECD trade pledge, and the declarations in the GATT and the EFTA.

The danger in that situation is the emergence of a deflationary spiral and more widespread protectionism. With continuously high unemployment in industrial countries only a marked increase in the rate of growth can reduce the risk of aggravating such adverse tendencies.

As unemployment is also due to structural factors, a reduction in the continuing high unemployment cannot wait until the cyclical economic situation has improved. Active measures to secure employment are, therefore, important both in deficit and surplus countries.

The adjustment process should also be seen in relation to trade and capital movements between developed and developing countries. It stands out as a paradox that last year the ODA (official development aid) of the deficit countries as a percentage of GDP generally was maintained or even increased, while industrial surplus countries as a rule showed a declining share. This paradox has to be regarded against the background that industrial countries' production capacity is underutilized at the same time as developing countries have great unsatisfied needs. ...

... My colleague from Norway will, in a later intervention related to the activities of the Bank, give the views of the Nordic countries on these matters.

THAILAND: AMNUAY VIRAVAN

Governor of the Bank

It gives me great pleasure and a distinct privilege to take part in the joint annual discussion on the activities of the World Bank and the International Monetary Fund. Before venturing to comment on substantive issues which concern these twin world institutions, I wish on behalf of the Government of Thailand to extend the warmest and sincerest congratulations to President McNamara on his reappointment for the third term of office. Under his dynamic leadership, the World Bank has made tremendous progress in expanding technical and financial assistance to developing member countries and significantly improving economic and social conditions of the less privileged peoples all over the world. We fully expect this momentum to be maintained with increasingly more meaningful benefits to the developing nations in the coming years.

I wish also to express our deep appreciation to Dr. Witteveen for his excellence in guiding the Fund over these past years, and to express our deep regret for his decision not to serve a second term. We wish him well in his future endeavors.

International economic conditions have been relatively calm during the past year. Monetary crises have been few and far between and were speedily resolved in the spirit of cooperation and recognition of the need for orderly and coordinated exchange rate policies and practices. On the other hand, the problems of stagflation, persistent external payments imbalances and unemployment continue to slow down the process of economic recovery and to generate increasing protectionist trends.

We fully share the view as expressed by President McNamara that the concept of interdependence must be applied to problems of international trade in order to restore order and harmony and to accelerate economic growth. In this respect, legitimate and reasonable demands for adjustment of long-standing imbalances in commodity trade should and must be carefully considered. It would be in the interest of both producer and consumer countries to establish schemes which would ensure a steady supply of primary commodities at reasonable and stable prices. Likewise, measures to compensate shortfalls in export earnings and to improve market access for export products of developing primary producing countries would serve the common interest of the world community by increasing purchasing power and stimulating world trade. It is with this conviction that the World Bank and the Fund and the member countries are strongly urged to promote trade expansion and liberalization among member countries and to improve existing facilities for financing international buffer stocks and shortfalls in export earnings.

Thailand, with an average per capita income of about $400 is probably ranked closer to the poorest developing group than to the so-called middle-income developing nations. In the past few years we have had our share of problems in slow growth, inflation, unemployment and payments deficits. We have been under considerable pressure politically, economically and socially to step up the pace of development with primary emphasis on the economic well-being of the rural population.

Our needs have been answered to a significant extent, partly by the expansion of the Bank's lending activities but more importantly by the more imaginative approaches to development finance taken by the Bank in recent years. I refer particularly to the social-oriented approach in project financing and to the integrated program in rural development.

I believe we can make a statement on behalf of the developing member countries that the initiatives taken by the Bank management which lead to a more liberal interpretation of the criteria of eligibility for IDA credits is to be deeply appreciated. It is our sincere hope that greater efforts will be made in that direction and that the adopted criteria will be applied flexibly in order to prevent further worsening in the external debt profile of less developed countries.

Expanded concessionary lending by the World Bank obviously requires strong support from developed countries. Such support has been forthcoming and we wish to express our most heartfelt appreciation to the developed countries for their generous contributions.

While financial assistance from multilateral organizations has contributed substantially to our economic and social development, we need just as much, if not more, from bilateral sources. Unfortunately, this is an area where achievements fall far short of targets. The level of official development assistance as a percentage of GNP has not risen through the years. With a stronger political will and a more enlightened development approach, we hope that the trend will be more favorable.

Complementary expansion in the Bank's lending activities and the bilateral ODA level would indeed contribute more effectively to economic growth and development. It would be most desirable if the Bank would become more instrumental in arranging and expanding its cofinancing activities with bilateral ODA sources which would not only accelerate the flow of capital assistance but also soften the debt service problem of the developing countries.

The International Finance Corporation, an affiliate of the World Bank, should also be praised for its active and imaginative role in promoting large- and small-scale industries and in promoting capital market development in developing countries. This is indeed a vital area where private resource mobilization can easily make the difference between slow and rapid growth. We are hopeful that through IFC increased resources would be made available for equity financing of national investment projects as well as regional projects such as those of ASEAN which will be implemented in the near future....

TRINIDAD AND TOBAGO: OVERAND R. PADMORE

Governor of the Bank and Fund

I have the honor to speak on Fund matters on behalf of the following countries—Bahamas, Barbados, Grenada, Guyana, Jamaica and Trinidad and Tobago, all members of the Caribbean integration movement. In addition to this speech, there will be a statement for the record by my colleague from Jamaica which focuses upon matters of special interest to that country.

We are grateful to the President of the United States for addressing us and sharing with us his thoughts on matters of mutual concern to all our countries.

We share with previous speakers a sense of relief deriving from recent improvements in the performance of the international economy as a whole, particularly as compared with the previous three years. However, we cannot help but emphasize that this recovery has not only been limited in its momentum but has been uneven in its applicability to individual countries and regions.

There is a general consensus that the fairly widespread recovery in economic activity recorded in industrialized countries early this year has since slowed and indeed the fear has been expressed by many that recessionary circumstances might reappear. The level of unemployment in these countries, although declining, remains high by historical standards and the same applies to the rate of inflation.

For the developing countries there is reason for much greater concern. Much has been said about the fact that the non-oil developing countries have been able to reduce their current account deficits in 1976 to a level below those of the previous two years. However, very little has been said about the cost at which this has been achieved. For many developing countries it has meant a serious diminution of their development efforts. For most, it has resulted in an increase in the level of unemployment, a problem that for many had already been approaching unacceptable social and political dimensions, and for some it has entailed a denial to their populations of basic needs such as food, drugs and other prerequisites for human survival. We are all familiar with the stark portrait of absolute poverty so vividly drawn by Mr. McNamara in his typically frank and moving commentary on the state of the developing world.

It is against this background that we should consider the conclusion of the Managing Director of the Fund that "the functioning of the adjustment process has been impaired by the failure of domestic demand in some of the relatively strong countries to show adequate rates of expansion."

The experience of developing countries over the last few years has emphasized the need for their structural transformation based on policies of greater self-reliance. But we are all agreed that neither the individual nor the collective efforts of the developing countries by themselves are sufficient to make this possible. It is therefore with extreme concern that we view another development in the industrialized countries. I speak here about the unfortunate and growing tendency toward protectionism in some industrialized countries. Indeed it is the concern of the countries for which I speak that protectionist measures are being applied without regard to country considerations. As a result of this, exports from even small developing countries, which have little effect on the domestic economies of the industrialized countries, are being treated in the same way as exports from other developed countries, which are not only much larger in volume, but are marketed on the basis of techniques which are frequently called into question in the importing countries.

Mr. Witteveen has made two profound observations on this vexing question of protectionism. First he has focused our attention on the fact that "in developing countries, the incentives to invest, especially in manufacturing capacity, would be enhanced if their products had freer access to the markets of industrial countries." And secondly, he has warned that protectionism, at best, can provide only short-term relief to the twin problems of unemployment and low growth rates.

We would like to emphasize that such developments only serve to aggravate the problems already created by the inadequacy of both the quantity and quality of financial flows to non-oil producing developing countries—an issue so effectively analyzed by the President of the World Bank.

The economies of countries of the Caribbean integration movement are, for the most part, island economies with extremely open economic structures. They are highly sensitive to developments in the international economy. Moreover, the individual economies possess very narrow resource bases, so that in each case their economic performance is largely determined by the level of activity in a limited number of export industries, including tourism. These countries have become serious victims of the prevailing adverse international economic situation. Even Trinidad and Tobago, which has been able to cushion some of these effects because of its modest oil production, has not been completely insulated from these adverse economic circumstances. A vital aspect of policy of Caribbean countries has therefore been the diversification of our economies on the basis of the fullest utilization of the region's limited resources. However, the income per capita criterion currently in use has created prolems with regard to access to the concessionary funds of the multilateral lending institutions. Nor in the main has the international financial market been an alternative source of funds. Thus, for most of the countries in our circumstances, the words of the President of the World Bank are not without relevance— "the atmosphere today is at best one of regret and disappointment, and at worst one of frustration and disillusionment." ...

UNITED KINGDOM: DENIS W. HEALEY

Governor of the Fund

First let me echo the general feeling in this hall and express my personal pleasure at Mr. McNamara's acceptance of a third term in his most onerous responsibility and my regret at Mr. Witteveen's decision to retire next year. International organizations have rarely enjoyed the services of men of such energy, wisdom and dedication.

As you know, Britain's financial position has been transformed in the last nine months. We have, in fact, as the Managing Director said in his press conference three days ago, established the financial conditions for a steady improvement in our economic performance. The most visible sign of the progress we have made lies in the strength of sterling and the increase in our official currency reserves, which now stand at record levels. We have recognized that some of these inflows are of a short-term nature and cannot be relied on as permanent. But they do demonstrate a revival of confidence in Britain. They show that others believe we are pursuing the right policies to deal with our major economic problems.

We have given overriding importance to getting our rate of inflation down. For we believe that this is a necessary condition for achieving our other economic and social objectives. Perhaps it is worth reminding you, however, that the progress we have made this year in this and other fields owes much to decisions we took long before our negotiations with the IMF last winter. We had already begun to curb the runaway growth of public expenditure by the summer of 1975 and the cash limits we imposed in 1976 on the bulk of public spending have been strikingly successful in ensuring that our decisions in this field were observed. The public sector borrowing requirement was reduced substantially last year both in cash terms and as a proportion of our GNP. We have maintained strict control of our monetary aggregates over the whole three and a half years since the increased price of oil first hit us hard at the beginning of 1974.

Following the notable success of the first stage of our voluntary incomes policy, which helped to cut our rate of inflation by half, the second stage, which began in August last year, produced an increase in earnings of under 9 per cent—only half as high as the increase in prices over the same period. I will not deny that this has imposed great strains on our trade unions. But we were able substantially to reduce its effect on living standards by reductions in income tax. And although our trade union movement found it impossible to accept a third year of incomes policy as fully structured as the previous two, they have agreed that the return to normal collective bargaining should be an orderly one. And we have already demonstrated as a Government our determination to secure the necessary moderation in pay increases.

Meanwhile our inflation rate is now recovering from the malign effects of last year's deterioration of sterling, the rise in world commodity prices and the effect of the drought in Europe. Our underlying rate of price increases fell early this year to about one per cent a month and in the third quarter is likely to be less. Unless some new external factor knocks us off course, we have a good chance of getting our inflation rate into single figures in the early part of next year.

As the Prime Minister told our Trades Union Congress the other day, an inflation rate still close to 10 per cent is no grounds for complacency. We shall not be satisfied until we have reduced it to the sort of levels which were familiar in the early 1960s. But we can take at least a modest satisfaction in the progress we have made already. And we are determined to protect and extend the gains we have made in combating inflation now that we can take advantage of our success to expand activity.

The second field in which we have made very substantial progress in the last twelve months is our balance of payments. This too owes much to measures we took to hold down both private and public spending over the last three years. Our current account is now moving into surplus. The increasing flow of North Sea oil enables us to look forward to a healthy balance of trade right through the 1980s—although much of our surplus will be needed to redeem a large accumulation of overseas debt. But we have already seen a significant increase in our exports of goods other than oil. Since the second half of last year we have moved an additional one per cent of GDP into the balance of payments.

As I have said, much of the progress we have made in the last twelve months has its roots in policies adopted long before our last autumn's discussions with the IMF. But there is no doubt that the measures which we took last December made a decisive contribution and tipped the balance of world confidence, not least because their endorsement by the IMF established our international credit on a firm foundation and enabled us to reach agreement on the handling of the sterling balances. The consequential stabilization of our exchange rate at a somewhat higher level than a year ago has helped us to get inflation under control and has further strengthened the financial basis of our economy. We are thus able to survey our prospects and those of the world as a whole in a somewhat more objective posture and to begin considering, as Mr. Witteveen has suggested, whether we can make some modest contribution of our own toward ensuring that the world recovery does not peter out.

For our prospects, like those of every country represented in this hall, depend critically on restoring the world economy to health. I would therefore like to say a word about each of the three dimensions of the international economic problem—the maintenance of adequate demand, the underlying problems of structure, and the financing of the deficits which remain inevitable while the problems of demand and structure are being dealt with.

First, demand. I do not think it is easy to dispute the Managing Director's conclusions on this aspect of our common problem. As he admitted, the bias toward restriction in the aggregate demand policies followed in recent years, or as he put it, the belief that Governments "should not shade policy risks on the side of growth," has led to undershooting national targets and has failed to achieve a rate of economic growth sufficient to permit a gradual reduction in unemployment. And the continuing rise in unemployment in nearly all the industrial countries has brought a rising danger of protectionism which, if it is not checked, could bring a world crisis like the Thirties, with particularly disastrous consequences for the developing countries. That is why it is so important to bring the multilateral trade negotiations to an early and successful conclusion.

Yet unless there is now a significant increase in aggregate international demand, unemployment will continue to rise and the pressure toward protectionism may become irresistible. The stronger countries which still have large surpluses have as powerful an interest as they have a duty to take the lead—not only because they are particularly dependent on free trade but also because the disappointments of the last year or two have increased uncertainty in their own countries and discouraged investment. This, if I may quote the Managing Director once again, implies the need "to adjust policies in time to avoid cumulative deviations from an equilibrium path over the medium term."

The United States has made a major contribution to maintaining world activity by successful growth in 1977 in line with the London Summit target. The United States has accepted and is still accepting a substantial current account deficit. Part of this has been due to increased oil imports, some growth of which was unavoidable in the short term as economic activity increased. But a large part of the deficit has been and will be attributable to more non-oil imports, to the benefit of other oil consuming countries. The United States needs parallel action by other major economies to assist it in keeping up this contribution and I welcome the action which the Japanese and German Governments have now taken, for this as well as other reasons. I regret only that these measures seem unlikely to do much for growth in 1977.

It may well be true that in some countries fiscal measures are less effective in increasing demand than they used to be—that a higher proportion of tax cuts are saved than in the past or that spending authorities fail to make full use of increased authorizations. But this is surely an argument for increasing the scale of fiscal measures above what used to be regarded as necessary to produce a given increase in demand rather than doing less.

On the other hand, I wonder whether we have not in the past, when considering the need for an expansion in aggregate demand, concentrated too much on the growth of GDP as its main indicator and paid too little attention to the sources of that growth. I now come to the problem of structural change. For example, there is no net advantage to aggregate demand in the world economy if the stronger surplus economies rely on exports to achieve their target rate of growth. When the oil consuming countries as a whole are wrestling with the need to prevent the surplus of the oil producing countries from imposing unnecessary deflation on the world, a large and persistent surplus in a major oil consuming country, when it is achieved at the expense of other oil consuming countries, makes the situation worse, not better. It is an increase in domestic demand of the surplus countries which is needed, not an increase in their exports.

At this point the problems of international demand management become inseparable from some of the structural problems which now complicate our task. The Managing Director rightly referred to the fact that, I quote his words, "many industrial countries need to develop an active policy for structural reorientation and rationalization of manufacturing industries; this should be done," he added, "with a clear objective of providing more room for imports from developing countries and helping to bring about a favorable climate for the international division of labor in a free trade system." I can only endorse this view in the strongest possible terms. Indeed, if this structural rationalization between the industrial and the developing countries could be achieved, the need for a resource transfer through the international institutions would be that much less.

But there is also need for a structural rationalization among the industrial surplus countries themselves so as to increase their propensity to import and make their growth less dependent on a large export surplus.

This is perhaps an uncomfortable thought for the countries concerned. But there could be a far more uncomfortable reality if the inability of some big oil consuming countries to take their fair share of the global deficit leads to the disruption of exchange rates or to growing unemployment in the other oil consuming countries.

For there is one structural problem in the world economy of which we have all been conscious since 1974, although I believe we are only now reaching a real consensus on how to deal with it. I refer of course to the inevitable deficit for the rest of the world arising from the fact that the oil producing countries are together likely for some time to earn some $30 to $40 billion a year more than they are able to spend on imports.

I doubt if there are many in my audience today who still hold the view so often heard in 1974 that market forces on their own would make this problem disappear. The international community is at last beginning to accept the need for further action to enable us to live for some time yet with this oil-generated structure of surpluses and deficits in international payments.

And I think we are now more realistic also about the sort of action needed. Three years ago the Annual Report of the Fund stressed that in this situation the countries with strong payments positions should not expand their economies too much. It argued that the burden of the adjustment should fall on the weaker countries. They were urged to solve the problem by cutting back domestic demand.

The message from the Fund now is rightly a different one—that the stronger countries must lead the way back to full employment and must be joined by the less strong as they get their inflation rate under control. I hope no one still argues that the problem of the oil surpluses must be solved through adjustment by the deficit countries alone. For there is obviously no remotely tolerable level of economic activity at which the world's demands for energy could be reduced to the point where the revenues of the oil producing countries equalled their ability to absorb imports.

I shall discuss the problem of financing the deficits which are the inevitable counterpart of the oil surpluses in a moment. But there is also a structural answer to the problem, in more intensive action by the oil consuming countries both to reduce their demand for imported oil and to develop domestic sources of energy. We in Britain can claim to have made a useful contribution here. We have incurred substantial costs in order to develop North Sea oil and are now reaping our reward. The output of North Sea oil this year will already be worth about $5 billion. It will rise to $10 billion by 1980. Without it the OPEC surpluses would be that much higher or world activity might have to be that much less. In this sense North Sea oil is helping everyone. I hope Alaskan oil will soon be making a similar contribution and that the U.S. Government will be successful in its wide-ranging program for reducing America's demand for imported oil. We will all benefit from that success.

These are the main structural problems affecting the international economic scene. I do not pretend that it will be easy to correct them or indeed to deal with all the domestic structural problems which are now affecting economic performance in the industrial world. But until these structural problems are dealt with, the world economy will be able to meet the economic needs of its peoples only if the deficit countries are enabled to finance their deficits without undue restriction of activity and demand. It is in this field that the Fund and the World Bank have the most critical role. . . .

. . . But even if we do achieve the necessary expansion of world demand, if we do make progress on the structural problems I have mentioned, and if we do arrange secure financing of the deficits inevitable during the period of adjustment, economic progress in the developing countries may still be incapable of meeting the basic human needs of their peoples. This problem requires special action which is not limited to that recently agreed at the CIEC Conference. I hope we shall all agree to support an early general increase in the capital resources of the World Bank of a size which will permit a real increase in the Bank's lending programs for several years.

I think we should consider roughly doubling the capital of the World Bank and that the negotiations should be concluded by the end of June next year. It is also very necessary that steps should be taken to make the Fifth Replenishment of IDA fully operational as soon as possible. No one who heard Mr. McNamara's speech yesterday can believe that these are extravagant proposals in relation to the problems which he described.

If there is one lesson to be learned from our painful experiences over the last few years, it is that the world economy is indivisible. None of us can prosper for long if others are in misery. I believe that the speeches from the rostrum in the last two days have shown that we have begun to learn this lesson and that we are not too proud to admit the need to adjust our policies when those policies are clearly failing to meet the objectives we have set. If so, we can look forward to meeting here in a year's time with a far brighter prospect than we face today.

UNITED STATES: W. MICHAEL BLUMENTHAL

Governor of the Bank and Fund

We meet at a time of doubt about the world's economic future. The legacy of the oil shocks of 1974, inflation, and the deep recession of 1974 and 1975 poses questions of whether our system of international economic cooperation can endure.

The main points I want to make are these:

- the world economy has begun to recover from staggering blows;
- we have in place a strategy for sustained recovery, and that strategy is working;
- and we will succeed—though success takes time—if we continue to act together and do not lose our nerve.

The effective functioning of the institutions that bring us together today—the Bank and the Fund—is a critical part of that cooperative effort.

The U.S. Economy

I will first report to you on the condition of the United States economy.

I am pleased that we are continuing to make solid progress. We have recorded economic growth of 7.5 per cent for the first quarter and 6.2 per cent for the second.

We expect to meet our target for real growth during 1977 of over 5½ per cent and we expect continued strong growth in 1978.

We have reduced our unemployment rate by about one percentage point and so far this year have created more than 2 million new jobs.

Inflationary pressures are diminishing, despite the adverse effects of an unusually harsh winter. Consumer prices rose at the rate of more than 8 per cent in the first half of the year. We expect the rate to decline to less than 5 per cent in the second half.

We also have problems—serious ones.

Unemployment is much too high. Creating new jobs to bring it down is a top priority.

Despite our progress, inflation also remains too high. We know well how difficult it is to break the inflationary cycle.

Business investment, though increasing, is weaker than it should be.

Energy consumption and oil imports are excessive.

Our current account deficit is likely to be in the range of US$16 to US$20 billion.

In part, the shift in our current account position since 1975 has been caused by our heavy consumption of oil. But it is also a consequence of the comparatively high rate of economic growth in the United States and more restrained expansion in many other countries.

We are determined to correct our problems.

The expansionary effects of new programs for public works and public service jobs will show up strongly in coming months.

We have undertaken a series of measures to keep inflation under control and to bring it down.

President Carter will soon present tax proposals that will include important new incentives to stimulate business and encourage higher productivity.

We are urging Congress to complete action on legislation which will encourage energy conservation and increase domestic energy production. That program will be an important first step. But more will have to be done to limit demand and, especially, to develop new domestic energy supplies.

We look to countries with payments surpluses to expand their economies to the maximum extent consistent with the need to combat inflation. Such moves are essential to a smoothly functioning international economic system. We are encouraged by expansionary measures decided on or implemented in recent weeks. ...

Problems of Development

... Establishing conditions for sustained growth and strengthening the financial adjustment processes are the most pressing intermediate-term issues facing the world economy. The critical long-term problem, however, is to assure economic growth with equity in the developing world.

President Carter spoke yesterday of the strong commitment of the United States to help in the effort to meet the basic human needs of the world's poor. President McNamara gave us a picture of the magnitude of the tasks.

Action is required by both industrial and devloping countries.

The most important contribution the industrial countries can make is to achieve adequate, sustained economic growth in the context of an open international economic system. In the past year the oil importing developing countries have improved their trade position by US$8 billion as a result of the export opportunities arising from the growth in the U.S. economy. An acceleration in the economic expansion of other industrial countries would provide comparable benefits. For such benefits to be realized in the future, markets must be open and protectionism resisted.

Healthy economic conditions in the industrial world will also facilitate the flow of capital to meet productive needs in the developing countries. In this connection we must review our efforts to assure adequate access to private capital markets.

In addition, specific actions must be taken to facilitate the growth of developing countries.

A substantial increase in the transfer of official capital to developing countries is necessary. The United States will do its share. The Congress has authorized over US$5 billion in contributions to the international development banks and has supported a sizable increase in bilateral assistance. We are prepared to begin formal negotiations in the Board of Directors of the World Bank leading to a general increase in its capital.

We must work together to strengthen arrangements for stabilizing earnings from raw material exports.

We must also approach the management of international indebtedness, not as a crisis, but as a short- and medium-term balance of payments problem. We can draw encouragement from the fact that the aggregate current account deficit of the oil importing developing countries declined in 1976 as the world economy began to recover. Where individual countries face severe balance of payments problems, the new Supplementary Financing Facility will help to facilitate adjustment.

Actions by the industrial countries are only part of the story. The real payoff lies in the policies adopted by the developing countries. This is not surprising. Four fifths of the investment capital of developing countries is mobilized from domestic savings. Domestic policies will determine not only how much savings can be mobilized in the future but also how efficiently resources are used and how effectively the developing countries can take advantage of an expanding international economic environment.

The development partnership requires not only healthy global economic conditions that will enable the developing economies to grow, but also efforts by the developing countries to assure that the benefits of growth are enjoyed by their poorest citizens.

In this connection, my government strongly supports the new directions charted by the World Bank in financing social and economic development. The Bank has pioneered in designing new approaches to alleviate urban poverty and stimulate rural development. I believe the continued expansion of the activities of the World Bank Group, more than any other single action, will contribute to constructive relations between industrial and developing countries.

In supporting this expansion, the United States will urge:

– more emphasis on food production, expanding employment opportunities, and other measures to improve the lot of the world's poorest people;
– increased lending to expand energy resources in developing countries;
– using the Bank's resources to facilitate the adoption of sound economic policies in the developing countries.

I am convinced that foreign assistance will not have the support of the American people unless they perceive that it is making a real contribution to improving the lives of the poor.

My government also believes that the goals and purposes of development encompass human rights as well as freedom from economic privation and want. The United States Congress has instructed the Administration to seek international agreement on standards for human rights. We will pursue this mandate.

Looking ahead, the Bank and the Fund have a vital and expanding role to play in the international economic system. Their record entitles them to strong support and they shall have it from the United States.

I must point to a problem, however, that concerns both the Bank and the Fund. My government's continued ability to support these two institutions will depend on their efficient administration. Most importantly, we must resolve the issue of proper compensation policies for their staffs and Executive Directors.

On salaries there is need for restraint. More generally, it is essential to overhaul the entire compensation system of these institutions—as well as the systems of other international organizations—to meet today's realities. We hope that the Joint Committee set up to review the situation will enable us to move to such a new system. We must not permit this issue to threaten these great institutions.

As I conclude my comments, it is a matter of deep regret to the United States and to me personally that as the Fund crosses a threshold into a new era of operations, it will lose the valued services of its Managing Director, our trusted friend, Johannes Witteveen. He has guided the Fund with firmness, fairness, imagination, and good sense.

He deserves a large portion of the credit for the great progress the Fund has recorded in recent years, and he leaves the institution strong and fully capable of meeting its new and challenging responsibilities. I join other Governors in expressing our thanks.

We have a formidable agenda before us and one that we should approach with a sense of hope and resolve. The necessary actions are difficult but the potential gains are immense. Pursuit of sound economic policies domestically and adherence to open and cooperative policies internationally will see us into a new period of economic progress and equity, worldwide.

SOCIALIST REPUBLIC OF VIET NAM: TRAN DUONG

Governor of the Fund

At last year's meeting, we made a broad examination of the economic and monetary situation and, since the recovery of the economy had begun, voiced the hope that growth rates would rise and financial flows become more abundant. We noted as well that any action to curb inflation must be accompanied by policies designed to encourage the expansion of production and trade. More especially, there was a general consensus on the need to replenish rapidly the investment and financing funds that provide assistance at moderate cost. The meeting also seemed to reach a general acceptance of the desiderata expressed by many of the developing countries.

The situation since then has not fully lived up to our expectations. As noted in the Annual Report of the Fund, the international economic situation is not yet satisfactory, as many countries still have to deal with problems in their own economies. It is perhaps true to say that these problems are structural, as much in the world economy as in the individual national economies, although there is a body of opinion that sees these questions as being cyclical in nature.

While it is not our intention here to push examination of that particular point any further, we should like to take the opportunity to express an opinion. In efforts toward achieving a more satisfactory world economic and financial situation, the specific solutions must mesh to produce a general stimulation of investment, production and trade. In our view, it is primarily the role of the member countries enjoying the best economic conditions to implement appropriate measures which combine a true spirit of cooperation with a search for results that redound to the benefit of all.

Since October 1976, groups and committees have deliberated extensively on important questions and have issued a certain number of pertinent recommendations. Under the active and enlightened guidance of their Executive Directors, headquarters and field staff of both Bank and Fund have worked competently. We can only regret, then, that so much effort has not produced more tangible results in good time.

Viet Nam is a developing country, which in addition still bears the heavy marks of a long war. May we therefore be permitted to say here that we have the very clear impression that the developing countries in general, although with different approaches, are making a concerted effort to mobilize their domestic resources and are looking to the Fund and the Bank for just and equitable cooperation. For its own part, Viet Nam is firmly convinced that before anything else it must, and can, mobilize its own substantial human and material resources. We are also resolved to participate in a broad international movement of cooperation based on mutual respect and advantage. The mobilization of our own resources, and our determination to make the most we can of it, are sure guarantees of our cooperation on the international level.

Our recently issued regulations on investment of foreign capital are indicative of our economic policies. If need be, we might add that our participation in the Fund and the Bank is another indication—one which, we hope, will prove more and more convincing in its tangible results.

Confident that our policies and actions have elicited widespread understanding, we regard as inappropriate any effort to introduce discriminatory measures or pressures which could hamper the normal exercise of our rights in the Fund and the Bank.

However, we should like to greet with pleasure the steps taken by the Fund's Board of Governors and Executive Directors to review and raise quotas. In this regard, we deam necessary a re-examination of the quota of the Socialist Republic of Viet Nam.

We hope that the work and negotiations on a selective increase in the Bank's capital and on the replenishment of IDA funds will lead quickly to concrete results.

In the present state of prices and costs, we believe that the promotion of a real transfer of resources will require a more flexible use of compensatory financing. It is also advisable to push ahead rapidly to the establishment of a Supplementary Financing Facility, on terms and conditions appropriate to low-income countries.

With respect to the credit tranches, it is our view that, despite the proposed increase in the percentage of quotas which may be drawn, a broader-based study of the problem is required. While each country's quota should be used as its basis, this means that economically less favored members, with their inevitably lower quotas, will be entitled to draw only small amounts, which can now hardly constitute sufficient assistance in real terms. We believe it would be useful to revise the percentages in a manner more favorable and equitable to low quota countries.

Finally, we would like the rules of conditionality and Fund procedures to be eased and made more flexible. It would be desirable to marry Fund and Bank management requirements more harmoniously with the need of recipient countries to use assistance efficiently. It would truly be regrettable if plans for clearly feasible projects could not be implemented for lack of sufficient and timely financial support.

In conclusion, although we recognize the complexity of the problems posed, we believe that, given a realistic, proper understanding of the new economic situation and a spirit of total fairness concerning the rights and needs of all members, we can hope to find a solution which, though perhaps partial, will be beneficial for all.

WESTERN SAMOA: VAOVASAMANALA R. P. PHILLIPS

Governor of the Bank and Fund

Before commencing my remarks I wish to join other Governors in extending a special welcome to the Governors of Guinea-Bissau and the Seychelles, which countries have become members since last year's meeting.

The Seychelles, like Western Samoa, is a small developing island country, with whom we share a number of common problems.

It is indeed gratifying to note that the international community is starting to focus attention on the problems peculiar to smaller island economies. It seems necessary for international organizations to realize that these economies suffer from a number of constraints which are unique to them. Particular problems would include the fact of geographic isolation, small domestic markets, very limited natural resources, and dependence on the few sources of foreign earning which are often unreliable and volatile. Therefore, the economies of small island countries tend to be very sensitive to outside events and changes in the world economic situation. Such economies thus tend to be extremely fragile. Special development techniques are required for these countries. In dealing with small island developing countries it is therefore necessary for international organizations to display sensitivity and flexibility.

It is with disappointment that we have observed the delays in, and frustrations of, achieving significant tangible results from the continuing dialogue aimed at a new economic order. We find it hard to understand the lack of appreciation of the urgency of the situation on the part of some of the developed countries. In the world today there are over 650 million human beings existing on a per capita income of less than $50 per annum. This fact alone, and more immediately the human degradation and suffering behind it, points to the fact that the status quo is unacceptable and basic international economic structural changes are urgently required. It seems that an appreciation of urgency and political will are still sadly missing, to give necessary implementation to certain basic international economic reforms required.

We appreciate that it is important for developed countries to consolidate their own economies and control their own internal inflation. It seems unfortunate, however, that a significant number of developed countries are not prepared or able to impose the same discipline of wage restraints in their own economies as has been required, of necessity, by many developing countries.

It would seem to Western Samoa that among the most urgent and important requirements for the developing countries are commodity arrangements, trade liberalization and access to markets, increased development assistance, and expansion of international financial institutions.

Some progress has already been made toward the establishment of international buffer stocks for a number of commodities and the creation of a common fund to finance these stocks is now somewhat closer to implementation. Any progress in stabilizing prices of commodities produced by the developing world will play a vitally important role in assisting these economies to plan their development in the future. The concept of indexation of commodity prices is a difficult one but should be pursued.

An immediate halt is necessary to the growing tendency toward protectionism by certain developed countries. What is required is increased access to the markets of developed countries for imports from the developing countries and reduction by developed countries of tariff barriers for imports from the developing world.

It is with disappointment that we note that only a handful of developed countries have met their 0.7 per cent of GNP aid target agreed to at the United Nations some seven years ago. The further target agreed to of 1 per cent of GNP by 1980 seems now to be almost unattainable. It does not seem unreasonable for the developing world to see the attainment or otherwise of these previously agreed aid targets as being a test of sincerity on the part of the developed countries. The gap between the rich and poor countries is widening—at a time when total aid transfers in real terms between rich and poor countries are in fact declining. The aid targets set would not impose any unreasonable strain or economic dislocation on the industrialized countries, but realization of these targets is seen as much more than an increase in the transfer of resources from the developed to the developing world—it is seen as tangible proof of commitment to international equity and alleviation of the plight of poverty facing more than one quarter of the human race.

Western Samoa has various comments to make concerning the expansion of international financial organizations. . . .

. . . Lending of the World Bank Group must be increased in real terms and we fully support the proposed capital increase for the International Bank for Reconstruction and Development. We were indeed heartened by the forecast of increased future lending of the Bank outlined yesterday by President McNamara.

We consider that there is a need for more automatic replenishment of International Development Association resources, as this would avoid the disruptions that have occurred in the past in the lending pattern of that organization.

The World Bank should urgently consider the need for program lending to developing countries. Program lending is particularly important to the smaller developing countries to allow concurrent implementation of a number of smaller projects.

The increase in the capital of the International Finance Corporation is to be commended. We do, however, suggest that there is a need for greater flexibility of approach on the part of the International Finance Corporation, and suggest that IFC should consider an extension of its activities into the field of export financing and the taking of measures to allow greater involvement in public sector enterprises in developing countries.

I would like to place on record my appreication of the dedicated work of the Managing Director of the Fund, Mr. H. J. Witteveen, who has so ably steered us through a very difficult period. It is with sincere regret that we note his decision not to renew his term of office with the Fund.

We have always appreciated the positive and helpful response to our various requests and problems from the management of the International Monetary Fund and World Bank Group. We recognize the very positive role these organizations are playing in the world today. We view with urgency the need for increased transfer of resources from the developed to developing countries and believe that the International Monetary Fund and the World Bank will continue to play a vital and leading role in this transfer.

YUGOSLAVIA: MOMCILO CEMOVIC

Governor of the Bank

We are again holding the Annual Meetings of the World Bank and IMF faced with a world economic situation which does not inspire optimism and is burdened with persistent troubles.

The growth of world trade is unsatisfactory, unemployment rates remain high, and dangers of both inflation and protectionism are increasing seriously. All this adversely affects the developing countries in particular.

The balance of payments deficits of non-oil producing developing countries remain at very high levels, causing the indebtedness of a large number of these countries to reach dimensions detrimental to their development prospects and to the world financial system as a whole.

In our opionion, the roots of this grave situation lie in the present system of international economic relations. Economic progress in the world conflicts with the block division, and with the increasingly harmful consequences of great concentration of power in a few countries, and extreme poverty in a great majority. The inequitable position of developing countries in international economic relations is jeopardizing the integrity of world markets so important to the growth of world economy.

It is for this very reason, Mr. Chairman, that we view the decisions of the Sixth and Seventh Special Sessions of the UN General Assembly on the necessity to establish a new international economic order as a precondition not only for faster advancement in developing countries, but for a sustained growth of the world economy, equitable international cooperation, and a more stable world peace. Developing countries made a great effort in this direction in the recently concluded Paris conference. However, that opportunity to make a breakthrough in establishing new relations was not used satisfactorily. Among other issues, the entire field of financial and monetary problems remained unresolved. The lack of political will on the part of most influential developed countries has slowed progress in solving these problems. Work on the reform of the international monetary system is at a stalemate on all substantial issues. ...

... Development financing should be ensured by a larger transfer of resources to developing countries. We therefore urge the developed countries to substantially increase the official development assistance and accept an early date for meeting the 0.7 per cent target.

Obviously, we need much more determined efforts to establish an international monetary system capable of solving current serious problems, and in particular of promoting the growth of developing countries.

It is with satisfaction that we note that the World Bank has experienced a further expansion of its overall activities in the course of the last year. It is of the utmost importance to enable this institution to maintain and expand its primary task in accordance with the needs of the accelerated development of developing countries. A further improvement of the terms and conditions of World Bank loans, as well as elaboration of new forms of financial cooperation would, I am sure, contribute to such an orientation of the Bank.

I would like to emphasize specifically the support of Yugoslavia for a general increase of World Bank capital. At this moment, the Bank is the major financial institution for the transfer of resources from the developed to developing countries. A general capital increase of the World Bank is urgent and should be of a substantial size in order to enable an annual increase in lending, which in real terms should not be below seven per cent.

We take this opportunity to welcome the results of the negotiations leading to the Fifth Replenishment of IDA resources. It is our belief that all the countries concerned will quickly ratify that agreement.

Allow me to point out to this meeting the importance of decisions reached at the Fifth Conference of Non-Aligned Countries in Colombo for the future economic cooperation among the non-aligned and other developing countries. We expect that cooperation to be supported by the decisions and policies of our organizations.

We have always supported and worked for a constructive dialogue between the developed and developing countries. However, we consider that the principles and atmosphere of negotiations can be strengthened, and the undesired confrontation avoided, only if some concrete results are achieved in establishing equitable international economic relations.

CONCLUDING REMARKS BY MR. McNAMARA

Mr. Chairman, Governors, Ladies and Gentlemen:

During our deliberations this week I have been struck by the broad consensus that has emerged on a number of key issues.

First, there has been strong support for an early approval of a substantial general capital increase of the Bank that will provide for an expansion of lending in real terms. Support for this has been underlined by a wide spectrum of our member countries.

Although the specific amount of the increase is yet to be determined, a number of countries—the Netherlands, Indonesia, the African nations, the United Kingdom, and Yugoslavia—have called for a doubling of the present capital of the Bank.

Secondly, I was pleased to note the warm support for the Brandt Commission expressed by Governors of both developing and developed countries. I am confident this strengthened Willy Brandt in the decision, which he announced at the UN on Wednesday, to undertake the considerable burden of forming and chairing the Commission, which will seek to advance the world's understanding of development issues and how to resolve them. All of us are grateful for his shouldering this task, and I want to assure him of the full cooperation of the Bank in his endeavors.

One way the Bank can supplement the efforts of the Commission is to initiate a comprehensive and continuing analysis of critical development problems—a World Development Report—and there has been wide interest expressed here this week in our plans to do so. We will move forward promptly with this work so as to have the first report available for discussion by the Development Committee at our next Annual Meeting.

It is clear, too, that there is general agreement that the World Bank should stress, in both its technical assistance and its financial support to developing countries, the attainment of the twin objectives of more rapid economic growth, and more effective channeling of the benefits of that growth to the absolute poor in their societies. This concept of growth with equity—that is, expanding growth and utilizing more of its benefits to launch a direct attack on absolute poverty by assisting the poor to become more productive—has been endorsed by countries as diverse as Indonesia, the United States, Algeria, Malaysia, and Australia.

I was struck, too, by the emphasis that many Governors placed on the need to recognize the compelling interdependence of the global economy today and on the necessity of shaping domestic economic policy in that context. As Monsieur Boulin said when he paraphrased Paul Valery: the time of the finite economy—the world economy—has come.

Surely that is true. And our discussions this week have underscored the central role of trade expansion in supporting the development effort, and in enabling countries to continue to borrow and service their debts. Several governments—Korea, India, the African nations, among others—have pointed to the danger that the efforts of developing countries to expand their exports may be frustrated if the current tendency of the OECD nations to raise trade barriers continues. Such action is inconsistent with an international framework conducive to accelerated development.

It should not be necessary to stress that the acceleration of growth of developing countries, and the expansion of their trade, also makes them better markets for the industrialized countries. In the past several years exports from the OECD nations to the developing countries have increased both absolutely and relatively, rising to 25 per cent of total OECD exports—and amounting in 1976 to $168 billion. This trend should continue in the future.

I am particularly pleased to note that a number of the ODA donor nations—including some of the largest which have lagged in their performance in the recent past—have reiterated their intention to increase substantially their levels of Official Development Assistance over the next several years. To assist them in rapidly expanding their disbursements of concessional aid, while at the same time assuring that the assistance is directed toward critical development needs, the Bank is prepared to offer projects to them for cofinancing.

In this, as in all our work, we shall continue to strive for the highest levels of administrative efficiency. As you know, a Joint Committee of directors of the Bank and Fund, joined by a distinguished and experienced group of outside experts, has been formed to review the compensation structure of the two organizations. We shall give it our full support.

The administrative expenses of the Bank—including staff compensation—are in fact paid entirely by the developing countries, paid out of the income derived from our lending operations. To the developing countries, therefore, as well as to all other member governments, we have a responsibility to minimize costs and maximize output. Our internal financial controls, unique among non-profit institutions, are designed to that end. We believe that our project evaluation, and our budgeting and programming practices, with their emphasis on input/output relationships and standard costs, assure operations that are tight, efficient, and carefully monitored. But we welcome any suggestions that any member countries may have as to how we can strengthen them further.

Mr. Chairman, I want to thank you for the care and patience with which you have presided over our meetings. And, Ladies and Gentlemen, I look forward to seeing you all again at next year's meeting, and extend to you all my warm wishes for a safe and pleasant journey home.

CONCLUDING REMARKS BY THE CHAIRMAN GEORGE COLLEY

It has been a great pleasure for me to chair these Annual Meetings. I am indebted to my fellow Governors for the way in which they cooperated with me in keeping their statements brief and to the point.

I congratulate the Bank Governors on their widespread support for a general capital increase to permit the Bank to play a growing role and I hope an early start will be made in implementing it. That support represents a resounding vote of confidence in the institution and its leadership. Additional resources must be applied with imagination and maximum efficiency and in this respect I commend Mr. McNamara on the programs outlined in his opening address.

The achievement of developmental goals needs a common commitment to international economic cooperation and it also needs informed strategies. For this reason it is pleasing to note the support Governors have expressed for the Commission to be launched by Mr. Willy Brandt. On behalf of all Governors I welcome Mr. Brandt's acceptance of this important task. We look forward to the examination by the Commission of the directions that international development planning should take if we are to maximize our common efforts.

I note a consensus among Governors in favor of paying greater attention to basic human needs, and of ensuring that the benefit of the Bank's activities would accrue to the poorest sections of the community in the less developed countries. Prompt and efficient resource transfers are vitally important to them and many countries have expressed concern about the need for speedy disbursement of funds, including program lending, to ensure implementation of well-conceived growth strategies.

IDA will have an important role to play and I urge member governments to expedite the necessary procedures to enable it to do so.

IFC also faces important challenges. It was encouraging to hear expressions of support for its capital increase and for the expansion and diversification of its activities.

I have noted grave concern at the widespread level of unemployment, especially among young people. I think I have also detected a fear that lack of action designed to stimulate growth in the world economy over the next few months could plunge us into severe recession with all that that implies in the form of human suffering and the growth of protectionism.

There was a widespread consensus that those few countries with large external surpluses must stimulate domestic demand if there is to be any real hope of growth. The recently announced steps to stimulate growth in some of those countries was widely welcomed but there appeared to be some concern that these steps would not be enough to achieve their stated targets. I feel sure that there would be a general welcome for a commitment by the countries concerned that they would continuously monitor the progress of the measures they have taken and that they would be willing to act quickly to counteract any indications of a shortfall in reaching their announced targets.

But is the responsibility for the fate of the world economy to be laid on a handful of governments? The clear message of recent years is the interdependence of economies around the world—developed and developing. If growth is the primary need at present—and it is—then all who can must play their part. There is a human tendency exhibited by individuals to blame others for one's own shortcomings. It is not unknown for some governments to exhibit the same tendency. But the primary responsibility for a people's welfare rests on its own government—not on the IMF, the World Bank nor the economic decisions of other governments. All of these can be very important but they do not absolve any government of its responsibility for its own people's welfare. We must not, therefore, expect the small number of countries with strong external positions to do all our work for us. Many other countries can contribute to the growth of world trade, even to a limited extent, and they should do so. I am not, of course, advocating that the risks of fanning inflationary fires should be ignored in a headlong dash for growth. Indeed I would like to underline what was stated by Mr. Witteveen that one must have regard to the circumstances of the countries concerned and ensure that we do not rekindle the fires of inflation. I am, however, saying that I believe that a prudent assessment of external reserves and existing indebtedness would show that some countries with balance of payments deficits have some unused capacity for growth without spurring inflation. The obligation to use this capacity applies to all of us—even small countries like Ireland. In my country, we have embarked on a program very much on the lines suggested by Mr. Witteveen in his opening address. It is aimed at bringing about a deceleration in price increases through wage moderations, tax reductions and other measures accompanied by strong efforts to create jobs for the unemployed—particularly young people.

Each one of us may feel his country's contribution alone will make little difference but together our contributions could mean the difference between a major advance and a major recession.

It has also been encouraging to hear my fellow Governors voice unstinting support for the Fund as it prepared to undertake new responsibilities under its amended Articles of Agreement. Their words must now be matched by deeds. Let me again appeal for prompt action by those members who have not yet completed the legislative and other procedures required for accepting the proposed second amendment and for consenting to the increases in their quotas under the Sixth General Review.

Governors have welcomed the decision to establish the new Supplementary Financing Facility. Here again it is to be hoped that the prospective lenders can conclude the necessary arrangements with the Fund so that the facility can become operational as soon as possible.

We have also heard at these meetings widespread support for a speedy completion of the Seventh General Review of Quotas. We will be looking forward to the recommendations of the Executive Directors, which they are expected to submit for consideration by the Interim Committee at its next meeting.

It remains for me to express our appreciation to the people and Government of the United States who have once again extended to us their gracious hospitality. I should like also, on all our behalf, to thank the staffs of the World Bank and the Fund who have worked so hard and efficiently to make these meetings a success.

As I vacate this seat, I offer my best wishes to my successor, the Governor for Malaysia. In Ireland we have a saying in our own language when good friends part: "Slán abhaile agus go n-éiri an tádh libh," which means good wishes and a safe journey home. It is my own personal wish to all of you, perhaps more particularly to Johannes Witteveen whose presence will be keenly missed. I now declare the Thirty-Second Annual Meetings of the World Bank and the International Monetary Fund adjourned.

REMARKS BY KSENTE BOGOEV

Governor of the Fund for Yugoslavia

Mr. Chairman, distinguished Governors, Mr. McNamara, Mr. Witteveen, ladies and gentlemen:

On behalf of my Government I should like to express our appreciation for the privilege accorded us by the Boards of Governors of the World Bank and the International Monetary Fund in accepting the invitation of the Federal Government of the Socialist Federal Republic of Yugoslavia to host the 1979 Annual Meetings of the Bank and Fund in Belgrade.

I wish to assure you that we shall do our best to create all the necessary conditions for the work of such a distinguished gathering to be successful, and to make your stay in Belgrade a pleasant one.

REMARKS BY RICHARD HO UNG HUN

Alternate Governor of the Bank for Malaysia

Malaysia accepts the Chairmanship of the Thirty-Third Annual Meetings of the World Bank Group and the International Monetary Fund as an honor to our people, our country, and our region.

We will strive to carry out the duties of the Chairmanship with the efficiency, warmth, and cordiality that characterized these meetings under the leadership of Mr. George Colley, Ireland's *Tánaiste* and Minister for Finance.

The meetings we are now concluding have been fruitful in setting an agenda for progress in development and international monetary cooperation in the year ahead. I have confidence that the commitment to our joint goals shown here in Washington will lead toward their fulfillment.

I should like again to congratulate Mr. McNamara and Mr. Witteveen on their excellent leadership, reflected in the excellence of their institutions. I would also like to express my regret, and that of my country, that Mr. Witteveen will be leaving his post as the Fund's Managing Director in the year to come.

Tánastan

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS[1]

Sunday September 25	10:00 a.m.—Joint Development Committee 2:45 p.m.—Joint Development Committee
Monday September 26	10:00 a.m.—Opening Ceremonies Address from the Chair Annual Address by President, IBRD, IFC and IDA Annual Address by Managing Director, IMF 3:00 p.m.—Annual Discussion
Tuesday September 27	9:30 a.m.—Annual Discussion 3:00 p.m.—Annual Discussion
Wednesday September 28	9:30 a.m.—Annual Discussion
Thursday September 29	9:30 a.m.—Annual Discussion 3:00 p.m.—ICSID Administrative Council[2] 5:00 p.m.—Joint Procedures Committee
Friday September 30	9:30 a.m.—Joint Procedures Committee Reports Comments by Heads of Organizations Adjournment

[1] *All sessions were joint sessions with the Board of Governors of the International Monetary Fund.*
[2] *The summary of proceedings of ICSID are published separately.*

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS[1]

ADMISSIONS

1. Sessions of the Boards of Governors of the Bank, IFC and IDA and the Fund will be joint and shall be open to accredited observers, the press, guests and staff.
2. Meetings of the joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and to such staff as may be necessary.

PROCEDURE AND RECORDS

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they asked to speak.
4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.
5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the President of the Bank and its Affiliates, the Managing Director of the Fund, and the Secretaries.
6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Members.

PUBLIC INFORMATION

7. The Chairman of the Boards of Governors, the President of the Bank and its Affiliates and the Managing Director of the Director of the Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

[1] *Approved on March 21, 1977 pursuant to the By-Laws, IBRD Section 6(d), IFC Section 4(d) and IDA Section 1(a).*

BANK AGENDA[1]

1. 1976/77 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of Net Income
4. Administrative Budget
5. Membership of Maldives
6. Membership of Sao Tome and Principe
7. Executive Directors' Administrative Arrangements
8. Joint Development Committee
9. Place and Date of 1979 Annual Meetings
10. Officers and Procedures Committee for 1977/78

IFC AGENDA[1]

1. 1976/77 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget
4. Rules of Procedure for Meetings of the Board of Directors

IDA AGENDA[1]

1. 1976/77 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget
4. Membership of Maldives
5. Membership of Sao Tome and Principe

[1] *Approved on August 11, 1977 pursuant to the By-Laws, IBRD Section 6(a), IFC Section 4(a) and IDA Section 1(a).*

REPORTS OF THE JOINT PROCEDURES COMMITTEE

Chairman	Ireland
Vice Chairmen	Bolivia
	Togo
Reporting Member	Egypt

Other Members

Austria	Indonesia
Bangladesh	Japan
Barbados[1 2]	Mauritania
Brazil	Pakistan
Costa Rica	Romania[1 2]
Fiji[1]	Sierra Leone
France	United Arab Emirates
Germany	United Kingdom
	United States

Report I

September 29, 1977

At the meeting of the Joint Procedures Committee held on September 29, 1977 the items of business on the agendas of the Boards of Governors of the Bank, IDA and IFC were considered.

A. The Committee submits the following report and recommendations on Bank and IDA business:

1. *1977 Annual Report*

The Committee noted that the 1977 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audits and Administrative Budgets*

The Committee considered the Financial Statements, Auditors' Reports and Administrative Budgets contained in the 1977 Bank and IDA Annual Report, together with the Report dated August 5, 1977.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions. . . .[3]

---

[1]*Not a member of IFC.*
[2]*Not a member of IDA.*
[3]*See pages 206 and 216.*

3. *Allocation of Net Income of the Bank*

The Committee considered the Report of the Executive Directors dated August 2, 1977 on the Allocation of Net Income ...[1]

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution. ...[2]

4. *Membership—Maldives*

The Committee considered the recommendation of the Executive Directors regarding admission of Maldives to membership in the Bank and IDA.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions. ...[3]

5. *Membership—Sao Tome and Principe*

The Committee considered the recommendations of the Executive Directors regarding admission of Sao Tome and Principe to membership in the Bank and IDA.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions. ...[4]

6. *Report of the Executive Directors on Executive Directors' Administrative Arrangements*

The Committee noted the Report of the Executive Directors dated July 15, 1977 entitled "Executive Directors' Administrative Arrangements". ...[5]

7. *Report of Joint Development Committee*

The Committee noted that the Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) has been presented to the Boards of Governors of the Bank and Fund pursuant to Resolutions Nos. 294 and 29-9 of the Bank and Fund, respectively. ...[6]

The Committee recommends that the Board of Governors of the Bank take note of the Report and thank the Development Committee for its work.

---

[1]*See page 226.*
[2]*See page 206.*
[3]*See pages 206 and 216.*
[4]*See pages 208 and 219.*
[5]*See page 226.*
[6]*See page 248.*

B. The Committee submits the following Report and Recommendations on IFC business:

1. *1977 Annual Report*
The Committee noted that the 1977 Annual Report and the activities of IFC had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audit and Administrative Budget*
The Committee considered the Financial Statements and the Auditors' Report contained in the 1977 Annual Report, and the Administrative Budget attached to the Report dated August 5, 1977.
The Committee recommends that the Board of Governors of IFC adopt the draft resolution. . . .[1]

3. *Rules of Procedure for Meetings of the Board of Directors*
The Committee has reviewed and noted the Report of the Board of Directors dated February 14, 1977 regarding amendment of the Rules of procedure for Meetings of the Board of Directors of the Corporation. . . .[2]
The Committee recommends that the Record of the proceedings of this Annual Meeting state that the said amendment has been noted.

Approved:

/s/ George Colley
Ireland—*Chairman*

/s/ Abdel Moneim El Kaissouni
Egypt—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on September 30, 1977.

REPORT III[3]

(to the Boards of Governors of the Bank, IDA and IFC and of the Fund)

Reporting Members—Egypt

Mr. Chairman:

The Joint Procedures Committee met on September 29, 1977 and submits the following report:

1. *Place and Date of 1979 Annual Meetings*
The Committee recommends that the invitation extended by the Government of Yugoslavia be accepted, and that the 1979 Annual Meetings be convened in Belgrade, Yugoslavia.

[1] *See page 211.*
[2] *See page 227.*
[3] *Report II related to the business of the Fund.*

2. *Officers and Joint Procedures Committee for 1977/1978*

The Committee recommends that the Governors for Malaysia be Chairmen, and the Governors for El Salvador and Norway be Vice Chairmen, of the Boards of Governors of the Bank and its affiliates and of the Fund, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these Meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairmen normally by correspondence and, if the occasion required, by convening; and that this Committee shall consist of the Governors for the following members: Argentina, Canada, Colombia, El Salvador, France, Germany, Japan, Korea, Malaysia, Mauritius, Morocco, Norway, Saudi Arabia, Senegal, Turkey, United Kingdom, United States, Western Samoa, Yemen Arab Republic, Yugoslavia, and Zambia.

It is recommended that the Chairmen of the Joint Procedures Committee shall be the Governors for Malaysia and the Vice Chairmen shall be the Governors for El Salvador and Norway, and that the Governor for Canada shall serve as Reporting Member.

Approved:

/s/George Colley Ireland—*Chairman*	/s/Abdel Moneim El Kaissouni /s/ Aly M. Negm Egypt—*Reporting Members*

This report was approved and its recommendations were adopted by the Board of Governors on September 30, 1977.

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK BETWEEN 1976 AND 1977 ANNUAL MEETINGS

Resolution No. 312

Direct Remuneration of Executive Directors
and their Alternates

RESOLVED:

THAT, effective July 1, 1976, the annual rates of remuneration of Executive Directors of the Bank and their Alternates pursuant to Section 14(e) of the By-Laws shall be as follows:

(i) As salary, $40,700 per year for Executive Directors and $31,900 per year for their Alternates.

(ii) As supplemental allowance for expenses (including housing and entertainment), except those specified in Section 14(f) of the By-Laws, $5,000 per year for Executive Directors and $4,000 per year for their Alternates.

(Adopted November 29, 1976)

Resolution No. 313

Increases in Subscriptions by
Argentina, Bolivia, Colombia, India, Mauritania,
Pakistan, Senegal, Somalia and Uruguay
under Article II, Section 3(c) of the
Articles of Agreement of the Bank

WHEREAS on May 4, 1976, the Executive Directors of the Bank approved the submission of two draft resolutions to the Board of Governors for adoption, the first authorizing an increase of $7,000 million in terms of United States dollars of the weight and fineness in effect on July 1, 1944 (hereinafter referred to as 1944 dollars) in the authorized capital stock of the Bank (hereinafter called the capital increase resolution) and the second authorizing special increases in subscriptions to the capital stock (hereinafter called the special increases resolution);

WHEREAS the Governments of Argentina, Bolivia, Colombia, India, Mauritania, Pakistan, Senegal, Somalia and Uruguay have notified the Bank of their intention to subscribe their proportionate shares of the increase in the authorized capital stock of the Bank provided for in the capital increase resolution pursuant to Article II, Section 3(c) of the Articles of Agreement of the Bank and accordingly each said Government is entitled to subscribe the number of shares of stock of the Bank set forth opposite its name in paragraph A below;

WHEREAS it has therefore become necessary for the Bank to determine the terms and conditions under which such subscriptions may be made;

NOW THEREFORE the Board of Governors hereby resolves as follows:

Pursuant to Article II, Section 3(c) of the Articles of Agreement, the Bank is hereby authorized to accept subscriptions to shares of its capital stock upon the following conditions:

A. Each of the members of the Bank listed below may subscribe from time to time prior to October 1, 1980 (or such later date as the Executive Directors may determine) up to the number of shares of stock of the Bank set forth opposite its name:

Member Country	*Maximum Number of Shares*
Argentina	968
Bolivia	54
Colombia	242
India	2,333
Mauritania	26
Pakistan	519
Senegal	86
Somalia	39
Uruguay	107

B. Each subscription authorized pursuant to paragraph A above shall be on the following terms and conditions:

(a) the subscription price per share shall be $100,000 in terms of 1944 dollars;

(b) with respect to the subscription price of one half of such shares, the 2% portion payable in gold or United States dollars and the 18% portion payable in the currency of each member concerned shall be left uncalled on the conditions set forth in Resolution No. 129 as governing subscriptions made pursuant to Resolution No. 128 of the Board of Governors; and

(c) before any such subscription shall be accepted by the Bank, the following action shall have been taken:

  (i) the member concerned shall have taken all action necessary to authorize such subscription and shall furnish to the Bank such information thereon as the Bank may request;

  (ii) with respect to and on account of the subscription price of one half of such shares, the member concerned shall pay to the Bank gold or United States dollars equal to 2% of such price, and an amount in its own currency equal to 18% of such price; and

(iii) the capital increase resolution and the special increases resolution shall have been approved by the Board of Governors of the Bank.

(Adopted January 3, 1977)

Resolution No. 314

Special Increases in Subscriptions to Capital Stock

WHEREAS the Board of Governors of the International Monetary Fund has approved on March 22, 1976 a resolution entitled "Increases in Quotas of Members—Sixth General Review" which proposes, subject certain conditions, increases in the quotas of members up to certain amounts (hereinafter called the Fund Resolution);

WHEREAS in accordance with past practice, members accepting increases in their quotas, but not including any general increase in quotas, are expected to request corresponding increases (sometimes referred to as special increases) in their capital subscriptions in the Bank;

WHEREAS the Executive Directors of the Bank believe that in calculating the special increases only quota increases under the Fund Resolution in excess of 4.46% of present quotas should be taken into account;

WHEREAS the Executive Directors in their report dated May 4, 1976 have proposed an increase of $7 billion in terms of United States dollars of the weight and fineness in effect on July 1, 1944 (hereinafter referred to as 1944 dollars) in the authorized capital stock of the Bank and have submitted to the Board of Governors a resolution to that effect (hereinafter called Resolution I);

NOW THEREFORE the Board of Governors hereby resolves as follows:

Pursuant to Article II, Section 3(b) of the Articles of Agreement the Bank is hereby authorized to accept subscriptions to shares of its capital stock upon the following conditions:

1. Each of the members of the Bank listed below, unless it shall have availed itself of its right to subscribe a proportionate share of the increase in the authorized capital stock of the Bank provided for in Resolution I, may subscribe from time to time prior to October 1, 1980 (or such later date as the Executive Directors may determine) up to the number of shares of stock of the Bank set forth opposite its name:

Member Country	Maximum Number of Shares	Member Country	Maximum Number of Shares
Afghanistan	49	India	1,495
Algeria	1,218	Indonesia	1,688
Argentina	612	Iran	3,619
Australia	779	Iraq	166
Austria	392	Ireland	234
Bahamas	99	Israel	565
Bahrain	78	Italy	1,595
Bangladesh	175	Ivory Coast	146
Barbados	28	Jamaica	150
Belgium	1,723	Japan	3,309
Benin	18	Jordan	46
Bolivia	35	Kenya	150
Botswana	31	Korea	624
Brazil	1,668	Kuwait	1,708
Burma	84	Lao People's Dem. Rep.	18
Burundi	24	Lebanon	25
Cameroon	46	Lesotho	15
Cambodia	40	Liberia	47
Canada	1,704	Libya	1,276
C.A.R.	18	Luxembourg	97
Chad	18	Madagascar	55
Chile	297	Malawi	32
Colombia	165	Malaysia	479
Congo, People's Republic of	25	Mali	30
		Mauritania	25
Costa Rica	24	Mauritius	33
Cyprus	56	Mexico	876
Denmark	313	Morocco	260
Dominican Republic	32	Nepal	34
Ecuador	187	Netherlands	1,756
Egypt, Arab Republic of	229	New Zealand	171
El Salvador	21	Nicaragua	19
Equatorial Guinea	13	Niger	18
Ethiopia	32	Nigeria	1,789
Fiji	36	Norway	362
Finland	519	Oman	104
France	2,875	Pakistan	322
Gabon	110	Panama	35
Gambia, The	12	Papua New Guinea	75
Germany	3,959	Paraguay	10
Ghana	122	Peru	203
Grenada	7	Philippines	393
Greece	209	Portugal	326
Guatemala	44	Qatar	156
Guinea	39	Romania	380
Guyana	34	Rwanda	24
Haiti	24	Saudi Arabia	3,756
Honduras	25	Senegal	61
Iceland	38	Sierra Leone	28

Member Country	Maximum Number of Shares	Member Country	Maximum Number of Shares
Singapore	591	Tunisia	96
Somalia	24	Turkey	345
South Africa	733	Uganda	65
South Vietnam	212	U.A.E.	852
Spain	1,180	United States	13,005
Sri Lanka	134	Upper Volta	18
Sudan	102	Uruguay	68
Swaziland	30	Venezuela	1,804
Sweden	903	Western Samoa	7
Syrian Arab Republic	87	Yemen Arab Republic	21
Tanzania	89	Yemen, P.D.R.	88
Thailand	335	Yugoslavia	331
Togo	32	Zaire	276
Trinidad & Tobago	132	Zambia	503

2. Each subscription authorized pursuant to paragraph 1 above shall be on the following terms and conditions:

(a) the subscription price per share shall be $100,000 in terms of 1944 dollars;

(b) with respect to the subscription price of one half of such shares, the 2% portion payable in gold or United States dollars and the 18% portion payable in the currency of the member shall be left uncalled on the conditions set forth in Resolution No. 129 as governing subscriptions pursuant to Resolution No. 128 of the Board of Governors; and

(c) before any subscription shall be accepted by the Bank, the following action shall have been taken:

(i) the member shall have taken all action necessary to authorize such subscription and shall furnish to the Bank such information thereon as the Bank may request;

(ii) with respect to and on account of the subscription price of one half of such shares, the member shall pay to the Bank gold or United States dollars equal to 2% of such price and an amount in its own currency equal to 18% of such price; and

(iii) Resolution I shall have been approved by the Board of Governors of the Bank.

3. The Bank shall not accept any subscription authorized under this resolution prior to October 31, 1976.

(Adopted February 9, 1977)

Resolution No. 315

Increase of $7 Billion in Authorized Capital Stock

WHEREAS the original capital stock of the Bank amounted to $10,000 million in terms of United States dollars of the weight and fineness in effect on July 1, 1944:

WHEREAS the Board of Governors, by Resolutions Nos. 128, 131, 194, 222 and 264 increased the authorized capital stock to $27,000 million;

WHEREAS it is desirable further to increase the authorized capital stock of the Bank by $7 billion in order to provide for special increases in members' subscriptions and for the admission of new members;

WHEREAS the Board of Governors expects that in the circumstances members will not wish to avail themselves of their right to subscribe a proportionate share of such increase pursuant to Article II, Section 3(c) of the Articles of Agreement of the Bank;

NOW THEREFORE the Board of Governors hereby resolves as follows:

1. The authorized capital stock of the Bank shall be increased by $7 billion in terms of United States dollars of the weight and fineness in effect on July 1, 1944 divided into 70,000 shares having a par value of $100,000 each.

2. In the absence of notice to the Bank from any member on or before June 11, 1976 that it intends to exercise its right to subscribe its proportionate share of such increase, such member will be deemed to have waived such right; provided, however, that if any such notice is received from any member the Secretary of the Bank shall promptly after the said date notify all other members thereof whereupon such other members shall have an additional 30 days after the said date to give such notice.

(Adopted May 13, 1977)

Resolution No. 316

Amendment to Section 14(a) of the
By-Laws of the Bank

RESOLVED:

THAT Section 14(a) of the By-Laws of the Bank be amended to read as follows:

Section 14(a). Governors and Alternates shall receive their actual transport expenses to and from the place of meeting in attending meetings and $100 for each night which attendance at such meetings requires them to spend away from their normal place of residence, this amount being reduced to $25 for each night when accommodation is included in the price of transportation.

(Adopted May 17, 1977)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK AT THE 1977 ANNUAL MEETING

Resolution No. 317

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Bank consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1976/77 Annual Report, as fulfilling the requirements of Article V, Section 13, of the Articles of Agreement and of Section 19 of the By-Laws of the Bank.

(Adopted September 30, 1977)

Resolution No. 318

Allocation of Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated August 2, 1977 on "Allocation of Net Income" is hereby approved;

2. THAT the Bank transfer to the International Development Association by way of grant the equivalent of $100 million out of the net income of the Bank for the fiscal year ended June 30, 1977 (of which the Association may use up to the equivalent of $8.7 million for grants for agricultural research and up to the equivalent of $1.5 million for grants for the control of onchocerciasis), such transfer to be made at the time and in the manner to be decided by the Executive Directors;

3. THAT the allocation of the balance of the net income of the Bank for the fiscal year ended June 30, 1977 to the General Reserve is hereby noted with approval.

(Adopted September 30, 1977)

Resolution No. 319

Membership of Maldives

WHEREAS the Government of Maldives has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank; and

WHEREAS, pursuant to Section 20 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of Maldives, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Maldives shall be admitted to membership in the Bank shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Bank" means International Bank for Reconstruction and Development.
   (b) "Articles" means the Articles of Agreement of the Bank.
   (c) "Dollars" or "$" means United States dollars of the weight and fineness in effect on July 1, 1944.
   (d) "Subscription" means the capital stock of the Bank subscribed to by a member.
   (e) "Member" means member of the Bank.
2. *Subscription:* By accepting membership in the Bank, Maldives shall subscribe to 6 shares of the capital stock of the Bank at the par value of $100,000 per share.
3. *Membership in the Fund:* Before accepting membership in the Bank, Maldives shall accept membership in and become a member of the International Monetary Fund.
4. *Payment on Subscription:*
   (a) Before accepting membership in the Bank, Maldives shall pay to the Bank on account of the subscription price of one half of such shares:
      (i) Gold or United States dollars equal to 2% thereof; and
      (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 18% thereof.
   (b) With respect to the subscription price of the other one half of such shares, the 2% portion payable in gold or United States dollars and the 18% portion payable in the currency of the member shall be left uncalled, as set forth in Resolution No. 129, on the same basis as the 2% and 18% portions of subscriptions made pursuant to Resolution No. 128 of the Board of Governors.
5. *Representation and Information:* Before accepting membership in the Bank, Maldives shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraphs 6(d) and (e) of this resolution and Maldives shall furnish to the Bank such information in respect of such action as the Bank may request.

6. *Acceptance of Membership:* Maldives shall become a member of the Bank with a subscription as set forth in paragraph 2 of this resolution as of the date when Maldives shall have complied with the following requirements:
   (a) become a member of the International Monetary Fund;
   (b) made the payments called for by paragraph 4 of this resolution;
   (c) furnished the representation, and such information as may have been requested, pursuant to paragraph 5 of this resolution;
   (d) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out its obligations under the Articles of this resolution; and
   (e) signed the original Articles held in the Archives of the Government of the United States of America.
7. *Limitation on Period for Acceptance of Membership:* Maldives may accept membership in the Bank pursuant to this resolution until June 30, 1978, or such later date as the Executive Directors may determine.

(Adopted September 30, 1977)

Resolution No. 320

Membership of São Tomé and Príncipe

WHEREAS the Government of São Tomé and Príncipe has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank; and

WHEREAS, pursuant to Section 20 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of São Tomé and Príncipe, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which São Tomé and Príncipe shall be admitted to membership in the Bank shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Bank" means International Bank for Reconstruction and Development.
   (b) "Articles" means the Articles of Agreement of the Bank.

(c) "Dollars" or "$" means United States dollars of the weight and fineness in effect on July 1, 1944.
(d) "Member" means member of the Bank.

2. *Subscription:* By accepting membership in the Bank, São Tomé and Príncipe shall subscribe to 14 shares of the capital stock of the Bank at the par value of $100,000 per share.

3. *Membership in the Fund:* Before accepting membership in the Bank, Saó Tomé and Príncipe shall accept membership in and become a member of the International Monetary Fund.

4. *Payment on Subscription:*
   (a) Before accepting membership in the Bank, São Tomé and Príncipe shall pay to the Bank on account of the subscription price of one half of such shares:
      (i) Gold or United States dollars equal to 2% thereof; and
      (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 18% thereof.
   (b) With respect to the subscription price of the other one half of such shares, the 2% portion payable in gold or United States dollars and the 18% portion payable in the currency of the member shall be left uncalled, as set forth in Resolution No. 129, on the same basis as the 2% and 18% portions of subscriptions made pursuant to Resolution No. 128 of the Board of Governors.

5. *Representation and Information:* Before accepting membership in the Bank, São Tomé and Príncipe shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraphs 6(d) and (e) of this resolution and São Tomé and Príncipe shall furnish to the Bank such information in respect of such action as the Bank may request.

6. *Acceptance of Membership:* São Tomé and Príncipe shall become a member of the Bank with a subscription as set forth in paragraph 2 of this resolution as of the date when São Tomé and Príncipe shall have complied with the following requirements:
   (a) become a member of the International Monetary Fund;
   (b) made the payments called for by paragraph 4 of this resolution;
   (c) furnished the representation, and such information as may have been requested, pursuant to paragraph 5 of this resolution;
   (d) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out its obligations under the Articles of this resolution, and

(e) signed the original Articles held in the Archives of the Government of the United States of America.

7. *Limitation on Period for Acceptance of Membership:* São Tomé and Príncipe may accept membership in the Bank pursuant to this resolution until June 30, 1978, or such later date as the Executive Directors may determine.

(Adopted September 30, 1977)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IFC AT THE 1977 ANNUAL MEETING

Resolution No. 99

Financial Statements, Accountants' Report
and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Corporation consider the Financial Statements and the Accountants' Report, included in the 1976/77 Annual Report, and the Administrative Budget attached to the Report dated August 5, 1977, as fulfilling the requirements of Article IV, Section 11, of the Articles of Agreement and of Section 16 of the By-Laws of the Corporation.

(Adopted September 30, 1977)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IDA BETWEEN 1976 AND 1977 ANNUAL MEETINGS

Resolution No. 102

Additions to Resources; Fifth Replenishment

Section A. *Introduction*

1. WHEREAS

(a) The Executive Directors of the International Development Association have considered its prospective financial requirements and have concluded that additional resources should be made available to the Association for new commitments for the period extending from July 1, 1977 to June 30, 1980 in the amounts and on the basis described in the Report of the Executive Directors dated March 29, 1977 submitted to the Board of Governors;

(b) The Part I members and certain Part II members of the Association believe that there is a need to increase the resources of the Association, that the amounts and conditions described in this resolution form an appropriate basis for recommendation to legislatures, and consequently they intend to request, where necessary, their legislatures to approve these arrangements with a view to obtaining approval to commit the amounts listed in Table II,[1] it being understood that no commitment by a member government can be made until approval has, where necessary, been obtained from its legislature;

[1] *Tables referred to in this resolution are those attached to the said Report of the Executive Directors.*

(c) In view of the resource requirements of the least developed and other poorest countries, member countries have recognized the desirability of obtaining additional resources which would be provided by way of additional voluntary contributions; such additional contributions would be accepted by the Association on terms to be agreed with the contributing members;

2. NOW THEREFORE the Board of Governors resolves that the said Report of the Executive Directors is accepted by the Board of Governors and its conclusions adopted.

Section B. *Additional Resources Provided by Part I Members*

3. WHEREAS

(a) A portion of the resources proposed to be made available by Part I members, in accordance with Section A of this resolution, would be made available partly in the form of subscriptions carrying voting rights and partly in the form of contributions not carrying voting rights;

(b) The respective portions of the total amount proposed to be made available by each such member by way of subscriptions have been calculated in such a way as to result in the adjustment of each member's relative share in the aggregate voting power of the Part I members (not counting votes given in respect of membership) so as to correspond to the relative share in the total amount of resources which has been and is proposed to be made available by such member to the Association on the basis set forth in the said Report of the Executive Directors;

(c) Each Part I member of the Association has agreed to the foregoing arrangements to the extent that such arrangements require its agreement under Article III, Section 1(c) of the Articles of Agreement of the Association;

4. NOW THEREFORE the Board of Governors resolves that:

(a) The Association is authorized to accept additional resources from the Part I members of the Association in the amounts set forth for each such member, respectively, in Table II, such amounts being divided into amounts for subscriptions carrying voting rights and contributions not carrying voting rights as specified in Table III;

(b) Each member shall, in respect of such subscriptions, have the voting rights specified for it in Table III calculated on the basis of 1,700 votes plus one additional vote per $25 of such subscription, as such votes may be adjusted to reflect the provisions of paragraph 18(a) of the Report regarding unqualified commitments;

(c) Payment of each such subscription and of such contribution shall, except as noted below, be made in three equal annual installments on or before November 8, 1977, November 8, 1978 and November 8, 1979, provided, however, that if the replenishment authorized by this resolution shall not have become effective in accordance with Section F(a) below by October 8, 1977, payment of such installment shall be postponed and shall be made not later than 30 days after the date when the replenishment shall have become effective. Such payment shall be made at the option of the member either (i) in the currency of the member if it is a freely convertible currency (as that term is defined in Article II, Section 2(f) of the Articles of Agreement of the Association), or (ii) with the approval of the Association, in the freely convertible currency of another member;

(d) A member may at its option make payments in ascending, rather than equal, amounts, provided that they are made in three installments the first of which is not less than 25% of the total and is paid by November 8, 1977 or (if the Replenishment is not effective by October 8, 1977) by 30 days after the effective date. If a member avails itself of this option, the option described in paragraph (e) below will not be available to it;

(e) If any member advises the Association (i) not less than 30 days before any payment is due that because of governmental procedures or administrative problems it is not in a position to make such payment and wishes to postpone it, such payment shall be postponed for a period of not more than 12 months or (ii) prior to the date when the first installment is due that it wishes to make payment of its subscription and contribution in four equal annual installments rather than three, such member may make payment on that basis. A member may avail itself of one of the options referred to above in this paragraph (e) but not both;

(f) Notwithstanding the foregoing, any member which agrees to make payment of its subscription and contribution without exercising its right to substitute notes or similar obligations therefor may make such payment in amounts and on dates other than those specified pursuant to paragraphs (c), (d) and (e) above provided that in the judgment of the Executive Directors the terms of such payment would be no less favorable to the Association than if notes or similar obligations had been deposited instead;

(g) The rights and obligations of the Association and the members in regard to the subscriptions and contributions shall be the same (except as otherwise provided in this resolution) as those which govern the 90% portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles of Agreement by members listed in Part I of Schedule A of the Articles, provided, however, that the provisions of Article IV, Section 2 of the Articles of Agreement shall not be applicable to the subscriptions and contributions;

(h) (i) Unless Instruments of Commitment as referred to in paragraph 27 of the Report covering in the aggregate at least 80% of the second installment (the second one third of the total Replenishment) and 80% of the third installment (the final one third of the total Replenishment) are deposited, respectively, IDA shall not enter into new credits, disbursements for which would be drawn from the said second installment or third installment, respectively, of the contributions of contributing governments;

(ii) The foregoing provisions of sub-paragraph (h)(i) above, however, shall not preclude IDA from entering into qualified credits, qualified in a manner whereby such credits would become effective and binding on IDA (and permit IDA to draw on such second and third installments, respectively, to finance disbursements thereunder) when Instruments of Commitment covering at least the amounts specified above are deposited;

(iii) If there is a delay in the deposit of Instruments of Commitment in the aggregate amounts specified above and as a result thereof IDA, because of the provisions of sub-paragraph (h)(i) above, is precluded from entering into new unqualified credits, IDA will thereupon request the Deputies to meet as soon as practicable thereafter in order to consider what steps might be taken to obtain the necessary Instruments of Commitment;

(i) If any member shall deposit an Instrument of Commitment as referred to in paragraph 27 of the Report after the date when the first installment shall be payable including any postponement thereof (as provided in paragraph (c) above), payment of such installment by such member shall be made within 30 days after the date of such deposit.

Section C. *Additional Resources Provided by Certain Part II Members under the Fifth Replenishment*

5. WHEREAS

(a) Part II members (Korea, Saudi Arabia, Spain and Yugoslavia) have expressed their intention to seek legislative approval to make available additional resources to the Association in usable form, partly in the form of subscriptions carrying voting rights and partly in the form of contributions not carrying voting rights on the basis set forth in the said Report of the Executive Directors;

(b) With respect to such subscriptions carrying voting rights, the remaining Part II members have waived their right to subscribe under the provisions of Article III, Section 1(c) an amount which would enable each of them to maintain their relative voting power;

6. NOW THEREFORE the Board of Governors resolves that:

(a) The Association is authorized to accept additional resources from the members listed in paragraph 5(a) above in the amounts set forth for each such member, respectively, in Table IV, column (12), such amounts being divided into amounts for subscriptions carrying voting rights and contributions not carrying voting rights as specified in Table IV, columns (14) and (15), respectively;

(b) Each member shall, in respect of such subscription, have the voting rights specified for it in Table IV, column (13), calculated on the basis of one vote per $25 of such subscription;

(c) Payment of each such subscription and contribution shall be made in usable form but otherwise shall be made on the same basis, and the rights and obligations of the Association and the member concerned with respect to such subscription and contribution, shall be on the same terms and conditions, as provided in Section B of this resolution for the subscriptions and contributions of Part I members, provided, however, that the provisions of Article IV, Section 2 of the Articles of Agreement shall not be applicable to the subscriptions and contributions.

Section D. *Part II Subscriptions; Article III, Section 1(c)*

7. WHEREAS proposed additional subscriptions are being authorized for Part I members under Section B of this resolution and, therefore, under the provisions of Article III, Section 1(c) of the Articles of Agreement of the Association, each Part II member shall be given an opportunity to subscribe, under such conditions as shall be reasonably determined by the Association, an amount which will enable it to maintain its relative voting power.

8. NOW THEREFORE the Board of Governors resolves that:

(a) The Association is authorized to accept additional subscriptions from the Part II members of the Association in the amounts and carrying the voting rights as set forth for each such member, respectively, in Table IV, columns (11), (8) and (10), calculated on the basis of 1,700 votes plus one additional vote per $25 of such subscription;

(b) Payment of each such subscription shall be made in the currency of the subscribing member but otherwise on the same terms and conditions as those provided in Section B of this resolution for the subscriptions of the Part I members;

(c) The rights and obligations of the Association and the members in regard to such subscriptions shall be the same (except as otherwise provided in this resolution) as those which govern the 90% portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles of Agreement by members listed in Part II of Schedule A of the Articles, provided, however, that the provisions of Article IV, Section 2 of the Articles of Agreement shall not be applicable to such subscriptions.

Section E. *General*

9. Resources provided under the Fifth Replenishment may be used to meet any obligation of the Association to make disbursements under credits made under the Fourth Replenishment, if other resources are not available for that purpose.

Section F. *Effectiveness*

10. The Board of Governors hereby resolves that:

(a) None of the subscriptions and contributions authorized by this resolution shall become payable unless the following condition has been satisfied:

Members, including at least 12 Part I members, whose subscriptions and contributions aggregate not less than the equivalent, determined as in paragraph 7 of the Report of the Executive Directors, of $6,000,000,000 shall have given the Association, on or before

June 30, 1977 or such later date as the Executive Directors may determine, formal notification, in the terms permitted under paragraph 27 of the Report, that they will make both the subscription and the contribution authorized hereunder for each such member in accordance with the terms of this resolution; provided that for the purpose of determining whether the condition set forth in this paragraph with respect to the amount of subscriptions and contributions has been satisfied, account shall be taken of the contribution of the United Arab Emirates regardless of whether it has become a member of the Association;

(b) The replenishment authorized by this resolution shall become effective on the date when the condition specified in paragraph (a) above shall have been satisfied; provided, however, that no member shall be obligated to make the subscription and contribution authorized hereunder for such member unless it shall have notified the Association that it will do so. On the date when that condition shall have been satisfied, each member who shall have given the Association such notification shall be entitled to the voting rights accorded to its subscription as specified in this resolution. Each member who on any date thereafter shall give the Association such notification shall be entitled, as of that date, to the voting rights accorded to its subscription as specified in this resolution.

(Adopted June 16, 1977)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IDA AT THE 1977 ANNUAL MEETING

Resolution No. 103

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Association consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1976/77 Annual Report, as fulfilling the requirements of Article VI, Section 11, of the Articles of Agreement and of Section 8 of the By-Laws of the Association.

(Adopted September 30, 1977)

Resolution No. 104

Membership of Maldives

WHEREAS the Government of Maldives has applied for admission to membership in the International Development Association in accordance with Section 1 (b) of Article II of the Articles of Agreement of the Association; and

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of Maldives, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Maldives shall be admitted to membership in the Association shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Association" means International Development Association;
   (b) "Articles" means the Articles of Agreement of the Association;
   (c) "Dollars" or "$" means dollars in currency of the United States of America; and
   (d) "Board of Governors" means the Board of Governors of the Association.

2. *Initial Subscription:*
   (a) The terms and conditions of the membership of Maldives in the Association other than those specifically provided for in this resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part II of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscriptions, usability of currencies and voting rights).
   (b) Upon accepting membership in the Association, Maldives shall subscribe funds in the amount of $30,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960.
   (c) Before accepting membership in the Association, Maldives shall make all payments on its initial subscription which would have been payable on or before the date of acceptance had it become a member of the Association as an original member listed in Part II of Schedule A of the Articles.

3. *Acceptance of Membership:* Maldives shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this resolution as of the date when Maldives shall have complied with the following requirements:
   (a) become a member of the International Bank for Reconstruction and Development;
   (b) made the payments called for by paragraphs 2(b) and (c) of this resolution;
   (c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws the Articles and all the terms and condi-

tions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and

(d) signed the original of the Articles held in the archives of the International Bank for Reconstruction and Development.

4. *Limitation on Period for Acceptance of Membership:* Maldives may accept membership in the Association pursuant to this resolution until June 30, 1978 or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscription under Third Replenishment Resolution*

(a) Upon or after acceptance of membership, Maldives shall be also authorized at its option to make an additional subscription in the amount of $1,120 (expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960) which shall carry 1,250 votes plus one vote for each $80 of such additional subscription (that is, 1,264 votes).

(b) The rights and obligations of the Association and Maldives with regard to such additional subscription shall be the same as those which are applicable to the subscriptions authorized for Part II members under Part D of the Third Replenishment Resolution adopted by the Board of Governors on February 17, 1971.

6. *Additional Subscription under Fourth Replenishment Resolution*

(a) Upon or after acceptance of membership Maldives shall be further authorized at its option to make a further subscription in the amount of $1,000 which shall carry 3,850 votes plus one vote for each $25 of such further subscription (that is, 3,894 votes).

(b) The rights and obligations of the Association and Maldives with regard to such additional subscription shall be the same as those which are applicable to the subscriptions authorized for Part II members under Section F of the Fourth Replenishment Resolution adopted by the Board of Governors on January 31, 1974.

7. *Additional Subscription under Fifth Replenishment Resolution*

(a) Upon or after acceptance of membership, Maldives shall be further authorized at its option to make a further subscription in the amount of $1,100 which shall carry 3,850 votes plus one vote for each $25 of such further subscription (that is, 3,894 votes). provisions of that resolution, Maldives shall be further authorized at its option to make a further subscription in the amount of $450 which will carry 1,700 votes plus one vote for each $25 of such further subscription (that is, 1,718 votes).

(b) The rights and obligations of the Association and Maldives with regard to such further subscription shall be the same as those which are applicable to the subscriptions authorized for Part II members under Section D of the Fifth Replenishment Resolution adopted by the Board of Governors on June 16, 1977.

(Adopted September 30, 1977)

Resolution No. 105

Membership of São Tomé and Príncipe

WHEREAS the Government of São Tomé and Príncipe has applied for admission to membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association; and

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of São Tomé and Príncipe, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which São Tomé and Príncipe shall be admitted to membership in the Association shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Association" means International Development Association.
   (b) "Articles" means the Articles of Agreement of the Association;
   (c) "Dollars" or "$" means dollars in currency of the United States of America.
   (d) "Board of Governors" means the Board of Governors of the Association.
2. *Initial Subscription:*
   (a) The terms and conditions of the membership of São Tomé and Príncipe in the Association other than those specifically provided for in this resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part II of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscriptions, usability of currencies and voting rights).
   (b) Upon accepting membership in the Association, São Tomé and Príncipe shall subscribe funds in the amount of $70,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960.
   (c) Before accepting membership in the Association, São Tomé and Príncipe shall make all payments on its initial subscription which would have been payable on or before the date of acceptance had it become a member of the Association as an original member listed in Part II of Schedule A of the Articles.
3. *Acceptance of Membership:* São Tomé and Príncipe shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this resolution as of the date when São Tomé and Príncipe shall have complied with the following requirements:

(a) become a member of the International Bank for Reconstruction and Development;

(b) made the payments called for by paragraphs 2(b) and (c) of this resolution;

(c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and

(d) signed the original of the Articles held in the archives of the International Bank for Reconstruction and Development.

4. *Limitation on Period for Acceptance of Membership:* São Tomé and Príncipe may accept membership in the Association pursuant to this resolution until June 30, 1978 or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscription under Third Replenishment Resolution*

(a) Upon or after acceptance of membership, São Tomé and Príncipe shall be also authorized at its option to make an additional subscription in the amount of $2,720 (expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960) which shall carry 1,250 votes plus one vote for each $80 of such additional subscription (that is, 1,284 votes).

(b) The rights and obligations of the Association and São Tomé and Príncipe with regard to such additional subscription shall be the same as those which are applicable to the subscriptions authorized for Part II members under Part D of the Third Replenishment Resolution adopted by the Board of Governors on February 17, 1971.

6. *Additional Subscription under Fourth Replenishment Resolution*

(a) Upon or after acceptance of membership, São Tomé and Príncipe shall be further authorized at its option to make a further subscription in the amount of $2,600 which shall carry 3,850 votes plus one vote for each $25 of such further subscription (that is, 3,954 votes).

(b) The rights and obligations of the Association and São Tomé and Príncipe with regard to such additional subscription shall be the same as those which are applicable to the subscriptions authorized for Part II members under Section F of the Fourth Replenishment Resolution adopted by the Board of Governors on January 31, 1974.

7. *Additional Subscription under Fifth Replenishment Resolution*

(a) Upon or after acceptance of membership, and upon or after the date on which the Fifth Replenishment of the Association's resources, authorized by resolution of the Board of Governors adopted on June 16, 1977, shall become effective pursuant to the provisions of that resolution, São Tomé and Príncipe shall be further authorized at its option to make a further subscription in the amount of $1,075 which will carry 1,700 votes plus one vote for each $25 of such further subscription (that is, 1,743 votes).

(b) The rights and obligations of the Association and São Tomé and Príncipe with regard to such further subscription shall be the same as those which are applicable to the subscriptions authorized for Part II members under Section D of the Fifth Replenishment Resolution adopted by the Board of Governors on June 16, 1977.

(Adopted September 30, 1977)

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

Increase in Authorized Capital Stock and Special Increases in Subscriptions to Capital Stock

A. *Increase in Authorized Capital Stock*

1. The initial authorized capital stock of the Bank was $10,000 million in terms of United States dollars of the weight and fineness in effect on July 1, 1944 (hereinafter called 1944 dollars). Article II, Section 2(b) of the Articles of Agreement provides that the capital stock may be increased by a three-fourths majority of the total voting power.

2. The authorized capital was increased by $10,000 million[1] in 1959 to provide for the doubling of members' subscriptions, and was increased by a further $1,000 million in 1959, by $1,000 million in 1963, by $2,000 million in 1965 and by $3,000 million in 1970 to provide shares for new members' subscriptions and for increases in existing subscriptions. It now stands at $27,000 million.

3. As of April 1, 1976 member countries had subscribed $25,581,300,-000, leaving an unsubscribed balance of $1,418,700,000, of which $320,-900,000 will be required for pending memberships and increases in subscriptions already authorized or in process.

4. As set forth in Section B below, the Executive Directors are recommending to the Board of Governors the adoption of a resolution authorizing the Bank to accept special subscriptions from members aggregating $6,913,400,000. The potential shortage in authorized capital stock would thus be in excess of $5,815,600,000.

5. In view of the foregoing, the Executive Directors recommend that the authorized capital stock of the Bank be increased by $7 billion to accommodate the increases in subscriptions being recommended to the Board of Governors and leave available sufficient unsubscribed capital for new members' capital subscriptions and future increases in the capital subscriptions of individual members.

6. There are thus two resolutions being proposed for adoption by the Board of Governors:

(a) a resolution authorizing an increase of $7 billion in capital stock (Resolution I), and

(b) a resolution authorizing special increases in subscriptions to capital stock (Resolution II).

B. *Special Increases in Subscriptions to Capital Stock*

7. On March 22, 1976, the Board of Governors of the International Monetary Fund, having considered a report of the Fund Executive Directors dated February 19, 1976, and entitled "Increases in Quotas of Members—Sixth General Review", adopted a resolution providing for increases in the present quotas of members of the Fund. That resolution

[1] *References to capital in this Report and the attached proposed Resolutions are in terms of 1944 dollars.*

provides, among other things, that no such increases in quotas shall become effective until the later of the following two dates; (i) the effective date of the second amendment of the Articles of Agreement of the Fund therein referred to or (ii) the date on which members having not less than three-fourths of the total of quotas on February 19, 1976, have consented to increases in their quotas. A report by the Fund Executive Directors on the second amendment together with a draft resolution approving such amendment was submitted to the Board of Governors of the Fund on March 31, 1976.

8. It is a long-standing policy of the Bank that individual members accepting special increases in their quotas in the Fund are expected to request special increases in their subscriptions to the capital of the Bank. The Executive Directors are of the opinion that the Bank should continue to adhere to this policy.

9. In formulating specific recommendations to this end, the Executive Directors have considered that of the quota increases proposed for members of the Fund, only the part in excess of 4.46% of each member's present quota should be regarded as a special quota increase. Thus, the increase of quotas in excess of 4.46% of present quotas has been taken as the basis for special increases in Bank subscriptions, in keeping with past practice.

10. In accordance with the procedure adopted in connection with the 1970 special increases in the Bank's subscribed capital and in parallel with the Fund quota resolution, the proposed special increase resolution (Resolution II) authorizes a maximum subscription for each member, which may be taken up by that member either in whole, or in part from time to time.

C. *Pre-emptive Rights*

11. The proposed capital stock resolution (Resolution I; fourth preambular paragraph) expresses the expectation, as in prior resolutions authorizing an increase in capital stock, that members will not wish to exercise their right under Article II, Section 3(c) of the Articles of Agreement to subscribe *pro rata* to an increase in the authorized capital stock of the Bank. The proposed resolution also provides (para. 2) that a member will be deemed to have waived this pre-emptive right unless it notifies the Bank to the contrary within 30 days after dispatch by the Secretary of the proposed resolution, provided, however, that if any member does give such notice within that 30-day period, all other members will be advised thereof in which case they will have an additional 30-day period to exercise their pre-emptive right. As is provided under the proposed special increase resolution (Resolution II; para. 1), a member would have the right either to exercise its pre-emptive right or to accept the special increase authorized for it, but not both.

D. *Valuation of Capital and Subscriptions*

12. It will be noted that in accordance with the provisions of Article II, Section 2(a) of the Bank's Articles of Agreement, both the proposed in-

crease in the authorized capital and the proposed special increases in subscriptions are expressed in terms of 1944 dollars.

13. The valuation of the Bank's capital and subscriptions in terms of 1944 dollars is based on the par value system established by the Articles of Agreement of the International Monetary Fund. Since the original Fund Articles of Agreement were drawn up, several developments significantly affecting that system have taken place, culminating in proposed amendments of the Fund Articles currently being considered by the Fund Board of Governors. These amendments, if approved, would, *inter alia,* result in the formal abandonment of par values and the par value system, subject to reinstitution under certain conditions and with a qualified majority.

14. In the light of the foregoing developments, it is appropriate to examine the effects of these amendments on the Bank's capital, the subscriptions of members and their rights and obligations with respect thereto. Such an examination, which will be put on the agenda of the Executive Directors for a future meeting, relates, however, equally to the existing capital and the proposed additions thereto. The Executive Directors are, therefore, of the opinion that the proposed increase in capital and increases in members' subscriptions need not await resolution of this question.

E. *Recommendation*

15. The Executive Directors recommend that the Board of Governors adopt the draft resolutions. . . .[1]

This report was approved and its recommendations were adopted on February 9, 1977 and May 13, 1977 respectively.

Argentina, Bolivia, Colombia, India, Mauritania, Pakistan, Senegal, Somalia and Uruguay

Increases in Subscriptions under Article II, Section 3(c) of the Articles of Agreement of the Bank

1. On May 4, 1976 the Executive Directors of the Bank approved the submission of two draft resolutions to the Board of Governors for adoption, the first authorizing an increase of $7 billion in the authorized capital stock of the Bank, raising it from $27 billion to $34 billion (the capital increase resolution), and the second authorizing special increases in subscriptions to the capital stock (the special increases resolution).[2] The capital increase resolution provides that in the absence of notice from any member on or before June 11, 1976 that it intends to exercise its right to subscribe its proportionate share of the proposed increase in authorized capital stock (hereinafter called pre-emptive right) such member will be

[1]*See pages 202 and 205.*

[2]*Reference throughout is to United States dollars of the weight and fineness in effect on July 1, 1944 (1944 dollars).*

deemed to have waived its pre-emptive right. That resolution also provides that if any such notice is received from any member all other members will be advised thereof and given an additional 30-day period to give notice that they intend to exercise their pre-emptive rights. The special increases resolution provides that a member that has exercised its pre-emptive right may not also subscribe to the special increase authorized for it.

2. Pursuant to the procedure described above, by the close of business on July 12, 1976 Argentina, Bolivia, Colombia, India, Mauritania, Pakistan, Senegal, Somalia and Uruguay had notified the Bank that they intend to exercise their pre-emptive rights.

3. Each member exercising its pre-emptive right is entitled to subscribe a proportion of the $7 billion increase of authorized capital equivalent to the proportion which its stock theretofore subscribed bears to the total authorized capital stock of the Bank (i.e., its share of $27 billion). The following table shows for each member concerned its present capital subscription, the proportion of its subscription to total authorized capital stock, its corresponding share of the proposed increase in capital stock and the resulting number of shares involved:

	Present Capital Subscription In 1944 $m	Proportion of Total Authorized Capital Stock (%)	Corresponding Share of Proposed Increase In 1944 $m	Resulting Number of Shares
Argentina	373.3	1.3826	96.8	968
Bolivia	21.0	.0778	5.4	54
Colombia	93.3	.3456	24.2	242
India	900.0	3.3333	233.3	2333
Mauritania	10.0	.0370	2.6	26
Pakistan	200.0	.7407	51.9	519
Senegal	33.3	.1233	8.6	86
Somalia	15.0	.0556	3.9	39
Uruguay	41.1	.1522	10.7	107

4. The Executive Directors have concluded that it would be reasonable that the terms and conditions under which each such subscription may be made should be the same as those set out in the special increases resolution.

5. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution. . . .[1]

This report was approved and its recommendation was adopted on January 3, 1977.

[1] *See page 200.*

Executive Directors' Administrative Arrangements

1. On April 16, 1974 the Executive Directors approved a report of the Chairman, Committee on Directors' Administrative Matters, recommending that minor modifications to existing benefits, which do not change the basic nature of such benefits, and which are made in accordance with the authority delegated to the Executive Directors under the By-Laws, should be notified annually to the Board of Governors.

2. Accordingly, the following modifications to existing benefits, which have been made during FY1977, are reported hereby, with effective date, where applicable, in parentheses:

(a) Revision of standard per diem allowance for official travel from $50 to $60 to take account of price increases (February 23, 1977);

(b) Change in the installation and termination allowances based on the change in the standard per diem allowance for official travel (February 23, 1977); and

(c) Change in the special per diem allowances for official travel from $60 to $70 for certain high cost cities to meet increasing costs (February 23, 1977).

This report was reviewed and noted without objection by the Board of Governors on September 30, 1977.

Allocation of Net Income

1. The Bank's net income available for allocation for the fiscal year ended June 30, 1977 is estimated at $209 million. A net translation adjustment due to exchange rate changes of -$10 million has been charged directly to the General Reserve. As of June 30, 1977 the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totalled $293 million and, without regard to the 1977 fiscal year's income, the General Reserve amounted to $1733 million. Total reserves including accumulated net income therefore amounted to $2235 million, of which the $293 million in the Special Reserve is kept in liquid form, the remainder being used in the business of the Bank.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to the net income for the fiscal year ended June 30, 1977.

3. The Executive Directors have considered what portion of that net income, if any, they should recommend that the Board of Governors transfer to the International Development Association and what portion thereof should be allocated to the General Reserve. The Executive Directors have concluded that that part of such net income which it is not necessary to retain in the Bank's business amounts to $100 million. They have further concluded that the interests of the Bank and its members would best be served by the transfer of that amount to the International Development Association by way of grant.

4. The Executive Directors consider that from this grant there should be available to the International Development Association (i) up to the equivalent of $8.7 million for grants by it during calendar year 1978 for agricultural research programs supported by the Consultative Group on International Agricultural Research and (ii) up to the equivalent of $1.5 million for grants by it during calendar year 1978 for the control of onchocerciasis in the Volta River basin. Such grants would in each case be subject to specific approval by the Executive Directors of the International Development Association. If less than the equivalent of $10.2 million is used for such grants, the unused amount will be available for lending by the International Development Association.

5. The Executive Directors have allocated the balance of such net income to the General Reserve.

6. As far as drawings on the transfer are concerned, the attached draft resolution provides that the transfer would be made at the time and in the manner to be decided by the Executive Directors.

7. Accordingly, the Executive Directors recommend that the Board of Governors approve the present Report and adopt the draft resolution....[1]

This report was approved and its recommendation was adopted on September 30, 1977.

REPORT OF THE BOARD OF DIRECTORS OF IFC

Rules of Procedure for Meetings of the Board of Directors

1. To take account of the creation of an additional Vice President of the Corporation, the Board of Directors, on February 16, 1977, amended Section 1(d) of the "Rules of Procedure for Meetings of the Board of Directors" to read as follows:

> "(d) 'Chairman' means the President of the Bank and of the Corporation acting as Chairman of the Board, or in his absence, the Executive Vice President of the Corporation or, in the absence of both, a Vice President of the Corporation."

2. In accordance with Section 14 of the By-Laws of the Corporation, said amendment is hereby presented to the Board of Governors for review.

This report was reviewed and noted without objection by the Board of Governors on September 30, 1977.

[1] *See page 206.*

REPORT OF THE EXECUTIVE DIRECTORS OF IDA

The Fifth Replenishment of IDA

Introduction

1. Starting with initial subscriptions made in 1960 and thereafter, together with four subsequent replenishments of its resources, IDA has been provided with a total of the equivalent of $11,761.6 million for lending to the poorest developing countries.[1] Since the resources remaining from the Fourth Replenishment were to be fully committed by June 30, 1977, invitations to governments to participate in the negotiations for the Fifth Replenishment of IDA were issued in September 1975 with the objective of reaching agreement in time to provide IDA with commitment authority starting July 1, 1977. The governments participating in the negotiations were the traditional donor Part I countries, several Part II countries and also, for the first time, two other governments that had experienced a major improvement in their financial position since the time when the Fourth Replenishment had been negotiated in 1973. On March 15, 1977 agreement among these governments (represented by their Deputies) was reached in Vienna on the proposals to be made to the Executive Directors. On March 18, 1977 the President presented this draft report on the replenishment to the Executive Directors, who have reviewed and approved it. The basis on which it is now proposed that members will work to obtain legislative approval of the additional resources is set forth below and in the draft Resolution. . . .[2]

The amount of the Fifth Replenishment

2. Developments in the world economy since the time when the Fourth Replenishment was negotiated have led to a major increase in the needs of the poorest countries for external assistance on concessionary terms even taking into account their best efforts to mobilize domestic resources for their development. At the same time, the purchasing power of external assistance including resources at the level negotiated for the Fourth Replenishment has been adversely affected by price increases affecting the goods and services purchased through official aid. In the light of these and other considerations, the member countries that provided resources for the Fourth Replenishment were agreed that they should provide a substantial increase in IDA resources compared with the level they had contributed to the Fourth Replenishment.

3. The traditional donors agreed that this objective would be met if they provided an amount for the Fifth Replenishment of the equivalent of US$7.2 billion. A number of countries are intending to contribute resources to IDA for the first time in the Fifth Replenishment. These

---

[1] *Table I attached gives a statement of IDA's resources as of December 31, 1976.*

[2] *See page 211.*

countries are Korea, Saudi Arabia, and the United Arab Emirates. Their contributions are intended to be additional to the contributions of the countries that participated in the Fourth Replenishment. In addition Kuwait, which intends to maintain its share among the Part I contributors as in the Fourth Replenishment, also intends to make an extra contribution.

4. Japan pointed out that it provided for the Fourth Replenishment of IDA a total of Yen 131,472 million ($495 million) equivalent to 11% of the total negotiated at Nairobi. The extra effort which the Japanese Government made in connection with the Fourth Replenishment has resulted in Japan's share in IDA being significantly higher than its share in the IBRD, IFC and IMF which in the view of Japan is one yardstick for measuring shares. In connection with the Fifth Replenishment, Japan intends to make an ordinary contribution equivalent to 9% of the total provided by the traditional contributors. In addition, Japan intends to make an extra contribution of 2% bringing its total contribution up to 11% among the traditional donors. In view of the Japanese authorities, shares within the Bretton Woods institutions should be harmonized and they expect that there will be progress towards such harmonization in due course. Other countries reiterated that they also agreed to an extra contribution in Nairobi and in this Replenishment without prejudice for further replenishments and that their ordinary contribution for the Fifth Replenishment should be lower. It was agreed that no attempt should be made to prejudge the results of any more detailed study of this matter.

5. Spain and Yugoslavia which contributed to the resources of the Fourth Replenishment as Part II members are intending to increase their contributions to the Fifth Replenishment in approximately the same proportion as the increase intended by the Part I contributors. As in the Forth Replenishment their contributions as well as those of Korea and Saudi Arabia are to be payable in usable form.[1]

6. The Swiss Confederation had expressed its intention to participate in the Fourth Replenishment of IDA by making a loan to IDA in the amount of 200 million Swiss francs. Under the Swiss Constitution this proposed participation, adopted by the Executive and Legislative branches, was subject to a referendum by the Swiss electorate which in June 1976 defeated the legislation involved. Switzerland has, therefore, not been able to participate in the negotiations for the Fifth Replenishment of IDA. Participants in the Fifth Replenishment have expressed their concern at this development. The future of the relationship between IDA and the Swiss Confederation is now under review.

7. The total contributions thus to be provided for the Fifth Replenishment will furnish IDA with a substantial increase in its resources in real

[1] *Resources are deemed to be in usable form if they are provided in freely convertible currency or in local currency for financing purchases in the donor country, provided there is a reasonable expectation that they will be fully used for procurement in that country during the Fifth Replenishment disbursement period.*

terms compared with the previous Replenishment. Therefore, those countries intending to participate in the Fifth Replenishment of IDA (listed in the table below and in Table II attached) believe that the amounts and conditions stated below form an appropriate basis for recommendation to legislatures and consequently they intend to request, where necessary, their legislatures to approve these arrangements with a view to obtaining approval to commit the amounts listed in the table below. It is understood that no commitment by a member government can be made until approval, where necessary, has been obtained from its legislature.

CONTRIBUTIONS TO THE FIFTH REPLENISHMENT OF IDA

Contributor	In National Currencies		US$ (equivalent)[a]
Australia	$A	133,764,342	146,900,000
Austria	S	844,278,750	49,700,000
Belgium	BF	4,582,009,250	124,600,000
Canada	Can$	470,787,690	447,900,000
Denmark	DKr	515,166,500	87,800,000
Finland	Fmk	156,169,000	41,000,000
France	F	2,063,400,250	413,300,000
Germany	DM	2,006,912,880	838,800,000
Iceland	IKr	421,190,000	2,200,000
Ireland	LIr	5,000,000	8,591,500
Italy	Lit	262,307,952,500	295,900,000
Japan-Ordinary Contribution	Y	182,833,200,000	648,000,000
Extra Contribution	Y	40,629,600,000	144,000,000
Korea[b]	W	484,000,000	1,000,000
Kuwait-Ordinary Contribution	KD	12,668,223	43,900,000
Extra Contribution	KD	39,274,377	136,100,000
Luxembourg	LuxF	132,385,500	3,600,000
Netherlands	f.	540,774,850	216,700,000
New Zealand	$NZ	8,000,000	7,646,400
Norway	NKr	423,714,200	80,600,000
Saudi Arabia[b]	SRls	882,500,000	250,000,000
South Africa	R	8,695,652	10,000,000
Spain[b]	Ptas	1,444,464,000	21,000,000
Sweden	SKr	1,239,101,500	293,800,000
United Arab Emirates[c]	Dh	200,000,000	50,754,980
United Kingdom	L	473,898,621	814,300,000
United States	$	2,400,000,000	2,400,000,000
Yugoslavia[b]	Din	148,994,640	8,100,000
Unallocated[d]			51,662,100
TOTAL			7,637,854,980

[a]At IMF representative exchange rates of March 14, 1977.
[b]Part II member.
[c]United Arab Emirates is not yet a member of IDA but has stated that it is considering whether to apply for membership; if it does apply, separate documents for that purpose will be circulated. If it decides not to become a member, a separate resolution will be circulated authorizing the acceptance of its contribution.
[d]Some countries would be prepared to make an additional contribution as part of a collective enterprise to allocate this amount. It is hoped that other countries will consider similar action.

8. In order to facilitate negotiations for future replenishments of IDA, the Deputies agreed that they will discuss before the start of the negotiations for the Sixth Replenishment the issue of burden sharing on the basis of a report to be provided by IDA. This report should examine the various conceivable approaches to burden sharing with respect to IDA replenishments and their feasibility.

9. In view of the resource requirements of the least developed and other poorest countries, member countries are invited, where they can, to make additional voluntary contributions. Such additional contributions would be accepted by the Association on terms to be agreed with the contributing members.

10. It is also probable that, as in the past, the Bank will be in a position to make grants to the Association during the Fifth Replenishment commitment period. It is the expectation of the Executive Directors that the resources expected to become available during that period, i.e., the proposed contributions of Part I and Part II member countries, any such grants, estimated repayments totalling about $70 million on previous credits, and the Association's net income, if any, would be committed over the three fiscal years beginning July 1, 1977 and ending June 30, 1980 in increasing annual amounts to allow for an orderly build-up of IDA projects.

Timing and Amounts of Payments

11. Following the system adopted in the first four replenishments, payment of the subscriptions and contributions, except as noted below, would be made in three equal annual installments commencing on November 8, 1977 unless that date is postponed. Under the Fourth Replenishment, in order to accommodate certain members who expected to have governmental procedural difficulties in meeting this three-year schedule, members were also given certain options to delay payment; i.e., (i) to postpone payment for one year, and (ii) to make payment in four, rather than three, installments. Members could exercise one or both options and in fact one member exercised both options. This dual option procedure had undesirable consequences because it resulted in an unforeseen stretch-out of and delays in payments and it is believed that these difficulties might be compounded if this option system were continued. Consequently, for the Fifth Replenishment it has been agreed to allow members to exercise one of such options, but not both. Thus, a member will be allowed either to postpone payment of any installment by up to 12 months or to pay in four installments rather than three, although it is hoped that members will in fact not avail themselves of either option. (See Section B, para.4(e) of the attached draft Resolution.) In addition, as under the Fourth Replenishment, a member may also make payments in ascending, rather than equal amounts, provided that they are made in three installments the first of which is not less than 25% of the total and is paid by November 8, 1977 or (if the Replenishment is not effective by

October 8, 1977) by thirty days after the effective date of the Replenishment.[1]

12. Under previous replenishments some countries have made resources available to the Association in currencies which can be invested pending disbursement. These cash payments are extremely welcome to the Association since they add flexibility to the management of its resources and enable it to derive some income from the investment of such funds prior to their being disbursed on credits. In recognition of the advantage to the Association of receiving these payments, the draft Resolution provides, as did the Third and Fourth Replenishment Resolutions, that any member which agrees to make payment of its subscription and contribution without substituting notes or similar obligations therefor, would be able to make such payment in amounts and on dates other than those specified in paragraph 11 above, provided that in the judgment of the Executive Directors the terms of such payments would be no less favorable to the Association than if notes or similar obligations had been deposited instead.

Maintenance of Value

13. Initial subscriptions of original members of the Association, and subscriptions and contributions to the first three replenishments, were expressed in U.S. dollars of the weight and fineness in effect on January 1, 1960. Article IV, Section 2 of the Articles of Agreement of the Association provides for the maintenance of value in terms of 1960 U.S. gold dollars of that amount of the 90% portion of the initial subscriptions of original Part I members paid in by the member in its own currency, so long as and to the extent that such currency has not been initially disbursed or exchanged for the currency of another country.

14. Under the first three replenishments, it was decided as a matter of policy to make the maintenance of value provisions of the Articles of Agreement of the Association applicable to the subscriptions and contributions made under these replenishments and provisions to that effect were included in the Resolution of the Board of Governors authorizing these replenishments. However, under the Fourth Replenishment it was agreed that the subscriptions and contributions to the Fourth Replenishment would not be subject to any maintenance of value obligation and that, instead, each Part I member would make its contribution in a stated amount of its own currency (provided it is "freely convertible" as defined in Article II, Section 2(f) of the Articles of Agreement) without any obligation to maintain the value of these payments if there were a subsequent change in the exchange value of the currency involved. The Fifth Replenishment follows the same system adopted in the Fourth Replenishment and thus members will make payment in their own currencies, without incurring any maintenance of value obligation.[2] (For

[1] *In this connection, see paragraph 29.*

[2] *For purposes of assessment of voting power (see para. 18(a) (below), the amount of each subscription and contribution would continue to be measured in terms of 1960 U.S. gold dollars at the rate of 1.206348 current U.S. dollars are equal to one 1960 U.S. gold dollar.*

convenience, this Report refers at various points to the amounts of the Fifth Replenishment expressed in U.S. dollars equivalent at the date on which the Deputies reached agreement; however, the obligations of countries are in their own currencies in the amounts shown in the table on page 240.)

15. It was recognized in the Executive Directors' Report on the Fourth Replenishment that the elimination of the maintenance of value obligation would raise a number of problems for operations of the Association relating, in particular, to the Association's commitment authority for the Fourth Replenishment commitment period and the possibility that the Association might overcommit its resources if it continued the practice of fully committing its resources in terms of dollars. In fact, some of the problems envisaged in the Executive Directors' Report did occur. Due to the depreciation of most contributors' currencies against the U.S. dollar during the period since September 27, 1973, the date when agreement was reached in Nairobi on the Fourth Replenishment, resources available for commitment declined.[1] Because of that decline, it was decided at the beginning of FY77 to adjust downwards the amount of credit commitments made by IDA during FY77, the final year of the IDA-4 commitment period, and to further adjust commitments in FY77, up or down, depending on exchange rate movements during the balance of its fiscal year. It was also decided, after considering the magnitude of the exchange risks involved during the remainder of the disbursement period on Fourth Replenishment credits and the ways in which IDA could meet a possible cash shortfall from members' contributions as a result of exchange losses, to continue the practice of making commitments in terms of dollars.

16. The Executive Directors are of the view that the practice which has been followed under the Fourth Replenishment in the respects mentioned in paragraph 15 above should also be followed under the Fifth Replenishment; namely, (a) to adjust commitments from time to time to take into account exchange rate gains or losses during the commitment period, and (b) to continue entering into commitments in terms of dollars. The Executive Directors, however, are of the view that this matter should be reviewed from time to time during the Fifth Replenishment period. It is also believed that, if necessary, Fifth Replenishment resources should be used to meet any shortfall arising under Fourth Replenishment commitments, if other resources are not available for that purpose and that provision to that effect should be expressly included in the Fifth Replenishment Resolution (see Section E, of the Resolution).[2]

---

[1] *As of December 31, 1976 the deecline in these contributions (including that of Italy) amounted to approximately $300 million.*

[2] *The General Counsel has expressed the opinion that as a legal matter the resources available under one replenishment, except for the Second Replenishment for which scpecial draw-down arrangements were made, are available, if necessary, to meet obligations arising under any other replenishment. Nevertheless, since the practice of IDA has been to keep the resources under each replenishment in separate pools, specific language has been included on this point.* *See page 215.*

Voting Rights

17. Under the Third Replenishment arrangements were made providing for a comprehensive adjustment of the voting rights of the members, particularly those of the Part I members. The same system was followed under the Fourth Replenishment. These arrangements were, in summary, as follows:

(a) The voting power of each Part I member was adjusted to reflect its relative share in total financial contributions to the Association; this was done by permitting each Part I member to make a subscription under the Third Replenishment, and then under the Fourth Replenishment, calculated so that the proportion of its total subscription votes to the total of all Part I subscriptions votes would be equal to its proportionate share of total Part I contributions from initial subscriptions, First, Second, Third and Fourth Replenishments and supplementary contributions.[1]

(b) It was agreed that the arrangements should be such as to make it easy for the Part II members to subscribe and thus to maintain their relative voting power. This was done by authorizing Part II subscriptions in the aggregate amount of about $10 million (in 1960 dollars) under the Third Replenishment and about $10 million (in 1973 dollars) under the Fourth Replenishment, payable entirely in local currency; this resulted in the cost of a vote being fixed at the equivalent of $80 (in 1960 dollars) under the Third Replenishment and $25 (in 1973 dollars) under the Fourth Replenishment. As far as the voting rights of the Part II members are concerned, as of December 31, 1976, 72 out of 95 Part II members have made additional subscriptions, giving the Part II members as a group 35.01% of total voting power, as compared with 37.63% in July 1970 when the Executive Directors' Report on the Third Replenishment was submitted to the Board of Governors, and 36.30% in October 1973 when the Executive Directors' Report on the Fourth Replenishment was submitted to the Board of Governors. If all Part II members took up the subscriptions authorized for them under the Third and Fourth Replenishments, their total voting power would become 38.83%; they have the right to do so under the Third and Fourth Replenishment Resolutions, without limitation as to time.

(c) In order to avoid dilution of the relative voting power of the smaller members of the Association, additional membership votes were also accorded with the making of additional subscriptions so that the total of each country's membership votes would be .25% of the total of potential subscription votes.

[1] *All Part I members have deposited formal notifications under the Fourth Replenishment except Italy. When Italy also does so, the relative voting power of each Part I member as among Part I members will be in exact proportion (except for membership votes) to its relative share in total Part I members' contributions through the Fourth Replenishment.*

18. It has been decided that, except in one respect noted below, essentially the same voting power arrangements which were made under the Third and Fourth Replenishments should be made in respect of the Fifth Replenishment subscriptions and contributions as follows:

(a) Part I members which make available additional resources under the Fifth Replenishment will be accorded additional votes calculated so that the relative voting power of each Part I member can continue to correspond (except for membership votes) to its relative share of total resources contributed by Part I members. In the Third and Fourth Replenishments, votes were conferred on the basis of the total commitments made by donors to make the contributions authorized for them. In this case, however, since donors will be permitted to make both unqualified and qualified commitments (see para. 27 below), votes would be conferred on the basis of unqualified commitments only. Thus, if a donor makes an unqualified commitment for one-third of its total contribution, it would get one-third of its total potential votes under the Replenishment; when that donor makes an unqualified commitment for the second and third installments of its contribution, it would therefore get, respectively, the second and final third of its total potential votes. It is also proposed to accord such additional votes under any Fifth Replenishment subscriptions and contributions on the basis of the value of the Fifth Replenishment subscriptions and contributions measured in terms of 1960 gold dollars.

(b) In order to make it easy for the Part II members to subscribe and thus to maintain their relative voting power, the cost of votes for Part II subscriptions would continue to be kept low. The subscriptions would cost the equivalent of about $4 million, all payable in the currency of the subscribing member; this results in the cost of a vote being fixed at $25.

(c) In order to avoid dilution of the relative voting power of the smaller members of the Association, it is proposed that additional membership votes should continue to be given in connection with the making of additional subscriptions so that the total of each country's membership votes would continue to be .25% of the total of potential subscription votes, including votes accorded under the Fifth Replenishment.

Agreement of Part I Members

19. The making of the arrangements described in paragraphs 18(a) and (b) above would require, under the provisions of Article III, Section 1(c) of the Articles of Agreement, the unanimous agreement of the Part I members. The Part I members have so agreed.

Voting Rights for Additional Resources Provided by Certain Part II Members in Usable Form

20. A special voting power problem arose under both the Third and Fourth Replenishments in connection with the making, by several Part II members, of additional resources available to the Association in "usable form". It was decided in both Replenishments that votes would be given

for such contributions (broken down into subscriptions carrying votes and contributions not carrying votes) in the same number as would have been given to a Part I member which had increased its contribution under the Replenishment concerned by the same amount. It has been decided to follow the same practice under the Fifth Replenishment. Accordingly, Korea, Saudi Arabia, Spain and Yugoslavia (Part II members making contributions to the Fifth Replenishment) will be accorded votes on the basis decided above. The other Part II members have waived their preemptive rights under Article III, Section 1(c) of the Articles of Agreement with respect to the subscriptions for such Part II contributors carrying votes on such a basis. The attached voting power table (Table IV) reflects the votes to be accorded to these members.

Voting Rights Review

21. The Deputies agreed that, before the start of the negotiations for the Sixth Replenishment, they will review the general question of voting rights in IDA, particularly those of the Part II countries, taking into account the conclusions of any study of the matter reached by the Executive Directors in the interim.

Other Additional Supplementary Resources

22. In accordance with the principles devised for the Third Replenishment and followed for the Fourth Replenishment, it is the view of the Executive Directors that any additional supplementary resources made available to the Association after the Fifth Replenishment should also carry votes so that the relative voting power of each member can continue to correspond, as closely as practical, to its relative share in contributions. A decision regarding the basis on which votes would be accorded, however, would be taken by the Association at the time when it takes action to accept such resources. (See paragraph 9).

General Consideration

23. The Executive Directors consider that arrangements under the Fifth Replenishment should be regarded as without prejudice to any arrangements in connection with subsequent replenishments.

IDA Lending Policies

24. In the course of the negotiations for the Fifth Replenishment of IDA, a memorandum on the current lending policies and practices of IDA was sent to the Deputies and the Executive Directors. A main theme in the International Development Strategy for the Second U.N. Development Decade has been the call for efforts "to bring about a more equitable distribution of income and wealth for promoting social justice and efficiency in production". The main features of IDA lending are the increasing concentration of credits on the poorest countries and the considerable progress being made at the same time in developing IDA projects which are designed to increase the productivity of the lowest income groups within countries. Also, a growing part of IDA lending is for increasing food production in food deficit countries as part of IDA's stress on projects and policies that will enable countries that receive IDA credits to become more self-sufficient.

Effective Date of the Fifth Replenishment[1]

25. All prior replenishments became effective when donor countries whose subscriptions and contributions aggregated about 80% of the total Replenishment deposited formal notifications that they would make the subscriptions and contributions authorized for them in the respective Replenishment Resolutions. These formal notifications constituted unqualified undertakings to make payment of subscriptions and contributions when due in accordance with the appropriate Resolution. On the basis of these commitments IDA in turn entered into lending commitments over the three-year replenishment period, even though the notes and letters of credit were to be paid over a three to five year period after the effectiveness of the Replenishment.

26. In this case, however, one donor country (the United States) has said that because of its internal legislative procedures it finds it inappropriate to deposit such a notification unless it has obtained an appropriation for the amount involved and that it will seek separate appropriations in three equal installments for each of the years of the replenishment period. In that connection, the United States Administration points out that this new situation should not affect the timely carrying out of the Replenishment in accordance with its terms because, while it cannot bind its Congress, it will request an appropriation for each of the three installments of its contribution which, according to the new budgetary procedures of the United States Congress, it expects would be acted upon by the Congress no later than September 30 in the year involved, starting with September 30, 1977, and this would permit a United States commitment no later than October 8 in the year concerned.

27. In view of this a procedure has been devised which would, on the one hand, permit the Fifth Replenishment to become effective without unqualified commitments for about 80% of the total Replenishment and, on the other, assure other donors that a delay in obtaining unqualified commitments would not affect the agreed burden sharing formula. Accordingly, the Deputies propose the following procedure:

(a) The Replenishment would become effective when Instruments of Commitment and Qualified Instruments of Commitment (as hereafter defined) are deposited for about 80% of the total Replenishment. An Instrument of Commitment is a formal notification to IDA that the donor country will pay, in accordance with the terms of the Fifth Replenishment Resolution, the full amount of its contribution (including the subscription element) for which no such Instrument has theretofore been deposited. A Qualified Instrument of Commitment is a formal notification to IDA that the donor country will pay the first installment of

[1] *Bridging Arrangement for FY78. Since it is expected that the Replenishment will not become effective by July 1, 1977, a number of countries have agreed to make advance contributions to IDA under an arrangement which would not be operative until, among other things, the Deputies agreed on the proposals for the Fifth Replenishment described in this Report. This Bridging Arrangement, and a Bridging Resolution therefor, have previously been approved by the Executive Directors on March 22, 1977.*

its contribution in accordance with the terms of the Fifth Replenishment Resolution but that payment of the second and/or third installments[1] is subject to appropriate legislative action. The 80% requirement means in practice that for the Fifth Replenishment to become effective the commitment instruments deposited must include a Qualified Instrument of Commitment from the United States. As noted above, the United States expects to be able to do this by October 8, 1977.

(b)(i) Unless Instruments of Commitment covering in the aggregate at least 80% of the second installment (the second one-third of the total Replenishment) are deposited, IDA shall not enter into new credits, disbursements for which would be drawn from the said second installment of donors' contributions.

(ii) Unless Instruments of Commitment covering in the aggregate at least 80% of the third installment (the final one-third of the total Replenishment) are deposited, IDA shall not enter into new credits, disbursements for which would be drawn from the said third installment of donors' contributions.

(iii) The foregoing provisions of sub-paragraph (b) (i) and (ii) however, shall not preclude IDA from entering into qualified credits, qualified in a manner whereby such credits would become effective and binding on IDA (and permit IDA to draw on such second and third installments, respectively), to finance disbursements thereunder when Instruments of Commitment covering at least the amounts specified above are deposited. The effect of this provision would be on the one hand to enable IDA to continue to process credits, but subject to the qualification described above, and on the other hand to protect the second and third installments of donors' contributions from being drawn upon until the necessary amounts of Instruments of Commitment are deposited.

(iv) If there is a delay in the deposit of Instruments of Commitment in the aggregate amounts specified above and as a result thereof IDA, because of the provisions of sub-paragraphs (b) (i) and (ii) above, is, or will shortly be, precluded from entering into new unqualified credits, IDA will thereupon request the Deputies to meet as soon as practicable thereafter in order to consider what steps might be taken to obtain the necessary Instruments of Commitment.

28. The Deputies are strongly of the view that the principle of a multi-year replenishment is essential to the operations of IDA. It provides an efficient basis for IDA to plan its administrative and lending operations; it gives IDA's borrowers, the poorest of the developing countries, reasonable assurances for their planning purposes that IDA will be in a position to continue to assist in financing their development needs; and it facilitates for contributing governments the planning of their own aid programs on a multi-year basis.

[1] *In effect, this means that for this purpose any government's total contribution is divided into three equal parts and that a government can deposit (i) an Instrument of Commitment for its total contribution or one-thirds thereof, or (ii) a Qualified Instrument of Commitment for either the second third or final third, or both, of its contributions, but in any case not for any other amount.*

29. It should be noted that the revised procedure regarding Qualified Commitments affects only the effective date of the Replenishment and the conditions, as described above, under which IDA would enter into credits under the Replenishment. This revised procedure does not affect the various options provided in the Resolution regarding the actual *payment* of contributions, as distinguished from the making of commitments to pay, under which options contributing governments may defer payments, may spread out payments over four, rather than three, installments or may make payments in certain ascending amounts. These various options regarding payment are not affected by this revised procedure and remain available to contributing governments.

Recommendation

30. The Executive Directors recommend that the Board of Governors adopt the draft Resolution. . . .[1]

This report was approved and its recommendation was adopted by the Board of Governors on June 16, 1977.

[1]*See page 211.*

TABLE I

CONTRIBUTIONS TO THE FIFTH REPLENISHMENT OF IDA

Contributor	In National Currencies		US$ (equivalent)[a]
Australia	$A	133,764,342	146,900,000
Austria	S	844,278,750	49,700,000
Belgium	BF	4,582,009,250	124,600,000
Canada	Can$	470,787,690	447,900,000
Denmark	DKr	515,166,500	87,800,000
Finland	Fmk	156,169,000	41,000,000
France	F	2,063,400,250	413,300,000
Germany	DM	2,006,912,880	838,800,000
Iceland	IKr	421,190,000	2,200,000
Ireland	LIr	5,000,000	8,591,500
Italy	Lit	262,307,952,500	295,900,000
Japan-Ordinary Contribution	Y	182,833,200,000	648,000,000
Extra Contribution	Y	40,629,600,000	144,000,000
Korea[b]	W	484,000,000	1,000,000
Kuwait-Ordinary Contribution	KD	12,668,223	43,900,000
Extra Contribution	KD	39,274,377	136,100,000
Luxembourg	LuxF	132,385,500	3,600,000
Netherlands	f.	540,774,850	216,700,000
New Zealand	$NZ	8,000,000	7,646,400
Norway	NKr	423,714,200	80,600,000
Saudi Arabia[b]	SRls	882,500,000	250,000,000
South Africa	R	8,695,652	10,000,000
Spain[b]	Ptas	1,444,464,000	21,000,000
Sweden	SKr	1,239,101,500	293,800,000
United Arab Emirates[c]	Dh	200,000,000	50,754,980
United Kingdom	L	473,898,621	814,300,000
United States	$	2,400,000,000	2,400,000,000
Yugoslavia[b]	Din	148,994,640	8,100,000
Unallocated[d]			51,662,100
TOTAL			7,637,854,980

[a]At IMF representative exchange rates of March 14, 1977.
[b]Part II member.
[c]United Arab Emirates is not yet a member of IDA but has stated that it is considering whether to apply for membership; if it does apply, separate documents for that purpose will be circulated. If it decides not to become a member, a separate resolution will be circulated authorizing the acceptance of its contribution.
[d]Some countries would be prepared to make an additional contribution as part of a collective enterprise to allocate this amount. It is hoped that other countries will consider similar action.

TABLE II

INTERNATIONAL DEVELOPMENT ASSOCIATION
SOURCE OF RESOURCES

(As of December 31, 1976)

Source	US$Million	
Initial Subscriptions	986.4[a]	
First Replenishment	898.4	
Second Replenishment		
Part I members' contributions	1433.1	
Swiss Loan	21.2	1454.3
Third Replenishment		
Part I members' contributions	2898.3	
Part II members' contributions	9.4[b]	
Swiss Loan	53.1	2960.8
Fourth Replenishment		
Part I members' contributions	4119.1[c]	
Part II members' contributions	16.5[d]	4135.6
Special supplementary contributions		
By Denmark, Norway, and Sweden	79.4	
Voluntary contribution from		
New Zealand	6.8	
Transfers from IBRD profits	1099.1	
Net income, participations and repayments	140.8	11761.6

[a]This amount includes (i) the subscriptions of Part I members ($910.2 million), (ii) the 10% portion of the subscriptions of Part II members payable in gold or convertible currency ($32.7 million), and (iii) that part of the 90% portion of the subscriptions of Part II members released on a convertible basis and releases on a non-convertible basis which have actually been used ($43.5 million).

[b]Includes $0.8 million of subscriptions and contributions made available in exercise of preemptive rights by certain Part II members.

[c]Includes a contribution of $117.0 million (at the December 31, 1976 exchange rate) by the Italian Government which has not yet deposited a formal notification.

[d]Includes $0.5 million of subscriptions and contributions made available in exercise of preemptive rights by certain Part II members.

IDA FIFTH REPLENISHMENT
ADJUSTMENT OF VOTES OF PART I MEMBERS

Member	Subscriptions, Contributions and Voting Power after giving effect to All Third and Fourth Replenishment Adjustments[a]						Additional Resources from Part I Members under the Fifth Replenishment		Part I Total Resources including Fifth Replenishment	
	Subscriptions		Contributions	Voting Power						
	Amount[b] (1)	% Part I (2)	carrying no Votes[b] (3)	No. of Votes (4)	% Part I (5)	% of Total (6)	Equivalent in Thousand Curr. Dollars[c] (7)	Equivalent in Thousand 1960 Dollars[d] (8)	Equivalent in Thousand 1960 Dollars[e] (9)	% Part I (10)
Australia	21,253	2 63	165,332	40550	2 29	1.40	146,900	121,772	308,358	2 08
Austria	5,399	.67	54,527	16842	95	.58	49,700	41,199	101,125	.68
Belgium	9,131	1.13	131,984	32052	1 81	1.11	124,600	103,287	244,401	1.65
Canada	41,111	5.09	490,965	105286	5.95	3.64	447,900	371,286	903,362	6.09
Denmark	9,474	1.17	106,129	27257	1.54	.94	87,800	72,782	188,385	1.27
Finland	4,072	.50	39,265	13701	.77	.47	41,000	33,987	77,324	.52
France	56,500	7.00	515,708	112817	6.37	3 90	413,300	342,604	914,812	6.17
Germany	58,470	7.24	844,584	174725	9 87	6 04	838,800	695,322	1,598,376	10.77
Iceland	109	.0[i]	1,560	5931	34	20	2,200	1,824	3,493	02
Ireland	3,179	.39	10,068	8080	.46	.28	8,592	7,122	20,369	14
Italy	20,357	2 52	323,213	69910	3 95	2 42	295,900	245,286	588,856	3 97
Japan	37,462	4.64	658,187	136039	7 69	4 70	792,000	656,527	1,352,176	9.11
Kuwait	3,620	45	41,682	14031	79	48	180,000	149,211	194,512	1.31
Luxembourg	402	.05	4,013	6427	.36	22	3,600	2,984	7,399	.05
Netherlands	29,116	3.61	222,007	52693	2.98	1.82	216,700	179,633	430,756	2.90
New Zealand	58	01	15,278	8410	48	.29	7,646	6,338	21,674	.15
Norway	7,258	.90	83,095	22463	1.27	.78	80,600	66,813	157,166	1.06
South Africa	10,155	1.26	17,386	10725	.61	.37	10,000	8,289	35,830	.24
Sweden	12,542	1.55	342,894	72225	4.08	2.50	293,800	243,545	598,981	4.04
United Kingdom	137,499	17.03	970,861	213176	12.04	7.37	814,300	675,013	1,783,372	12 02
United States	340,435	42 15	2,975,277	626654	35.40	21 66	2,400,000	1,989,476	5,305,188	35 76
Total Part I Members	807,602	100.00	8,014,014	1769994	100.00	61.17	7,255,338	6,014,299	14,835,915	100.00

[a] Subscriptions, contributions and voting power assuming all members give formal notification under the Third and Fourth Replenishments.

[b] Expressed in thousands of United States dollars of the weight and fineness in effect on January 1, 1960.

[c] Equivalent amounts payable (Table II) in thousands of United States dollars at IMF representative exchange rates of March 14, 1977. These resources will be divided into subscriptions carrying votes as shown in column (14) and contributions carrying no votes as shown in column (15)

[d] These amounts have been calculated for purposes of allocating voting rights (see footnote f) by reducing current dollar equivalents in the proportion 42.2222:35 (i.e., by dividing current dollar equivalents by 1.206348).

[e] Part I total resources are the sum of total subscriptions—column (1)—contributions carrying no votes—column (3)—and Fifth Replenishment resources—column (8). Under the Replenishment, subscriptions would be authorized as required to align Part I members' shares of subscription votes—column (17), with their shares of total resources—column (10).

[f] Difference between adjusted subscription votes—column (16)—which have been calculated as explained in footnote e above, and present subscription votes

[g] Membership votes are given in connection with the making of additional subscriptions so that they continue to represent 0.25% of total potential subscription votes

[h] Calculated at the rate of $25 equivalent per vote as in the case of the Fourth Replenishment.

[i] Less than .005%

Details may not add to totals because of rounding.

TABLE III

Additional Votes and Subscriptions to Reflect Additional Resources from Part I Members under the Fifth Replenishment					Adjusted Voting Power					
Additional Votes			Additional Subscriptions[h]	Part I Contributions carrying no Votes	Subscription Votes		Membership Votes	Total Votes		
Additional Subs. Votes[f]		Additional Membership Votes[g]								
No. of Votes	% Part I		Equivalent in Curr. Dollars	Equivalent in Curr. Dollars	No. of Votes	% Part I	No of Votes	No. of Votes	% of Part I	% of Total
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
9331	1.95	1700	233,275	146,666,725	44281	2.08	7300	51581	2.26	1.37
3280	.69	1700	82,000	49,618,000	14522	.68	7300	21822	.96	.58
8645	1.81	1700	216,125	124,383,875	35097	1.65	7300	42397	1.86	1.13
30039	6.28	1700	750,975	447,149,025	129725	6.09	7300	137025	6.00	3.64
5396	1.13	1700	134,900	87,665,100	27053	1.27	7300	34353	1.50	.91
3003	.63	1700	75,075	40,924,925	11104	.52	7300	18404	.81	.49
24152	5.05	1700	603,800	412,696,200	131369	6.17	7300	138669	6.07	3.68
60406	12.64	1700	1,510,150	837,289,850	229531	10.77	7300	236831	10.37	6.29
171	.04	1700	4,275	2,195,725	502	.02	7300	7802	.34	.21
445	.09	1700	11,125	8,580,375	2925	.14	7300	10225	.45	.27
20251	4.24	1700	506,275	295,393,725	84561	3.97	7300	91861	4.02	2.44
63737	13.33	1700	1,593,425	790,406,575	194176	9.11	7300	201476	8.82	5.35
19501	4.08	1700	487,525	179,512,475	27932	1.31	7300	35232	1.54	.94
236	.05	1700	5,900	3,594,100	1063	.05	7300	8363	.37	.22
14765	3.09	1700	369,125	216,330,875	61858	2.90	7300	69158	3.03	1.84
303	.06	1700	7,575	7,638,825	3113	.15	7300	10413	.46	.28
5706	1.19	1700	142,650	80,457,350	22569	1.06	7300	29869	1.31	.79
20	i/	1700	500	9,999,500	5145	.24	7300	12445	.54	.33
19390	4.06	1700	484,750	293,315,250	86015	4.04	7300	93315	4.09	2.48
48521	10.15	1700	1,213,025	813,086,975	256097	12.02	7300	263397	11.53	6.99
140785	29.45	1700	3,519,625	2,396,480,375	761839	35.76	7300	769139	33.68	20.42
478083	100.00	35700	11,952,075	7,243,385,825	2130477	100.00	153300	2283777	100.00	60.63

IDA FIFTH REPLENISHMENT
ADJUSTMENT OF VOTES OF PART II MEMBERS

Member	Subscriptions, Contributions and Voting Power after giving effect to All Third and Fourth Replenishment Adjustments[a]						Fifth Replenishment Contributions from Part II Members in Usable Form[c]	Additional Votes and Subscriptions to be accorded in Exercise of Preemptive Rights[d]			
	Subscriptions		Contributions carrying no Votes[b]	Voting Power				Additional Votes			Additional Subscriptions[g]
								Additional Subs. Votes[e]		Additional Membership Votes[f]	
	Amount[b]	% Part II		No. of Votes	% Part II	% of Total		No of Votes	% Part II		Equivalent in Curr. Dollars[h]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Afghanistan	1,080	0.37		7771	.69	27		613	.37	1700	15,325
Algeria	4,310	1.49		14335	1.28	50		·2,446	1.49	1700	61,150
Argentina	20,143	6.95	407	46526	4.14	1.61		11,429	6 95	1700	285,725
Bangladesh	5,755	1.98		17274	1.54	.60		3,265	1.98	1700	81,625
Benin	535	.18		6685	59	.23		303	.18	1700	7,575
Bolivia	1,133	.39		7887	70	.27		643	.39	1700	16,075
Botswana	171	.06		5950	.53	21		97	.06	1700	2,425
Brazil	20,143	6.95	407	46526	4.14	1 61		11,429	6.95	1700	285,725
Burma	2,161	.75		9996	89	35		1,226	.75	1700	30,650
Burundi	813	28		7246	.64	.25		461	.28	1700	11,525
Cambodia	1,091	.38		7826	.70	.27		619	38	1700	15,475
Cameroon	1,080	.37		7771	.69	27		613	37	1700	15,325
Central African Empire	535	.18		6685	.59	23		303	18	1700	7,575
Chad	535	.18		6685	59	23		303	.18	1700	7,575
Chile	3,776	1 30		13271	1 18	.46		2,142	1 30	1700	53,550
China	32,366	11.16		71247	6.34	2.46		18,364	11 16	1700	459,100
Colombia	3,776	1.30	118	13289	1 18	.46		2,143	1.30	1700	53,575
Congo, People's Rep of	535	.18		6685	59	.23		303	.18	1700	7,575
Costa Rica	214	.07		6023	.54	.21		121	.07	1700	3,025
Cyprus	813	.28		7246	.64	.25		461	28	1700	11,525
Dominican Republic	428	15	57	6483	.58	.22		243	.15	1700	6,075
Ecuador	696	24		7012	.62	.24		395	.24	1700	9,875
Egypt, Arab Republic of	5,433	1.87		16620	1.48	.57		3,083	1.87	1700	77,075
El Salvador	321	.11	20	6244	.56	.22		182	.11	1700	4,550
Equatorial Guinea	342	.12		6298	.56	.22		194	.12	1700	4,850
Ethiopia	535	.18	20	6687	.60	.23		304	.18	1700	7,600
Fiji	599	.21		6822	61	24		340	21	1700	8,500
Gabon	535	18		6685	59	.23		303	.18	1700	7,575
Gambia, The	286	10		6182	.55	.21		162	10	1700	4,050
Ghana	2,524	.87		10711	.95	.37		1,432	.87	1700	35,800
Greece	2,695	.93		11059	.98	38		1,529	93	1700	38,225
Grenada	96	.03		5782	51	20		55	03	1700	1,375
Guatemala	428	.15		6474	58	.22		243	15	1700	6,075
Guinea	1,080	.37		7771	.69	.27		613	.37	1700	15,325
Guyana	867	30		7361	.66	.25		492	.30	1700	12,300
Haiti	813	.28		7246	.64	25		461	.28	1700	11,525
Honduras	320	.11		6242	56	22		182	11	1700	4,550
India	43,160	14.89		93187	8 29	3.22		24,488	14.89	1700	612,200
Indonesia	11,873	4.10		29692	2 64	1 03		6,736	4.10	1700	168,400
Iran	4,856	1.68		15455	1.38	53		2,756	1 68	1700	68,900
Iraq	813	28		7246	.64	.25		461	28	1700	11,525
Israel	1,800	.62	774	9386	.84	.32		1,021	.62	1700	25,525
Ivory Coast	1,080	.37		7771	.69	.27		613	.37	1700	15,325

[a] Subscriptions, contributions and voting power assuming all members give formal notification under the Third and Fourth Replenishments.

[b] Expressed in thousands of United States dollars of the weight and fineness in effect on January 1, 1960.

[c] Equivalent in thousands of United States dollars at IMF representative exchange rates of March 14, 1977 These contributions will be divided into subscription carrying votes as shown in column (16), and contributions carrying no votes as shown in column (15) They will be payable in usable form in the amounts shown in Table II.

[d] Additional votes are to be given to Part II members to enable them to preserve their relative share as a group in total voting power. These votes are divided into subscription votes (see footnote e) and membership votes (see footnote f).

[e] Part II additional subscription votes are allocated on the basis of members' relative shares in subscriptions as shown in column (2).

[f] Membership votes are to be given in connection with the making of additional subscriptions so that they continue to represent 0.25% of total potential subscription votes.

[g] Calculated at the rate of $25 equivalent per vote as in the case of the Fourth Replenishment. These Part II additional subscriptions are payable in national currencies.

[h] Equivalent in United States dollars at IMF representative exchange rates of March 14, 1977

[i] The adjustment is based on the allocation of additional votes to Korea, Saudi Arabia, Spain, and Yugoslavia, in proportion to the additional resources they are providing under the Fifth Replenishment. The number of additional votes is based on the number of votes that a Part I member would receive if it increased its contribution, i e., one vote for each $8,400.60 equivalent current dollars provided in usable form. Subscriptions and contributions are calculated at the rates of $25 and $8,375.60 respectively, in usable form, for each vote accorded.

TABLE IV

Adjustment to reflect Part II Resources in Usable Form[i]				Total Additional Part II Subscriptions	Adjusted Voting Power					
Additional Resources in Usable Form	Adjustment	Additional Subscriptions	Contributions carrying no Votes		Subscription Votes					
Equivalent in Curr. Dollars[h]	of Votes	Equivalent in Curr. Dollars[h]	Equavalent in Curr. Dollars[h]	Equivalent in Curr. Dollars[h]	No. of Part II	% Votes	Membership Votes	Adjusted Part II	% of Total	% of Total
(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
				15,325	2784	.35	7300	10084	.68	.27
				61,150	11181	1.42	7300	18481	1.25	49
				285,725	52355	6 63	7300	59655	4.02	1.58
				81,625	14939	1.89	7300	22239	1.50	.59
				7,575	1388	.18	7300	8688	59	.23
				16,075	2930	.37	7300	10230	.69	.27
				2,425	447	.06	7300	7747	52	.21
				285,725	52355	6.63	7300	59655	4.02	1.58
				30,650	5622	.71	7300	12922	.87	.34
				11,525	2107	.27	7300	9407	.63	.25
				15,475	2845	36	7300	10145	.68	.27
				15,325	2784	35	7300	10084	.68	.27
				7,575	1388	.18	7300	8688	.59	.23
				7,575	1388	.18	7300	8688	.59	.23
				53,550	9813	1.24	7300	17113	1.15	45
				459,100	84011	10.64	7300	91311	6.16	2.42
				53,575	9832	1.25	7300	17132	1.16	.45
				7,575	1388	18	7300	8688	.59	.23
				3,025	544	.07	7300	7844	.53	.21
				11,525	2107	.27	7300	9407	.63	.25
				6,075	1126	14	7300	8426	.57	.22
				9,875	1807	23	7300	9107	.61	.24
				77,075	14103	1.79	7300	21403	1.44	.57
				4,550	826	.10	7300	8126	55	.22
				4,850	892	.11	7300	8192	.55	.22
				7,600	1391	.18	7300	8691	.59	.23
				8,500	1562	.20	7300	8862	60	24
				7,575	1388	18	7300	8688	.59	.23
				4,050	744	09	7300	8044	.54	.21
				35,800	6543	.83	7300	13843	.93	.37
				38,225	6988	.89	7300	14288	.96	38
				1,375	237	.03	7300	7537	.51	.20
				6,075	1117	14	7300	8417	.57	.22
				15,325	2784	.35	7300	10084	.68	.27
				12,300	2253	.29	7300	9553	.64	.25
				11,525	2107	27	7300	9407	.63	.25
				4,550	824	.10	7300	8124	.55	.22
				612,200	112075	14.20	7300	119375	8.05	3.17
				168,400	30828	3.90	7300	38128	2.57	1.01
				68,900	12611	1.60	7300	19911	1.34	.53
				11,525	2107	27	7300	9407	.63	.25
				25,525	4807	.61	7300	12107	.82	.32
				15,325	2784	.35	7300	10084	.68	.27

Continued

Member	Subscriptions after giving effect to All Third and Fourth Replenishment Adjustments[a]: Subscriptions Amount[b]	% Part II	Contributions carrying no Votes[b]	Voting Power: No of Votes	% Part II	% of Total	Fifth Replenishment Contributions from Part II Members in Usable Form[c]	Additional Votes and Subscriptions to be accorded in Exercise of Preemptive Rights[d]: Additional Subs Votes[e] No. of Votes	% Part II	Additional Membership Votes[f]	Additional Subscriptions[g] Equivalent in Curr Dollars[h]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Jordan	320	11		6242	56	22		182	11	1700	[illegible]
Kenya	1,797	62		9240	82	32		1020	62	1700	[illegible]
Korea	1,348	46		8350	74	29	1,000	765	46	1700	[illegible]
Lao, People's Dem Rep	535	18		6685	59	23		303	18	1700	[illegible]
Lebanon	481	17		6589	59	23		273	17	1700	[illegible]
Lesotho	171	06		5950	53	21		97	06	1700	[illegible]
Liberia	813	28		7246	64	25		461	28	1700	[illegible]
Libyan Arab Republic	1,080	37		7771	69	27		613	37	1700	[illegible]
Madagascar	1,080	37		7771	69	27		613	37	1700	[illegible]
Malawi	813	28		7246	64	25		461	28	1700	[illegible]
Malaysia	2,695	93		11059	98	38		1529	93	1700	[illegible]
Mali	930	32		7479	67	26		528	32	1700	[illegible]
Mauritania	535	18		6685	59	23		303	18	1700	[illegible]
Mauritius	921	32	29	7480	67	26		522	32	1700	[illegible]
Mexico	9,350	3 22		24594	2 19	85		5305	3 23	1700	[illegible]
Morocco	3,776	1 30		13271	1 18	46		2142	1 30	1700	[illegible]
Nepal	535	18		6685	59	23		303	18	1700	[illegible]
Nicaragua	320	11		6242	56	22		182	11	1700	[illegible]
Niger	535	18		6685	59	23		303	18	1700	[illegible]
Nigeria	3,594	1 24		12880	1 15	45		2039	1 24	1700	[illegible]
Oman	321	11	20	6244	56	22		182	11	1700	[illegible]
Pakistan	10,794	3 72	98	27531	2 45	95		6124	3 72	1700	[illegible]
Panama	22	01		5657	50	20		12	01	1700	[illegible]
Papua New Guinea	920	32		7476	67	26		522	32	1700	[illegible]
Paraguay	320	11		6242	56	22		182	11	1700	[illegible]
Peru	1,893	65		9457	84	33		1074	65	1700	[illegible]
Philippines	5,392	1 86	149	16583	1 48	57		3060	1 86	1700	[illegible]
Rwanda	813	28		7246	64	25		461	28	1700	[illegible]
Saudi Arabia	3,958	1 37		13635	1 21	47	250,000	2246	1 37	1700	[illegible]
Senegal	1,797	62		9240	82	32		1020	62	1700	[illegible]
Sierra Leone	813	28		7246	64	25		461	28	1700	[illegible]
Somalia	813	28		7246	64	25		461	28	1700	[illegible]
Spain	10,852	3 74	12790	29746	2 65	1 03	21,000	6157	3 74	1700	[illegible]
Sri Lanka	3,241	1 12		12166	1 08	42		1839	1 12	1700	[illegible]
Sudan	1,080	37		7771	69	27		613	37	1700	[illegible]
Swaziland	342	12		6299	56	22		194	12	1700	[illegible]
Syrian Arab Republic	1,016	.35		7651	68	26		576	35	1700	[illegible]
Tanzania	1,797	62		9240	82	32		1020	62	1700	[illegible]
Thailand	3,241	1 12		12166	1 08	42		1839	1 12	1700	[illegible]
Togo	813	28		7246	64	25		461	28	1700	[illegible]
Trinidad and Tobago	1,444	50		8531	76	29		819	50	1700	[illegible]
Tunisia	1,616	56		8889	79	31		917	56	1700	[illegible]
Turkey	6,205	2 14	155	18229	1 62	63		3521	2 14	1700	[illegible]
Uganda	1,797	62		9240	82	32		1020	62	1700	[illegible]
Upper Volta	535	18		6685	59	23		303	18	1700	[illegible]
Vietnam	1,616	56		8889	79	31		917	56	1700	[illegible]
Western Somoa	96	03		5782	51	20		55	03	1700	[illegible]
Yemen Arab Republic	460	16		6533	58	23		261	16	1700	[illegible]
Yemen PDR	1,263	44		8175	73	28		716	44	1700	[illegible]
Yugoslavia	4,370	1 51	7855	15575	1 39	54	8,100	2479	1 51	1700	[illegible]
Zaire	3,231	1 11		12164	1 08	42		1833	1.11	1700	[illegible]
Zambia	2,877	99		11451	1 02	40		1633	99	1700	[illegible]
	289,919	100 00	22900	1123721	100 00	38 83	280,100	164494	100 00	161500	4,112,350
				2893715		100 00		642577		197200	

Details may not add to totals due to rounding.

TABLE IV

Adjustment to reflect Part II Resources in Usable Form[1]: Additional Resources in Usable Form Equivalent in Curr. Dollars[h]	Adjustment of Votes	Additional Subscriptions Equivalent in Curr Dollars[h]	Contributions carrying no Votes Equivalent in Curr. Dollars[h]	Total Additional Part II Subscriptions Equivalent in Curr. Dollars[h]	Adjusted Voting Power: Subscription Votes: No of Votes	Subscription Votes: % Part II	Membership Votes	Adjusted Votes	% of Part II	% of Total
(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
				4,550	824	10	7300	8124	55	22
				25,500	4660	59	7300		.81	.32
980,875	117	2,925	977,950	22,050	3632	46	7300	10932	74	29
				7,575	1388	18	7300	8688	59	23
				6,825	1262	16	7300	8562	58	.23
				2,425	447	06	7300	7747	52	21
				11,525	2107	27	7300	9407	63	.25
				15,325	2784	35	7300	10084	68	27
				15,325	2784	35	7300	10084	68	27
				11,525	2107	27	7300	9407	63	25
				38,225	6988	89	7300	14288	96	38
				13,200	2407	30	7300	9707	65	26
				7,575	1388	18	7300	8688	59	23
				13,050	2402	30	7300	9702	65	26
				132,625	24299	3 08	7300	31599	2 13	84
				53,550	9813	1 24	7300	17113	1 15	45
				7,575	1388	18	7300	8688	59	23
				4,550	824	10	7300	8124	55	22
				7,575	1388	18	7300	8688	59	23
				50,975	9319	1 18	7300	16619	1 12	44
				4,550	826	10	7300	8126	55	22
				153,100	18055	3 55	7300	35355	2 38	94
				300	69	01	7300	7369	50	20
				13,050	2398	30	7300	9698	65	26
				4,550	324	10	7300	8124	55	22
				26,850	4931	62	7300	12231	82	32
				76,500	14043	1 78	7300	21343	1 44	57
				11,525	2107	27	7300	9407	63	25
249,943,850	29753	743,825	249,200,025	799,975	40034	5 07	7300	47334	3 19	1 26
				25,500	4660	59	7300	11960	81	32
				11,525	2107	27	7300	9407	63	25
				11,525	2107	27	7300	9407	63	25
20,846,075	2481	62,025	20,734,050	215,950	32784	4 15	7300	40084	2 70	1 06
				45,975	8405	1 06	7300	15705	1 06	42
				15,325	2784	35	7300	10084	68	27
				4,850	393	11	7300	8193	55	.22
				14,400	2627	33	7300	9927	67	26
				25,500	4660	59	7300	11960	81	32
				45,975	8405	1 06	7300	15705	1 06	42
				11,525	2107	27	7300	9407	63	25
				20,475	3750	47	7300	11050	75	29
				22,925	4206	53	7300	11506	78	31
				88,025	16150	2 05	7300	23450	1 58	62
				25,500	4660	59	7300	11960	81	32
				7,575	1388	18	7300	8688	.59	23
				22,925	4206	.53	7300	11506	78	31
				1,375	237	03	7300	7537	.51	20
				6,525	1194	15	7300	8494	57	23
				17,900	3291	42	7300	10591	.71	20
8,038,025	957	23,925	8,014,100	85,900	13411	1 70	7300	20711	1 40	55
				45,825	8397	1.06	7300	15697	1 06	42
				40,825	7484	95	7300	14784	1 00	39
279,808,825	33308	832,700	278,976,125	4,945,050	789523	100.00	693500	1483023	100.00	39 37
					2920000		846800	3766800		100 00

REPORT OF THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(July 1976—June 1977)

I. *Introduction*

1. This is the third annual report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee). It covers activities from July 1976 through June 1977.

2. During the year under review, the Development Committee continued its endeavor to promote better international understanding and consensus at a high political level as a means of facilitating decisions on the financial aspects of the broad questions of development and transfer of resources. Throughout the year close relationships were maintained with a number of international bodies concerned with development, many of which participated as observers in the Committee's meetings.

3. The Committee held three meetings during the year: two in Manila on October 3 and 6, 1976, at the time of the Annual Meetings of the Boards of Governors of the Bank and the Fund, and the third in Washington in April 1977.

4. The October 3 meeting in Manila was the occasion of a review of the Committee's past two years of work and of discussion of its future work program. The review of the Committee's work was based on a report called for by the Committee from the Executive Directors of the Fund and the Bank. The joint report of the two Boards reaffirmed the view that the Committee should be a useful forum for the discussion of issues relating to the transfer of real resources. It envisaged no change in the mandate of the Committee but suggested several operational improvements. Further, because the period of the Committee's operation had been brief and affected by special events, the Executive Directors in their report recommended that the Boards of Governors of the Fund and the Bank make a review at the end of four years from the effective date of their parallel Resolutions with which the Committee was established in October 1974. This report was agreed to by the Committee and the Boards of Governors.

5. The Committee also considered a report from its Working Group on Access to Capital Markets and adopted the Group's recommendations to governments on a number of measures to improve the access of developing countries to the capital markets of capital-exporting countries. Specifically, the Committee agreed that capital market countries would endeavor, as far as possible, to move toward liberalization of capital movements, and, in the meantime would afford favorable treatment to the bond issues of developing countries. A Working Group on Development

Finance and Policy was established to review a World Bank study on the proposed International Resources Bank, and to examine official development assistance on a continuing basis, including measures to improve its volume, quality and distribution. The Committee's strong support for the timely completion of the Fifth Replenishment of IDA was reaffirmed.

6. At its October 6 meeting, the Development Committee unanimously elected the Honorable Cesar E.A. Virata of the Philippines as its Chairman. Thanks and appreciation were expressed for His Excellency Henri Konan Bedie's work as Chairman of the Committee during its first two years. The Committee also appointed Sir Richard King, of the United Kingdom, to serve as Executive Secretary.

7. At the Washington meeting in April 1977, the Chairman, in his opening address, outlined his views on the future role of the Committee and sought members' response and suggestions in this regard.

8. There was general agreement that the Committee should concentrate on a limited number of particular topics of appropriate and urgent concern of Finance Ministers.

9. As regards the substance and content of the Committee's future work, there was endorsement of the work underway in the two Working Groups and in this connection attention was drawn to the need to increase flows of ODA; the lending programs, the resources position and the arrangements for replenishing the international financial institutions (IFIs); the importance of private flows; and the need for the mobilization of domestic resources and other appropriate domestic policies to ensure effective use of external assistance. Interest was also expressed in a presentation of the needs for and availability of development finance against the background of the trade situation confronting developing countries. It was thought that such a presentation could be of advantage as a background for the consideration of development flows.

10. It was generally recognized that significant areas of activity could emerge on the conclusion of the North/South discussions in Paris where the Committee should stand ready to play a useful follow-up role, *inter alia,* in the areas of international indebtedness, ODA flows, the development of natural resources in developing countries including particularly energy resources, and the stabilization of export earnings. In order to ensure better preparation of subjects for Committee discussion, it was proposed to hold a meeting of Deputies prior to the next Committee meeting.

11. In addition to the three main Committee meetings, the Working Group on Access to Capital Markets met three times during the year and the Development Finance and Policy Working Group met once.

II. *Committee Consideration During the Year of Major Questions Affecting Resource Transfer*

12. The subjects considered by the Committee in the past year fall into the following three broad areas: the situation and prospects of developing countries and their external resource requirements, official development assistance, and access to capital markets.

Situation and prospects of developing countries and their external resource requirements

13. A study prepared by the IMF in July 1976 was discussed by the Committee at its Manila meeting. The study showed that the non-oil developing countries had a current account deficit of \$37 billion in 1975.[1] This deficit was financed to the extent of \$19 billion by official capital flows, \$4 billion by direct investment, \$10 billion by borrowing from the market, especially from commercial banks, and the balance through borrowing by monetary authorities—mainly IMF credit—and the use of reserves. In 1976 and the first half of 1977, the deficit was expected to continue at a high level. The Committee noted that the low-income countries had had little or no growth in their per capita income since 1970 and that their levels of imports had fallen by some 20 per cent below those of the late 1960s. Official aid to them had been inadequate. Many developing countries, especially the middle-income countries, borrowed heavily to maintain the flow of imports and to avoid undue interruption of their development programs.

14. Against the background of the deficit projections noted above the Bank staff analyzed for the Committee in September 1976, the likely growth performance of the non-oil developing countries to 1985. Based on some assumptions about growth rates for the industrialized countries (around 5 per cent), about terms of trade and value of exports of non-oil developing countries, and about the availability of official capital from donors, it was thought that the growth rate for low-income countries would average about 4.2 per cent and for middle-income countries about 6.6 per cent per annum after 1978. This was expected to give rise to combined current account deficits on the part of non-oil developing countries of \$37.4 billion in 1980 and \$51.5 billion in 1985.[2]

15. It was recognized that most of the resources needed to meet the projected current account deficits of low-income countries must come from official sources and be on concessional terms. The middle-income countries should be able to obtain well over half of their required capital inflow from private sources and while most of them did not require large amounts of concessional assistance, they would be heavily dependent upon long-term financing from official sources in order to keep their overall debt burden manageable. There was also recognition that besides larger flows of external resources, there was need for a greater emphasis upon domestic policies attuned toward the necessary internal adjustment process.

[1]Figures in this paragraph relate to the study prepared in July 1976. More recent projections are available in the IMF Annual Report 1977.

[2]Figures in this paragraph relate to the study prepared in September 1976. More recent projections are available in Prospects for Developing Countries, 1978-85 (Bank Report No. 1674, dated July 1977).

Official development assistance

16. Two aspects of ODA were considered by the Committee: volume, and contributions to multilateral lending institutions. The Working Group on Development Finance and Policy considered a Secretariat paper on recent trends in the flow of offical development assistance, and the Group's views on the subject were reported to the Committee at the Washington meeting. The Secretariat paper presented three main conclusions: first, that the real volume of ODA had shown very little growth over the past decade and indeed expressed as a percentage of their GNP, DAC countries were contributing a good deal less than they had been ten years ago; secondly, again expressed as percentage of GNP, that the largest and richest donors were contributing less than the smaller, and in some cases, poorer donor countries; and thirdly, that the share of the low-income developing countries in ODA was disproportionately low in relation to their needs. Over the past ten years, ODA in nominal terms had gone up—from \$5.9 billion in 1965 to \$13.6 billion in 1975, but it had remained almost stagnant in real terms. As a ratio of GNP of the members of the DAC, ODA had declined almost steadily over the last decade and a half—from 0.53 per cent in 1961 to 0.30 per cent in 1973, registering some improvement thereafter to 0.36 per cent in 1975. The World Bank projected in 1976 on the basis of ODA commitments made and the known intentions of DAC donor countries, that net ODA disbursements as a ratio of GNP might be about 0.33 per cent in 1980. Net disbursements of ODA by OPEC donor countries in 1975 represented 1.35 per cent of their GNP.

17. In harmony with the conclusions of the initial report of the Development Finance and Policy Working Group, there was general agreement within the Committee on the urgency of achieving a substantial increase in the total volume of ODA. The role of multilateral flows was stressed, and several Members indicated that the Committee should be prepared to discuss increases in the capital of the World Bank and regional banks if the issues remain unresolved in the Boards of these institutions.

18. The Committee also urged that donor countries whose ODA as a proportion of their GNP was below the current average donor performance should recognize the urgent need to inform their legislatures and the general public of the situation, especially the needs of the poorest countries, with a view to mobilizing political support for expanding the volume of their ODA. It was generally agreed that the Committee should keep the volume of ODA continuously under review.

19. On the question of contributions to multilateral development institutions one problem was seen to be that of improving the procedures for replenishing the funds of these institutions so as to give them more timely and adequate resources. The Committee asked the Development Finance and Policy Working Group to examine the problem and the scope for improvement and report back to the Committee.

20. The Secretariat presented an updated version of an earlier paper on international development lending institutions. Clearly evident from the study was the importance of the capital replenishment needs of the World

Bank and IDA, which together represented 65 per cent of multilateral lending in 1976. The study suggested that, if World Bank lending were held to an annual level of $5.8 billion, multilateral lending as a whole would show only very modest increases in real terms in 1977 and 1978, and would then actually decline. Moreover even this modest result would depend on the success of the Fifth IDA Replenishment in mobilizing resources at least equal in purchasing power terms to the Fourth Replenishment. Accordingly, at Manila the Committee expressed its strong support for a timely and satisfactory completion of the Fifth Replenishment of IDA. At the April meeting satisfaction was expressed at the agreements reached concerning the Fifth IDA Replenishment. The Committee foresaw a need to give attention to increases in the capital of the World Bank and of the regional banks.

Access to capital markets

21. The subject of improving the access of developing countries to international capital markets remained one of the Committee's major interests during the year. The subject was very actively pursued in the Working Group on Access to Capital Markets, established by the Committee in August 1975. The primary areas of concern were (a) regulations and practices affecting access to capital markets, (b) multilateral guarantees, (c) co-financing, (d) technical assistance to developing countries seeking market access, (e) promotion of the bond issues of developing countries, (f) a possible International Investment Trust, and (g) improvement of information reporting systems on international stocks and flows.

a. *Regulations and practices affecting access to capital markets*

22. The Working Group submitted to the Committee a number of recommendations designed to remove or reduce various restrictions upon access to capital markets that affect developing countries, and, as a result, resolutions concerning the treatment of developing country borrowers were adopted by the Committee. It was agreed that capital market countries would endeavor, as far as the balance of payments situation permitted, to move progressively toward greater liberalization of capital movements, and, in particular, of capital outflows. The Committee also resolved that, in the meanwhile, when regulations governing capital outflows are maintained for unavoidable reasons:

— governments of capital market countries would afford favorable treatment, as among foreign borrowers, to developing country borrowers with regard to permission to make an issue or secure a place in the issue calendar.
— those capital market countries which currently maintain quantitative limits on the amount of foreign issues in their markets would endeavor to keep developing country borrowers outside these limits, at least up to specified amounts;
— since the Eurobond market presents potential opportunities for developing countries to raise finance, countries whose currencies are in

strong demand, and which maintain restrictions on international issues denominated in their currencies, would endeavor to give favorable treatment, as among foreign borrowers, to developing country borrowers.

23. The Committee noted a number of recommendations in the report that consideration be given to the removal of legal and administrative barriers. Specifically, the report recommended:

- that governments of capital market countries should generally agree, with due regard to the interests of the investors, to adopt a flexible attitude concerning rules and regulations which prescribe limits on the investments of institutional investors in foreign securities. They should agree to consider modifications of these rules as and when they seem to be proving a serious obstacle to developing country borrowing and to promote the necessary efforts in this regard;
- those countries which have complex statutory requirements for registration and listing of securities should attempt to administer their regulations in a flexible manner to the extent practicable in conformity with investor protection and other requirements of their laws.

Capital market countries were urged to give the recommendations their urgent consideration.

24. As a follow-up action on the agreement reached by the Development Committee at its meeting in Manila, the Executive Board of the IMF decided that IMF staff would, in the course of its regular consultations with the main capital exporting countries, inquire regarding the implementation of the Development Committee recommendations covering regulations and practices and that a brief report of the staff findings would be included in the staff report on consultation discussions.

b. *Multilateral guarantees*

25. The Working Group on Access to Capital Markets had under active consideration the possible use of multilateral guarantees for bonds issued by developing countries on the "threshold" of market access, enabling them to stand on their own credit in the future. At an April 1976 meeting of the Working Group, it was agreed to focus on the possible use of the guarantee authority that now exists with international financial institutions but which has not recently been used. After consideration of the Working Group's report on multilateral guarantees at the Committee's Washington meeting, there was a consensus that the World Bank and the regional development banks should be prepared to consider requests for guarantees of bond issues from interested developing countries. It was generally considered that such guarantees could appropriately be in the form of partial guarantees and the Working Group was asked to explore this possibility further in consultation with the relevant bodies. In the light of the Committee's discussions in Washington, the World Bank has indicated that it would be prepared to consider requests from member countries for guarantees on their bond issues.

c. *Co-financing*

26. At its October 3 meeting in Manila, the Committee stressed the importance of co-financing by international and regional development banks as a means of augmenting private capital flows to some developing countries and urged that co-financing arrangements be further expanded.

d. *Technical assistance*

27. The Working Group on Access to Capital Markets gave attention to the importance of technical assistance for developing countries seeking market access, and presented recommendations on the subject which were substantially adopted by the Committee. The Committee recognized the need to reinforce and expand technical assistance activities for developing countries seeking access to capital markets. It noted the bilateral programs already in the field and recognized the need to coordinate the implementation of present and future available services. Finally, it recommended that attention be given by the Board of IFC to the possibility of expanding the IFC's activities in this field.

e. *Promotion of bond issues*

28. At the April meeting satisfaction was expressed with the study by the Working Group on Access to Capital Markets on the promotion of bond issues. The consensus was that the Working Group should be asked to work out detailed arrangements, in consultation with the IFC, of a sustained, long-term program of promotion in the markets to facilitate the bond issues and placements of developing countries.

29. After consultations with international and regional organizations and with the private sector, the Working Group decided that the promotional program for the "education" of potential investors should run parallel with technical assistance activities for "threshold" developing countries seeking entrance or expanded access to capital markets. Promotion and technical assistance were considered to be complementary and integral parts of a single program. This close relationship encouraged the view that the IFC, which had already been asked to expand its technical assistance activities in this area, should take primary responsibility for the promotion program as well. This possibility has now been discussed with the management of the IFC. An outline of the proposed program has been agreed upon and the management have stated that the IFC would be prepared, if requested, to test the feasibility of this program by working with a few countries where there was a concrete need for assistance and a reasonable chance of success.

f. *International Investment Trust*

30. The Committee considered a suggestion for the establishment of an International Investment Trust to encourage additional foreign portfolio investments in the securities of developing countries. The consensus of the Committee was that further consultations on the idea were needed with both developed and developing countries. Together with the IFC, the Executive Secretariat has accordingly held consultations with certain interested governments on future steps that might be taken with regard to the proposal, and the matter will be considered further by the Committee.

g. *Information flows*

31. As a result of interest expressed at the Manila meeting in statistical reporting systems on international financial stocks and flows, the Working Group examined various aspects of this subject. It concluded that there had recently been substantial improvement of existing information systems, but that, despite the improvements in individual systems and the resultant benefits to the overall statistical framework, there nevertheless remained difficult problems of reconciliation between the systems of the IMF, the World Bank, and the BIS. While recognizing that the pace of further improvement would be governed mainly by technical factors, the Group felt that a momentum toward achieving technical improvements exists. It presented a number of recommendations to the Committee at its Washington meeting which were viewed with approval. These recommendations included reaffirmation of the importance the Committee attached to improved information flows. It asked all governments to give their fullest cooperation to the efforts of international bodies to improve the reporting systems for which they were responsible.

III. *The Task Ahead*

32. The period under review was one of considerable international activity in the field of North-South relations. It spanned a time from the fourth UNCTAD session to the conclusion of the Conference on International Economic Cooperation (CIEC) in Paris. In the aftermath of the world economic upheavals of 1974 and 1975 the period has been beset with serious problems of adjustment both for the industrial and for the developing countries. Some short-term solutions were devised by the international community to help meet the crisis and the focus is now shifting to longer term solutions such as increased flows of public and private resources and a new range of domestic policies. The problems are complex, and solutions are not easy. But as a result of the intensive international dialogue, there is now a clearer recognition both of the dimensions of the problem and of the urgent need to resolve them. This indeed was the main message of the CIEC. The Conference has now concluded and there are many subjects of importance on which follow-up action is envisaged in the Development Committee and other relevant international fora.

33. Those subjects which might be pursued in the Development Committee include various matters relating to the access of developing countries to capital markets, private foreign investment, export-earnings stabilization, energy resource development, continued consideration of some aspects of Official Development Assistance, and possibly indebtedness. The precise nature of the Committee's work program in these areas and the priority to be assigned to them will need to be decided.

34. The Development Committee remains a useful forum for constructive discussions at a high political level among the developed, oil-exporting and other developing countries. It has continued to exercise a comprehensive overview of international activities in the field of development and has provided support at the political level of government to negotiations being conducted in other international fora. It has con-

tributed to the broader understanding of the international economic situation and has made significant progress on some specific matters such as policy actions which should lead to improvements in access to capital markets. On the subject of Official Development Assistance, where the need to achieve a substantial increase in volume is widely recognized, the Committee has begun serious consideration of various aspects including volume, distribution, terms and quality.

35. In short, the Committee appears both ready and able to lend its political weight to a more productive and significant advance in international economic cooperation in many areas of mutual interest in this increasingly interdependent world.

This report was noted with approval by the Board of Governors on September 30, 1977.

ANNEX A

MEMBERS OF THE COMMITTEE

MEMBER	*COUNTRIES*
1. The Honorable Abdlatif Y. Al-Hamad Director General Kuwait Fund for Arab Economic Development Kuwait	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Socialist People's Libyan Arab Jamahiriya, Pakistan, Qatar, Saudi Arabia, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic
2. His Excellency Hans Apel Federal Minister of Finance Germany	Germany
3. The Honorable W. Michael Blumenthal Secretary of the Treasury United States	United States
4. His Excellen cy Hideo Boh Minister of Finance Japan	Japan
5. His Excellency Robert Boulin Minister Delegate to the Premier for Economy and Finance France	France
6. His Excellency Jorge Cauas Ambassador of Chile to the United States Chile	Argentina, Bolivia, Chile, Ecuador, Paraguay, Uruguay
7. His Excellency Willy De Clercq Minister of Finance Belgium	Austria, Belgium, Luxembourg, Turkey
8. His Excellency W.F. Duisenberg Minister of Finance The Netherlands	Cyprus, Israel, Netherlands, Romania, Yugoslavia
9. The Right Honourable Denis W. Healey, MBE, MP Chancellor of the Exchequer United Kingdom	United Kingdom
10. His Excellency Franklin E. Hope Minister of Finance Guyana	Brazil, Colombia, Dominican Republic, Guyana, Haiti, Panama, Peru, Trinidad and Tobago

11. The Honorable Bernal Jimenez President Central Bank of Costa Rica Costa Rica	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Venezuela
12. His Excellency Henri Konan Bédié Minister of Economy and Finance Ivory Coast	Benin, Cameroon, Central African Empire, Chad, Congo (People's Republic of), Equatorial Guinea, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta, Zaire
13. The Honorable Donald S. Macdonald Minister of Finance Canada	Bahamas, Barbados, Canada, Grenada
14. His Excellency Major General (Eng.) Rtd. Masr-Eldin Mustafa Minister of National Planning Sudan	Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia
15. Her Excellency Lise Ostergaard Minister without Portfolio Ministry of Foreign Affairs Denmark	Denmark, Finland, Iceland, Norway, Sweden
16. The Honorable H.M. Patel Minister of Finance India	Bangladesh, India, Sri Lanka
17. The Honorable Rachmat Saleh Governor Bank of Indonesia Indonesia	Burma, Fiji, Indonesia, Korea, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, Viet Nam
18. The Honorable Gaetano Stammati Minister of the Treasury Italy	Italy, Malta, Portugal, Spain
19. The Honorable Cesar E.A. Virata Secretary of Finance Philippines	Australia, New Zealand, Papua New Guinea, Philippines, Western Samoa
20. His Excellency Mustapha Zaanouni Minister of Planning Tunisia	Afghanistan, Algeria, Ghana, Greece, Iran, Morocco, Oman, Tunisia, Yemen (People's Democratic Republic of)

ANNEX B

Organizational and Administrative Aspects

Establishment: The Development Committee was formally established pursuant to Bank Governors' Resolution 294, October 2, 1974 and Fund Governors' Resolution 29-9, October 2, 1974. At the inaugural meeting of the Committee held October 2-3, 1974, Mr. Henri Konan Bedie, Minister of Economy and Finance of the Ivory Coast, was selected as Chairman, and Mr. Henry J. Costanzo, Executive Vice President of the Inter-American Development Bank, was appointed Executive Secretary. At the seventh meeting of the Committee, held October 6, 1976, Mr. Cesar E.A. Virata, Secretary of Finance of the Philippines, was selected as Chairman. Sir Richard King, Permanent Secretary of the Ministry of Overseas Development of the United Kingdom, was appointed Executive Secretary in place of Mr. Costanzo who had resigned in April 1976.

Secretariat: As provided in the basic Resolutions, a small Secretariat has been established to assist the Executive Secretary. As of June 30, 1977, it consisted of two Deputy Executive Secretaries, two Assistant Executive Secretaries, and one Deputy Assistant Executive Secretary.

Working Group on Access to Capital Markets: In order to help facilitate and expand the access of developing countries to capital markets, a Working Group on Access to Capital Markets was organized in August 1975. Until October 6, 1976, it operated as a twelve-member Group consisting of representatives of the constituencies headed by Canada, France, Germany, Japan, Korea, Kuwait, Netherlands, Philippines, Trinidad and Tobago, United Kingdom, United States, and Venezuela. From October 6, 1976, Guyana, Indonesia, and Sudan took the places of Trinidad and Tobago, Korea, and the Philippines as representatives of constituencies. At the April 1977 meeting of the Committee it was decided that representatives from all twenty of the Committee's constituencies should in future participate in the Working Group. The Working Group met three times during the year under review.

Working Group on Development Finance and Policy: At the October 3, 1976 meeting of the Committee a Working Group on Development Finance and Policy was established. All of the Committee's constituencies are represented in the Working Group. The Group was initially to consider the study requested of the World Bank on the proposed International Resources Bank. In addition, the Group could be assigned other specific matters, including the volume, terms and distribution of official development assistance. The Group met once during the year under review.

The Working Groups are required to present their conclusions and recommendations for the consideration of the Committee.

In both the Working Group on Development Finance and Policy and the Working Group on Access to Capital Markets, representatives of various international bodies concerned with the matters under consideration participate as observers.

Relations with other organizations: The organizations listed below were official observers to the Development Committee during 1976-77. In addition, the Government of Switzerland was represented by an observer.

African Development Bank

Arab Bank for Economic Development in Africa

Arab Fund for Economic and Social Development

Asian Development Bank

Commission of the European Communities

Development Assistance Committee

European Investment Bank

General Agreement on Tariffs and Trade

Inter-American Development Bank

Islamic Development Bank

Organisation for Economic Cooperation and Development

United Nations

United Nations Conference on Trade and Development

During the year, members of the Executive Secretariat participated as observers in meetings of the African, Asian and Inter-American Development Banks, as well as in the Development and Financial Affairs Commissions of the Conference on International Economic Cooperation.

ANNEX C

Text of Parallel IBRD and IMF Resolutions establishing the Development Committee[1]

WHEREAS the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System has recommended the establishment of a joint ministerial committee of the Boards of Governors of the International Monetary Fund (the Fund) and the International Bank for Reconstruction and Development (the Bank) to carry forward the study of the broad question of the transfer of real resources to developing countries and to recommend measures to be adopted in order to implement its conclusions;

WHEREAS it is desirable to consider the question of the transfer of real resources to developing countries in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment, and official development assistance;

---

[1]IBRD Governors' Resolution 294, October 2, 1974; IMF Governors' Resolution 29-9, October 2, 1974.

WHEREAS the said Committee has invited the Managing Director of the Fund to discuss with the President of the Bank the preparation of appropriate parallel draft resolutions on the establishment of such a joint ministerial committee for adoption by the respective Boards of Governors of the Fund and Bank;

WHEREAS pursuant to such discussions the President of the Bank and the Managing Director of the Fund have proposed to the Executive Directors of the Bank and Fund, respectively, and the Executive Directors of the Bank have approved the submission of this Draft Resolution to the Board of Governors of the Bank and the Executive Directors of the Fund have approved the submission of a parallel Draft Resolution to the Board of Governors of the Fund;

WHEREAS the Committee as envisaged would be helpful in providing a focal point in the structure of international economic cooperation for formation of a comprehensive overview of diverse international activities in the development area, for efficient and prompt consideration of development issues, and for coordination of international efforts to deal with problems of financing development; and

WHEREAS the Board of Governors of the Fund[Bank] is considering the said parallel resolution;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

1. Establishment and Composition of Joint Ministerial Committee

(a) There is established a Joint Ministerial Committee of the Boards of Governors of the Bank and Fund on the Transfer of Real Resources to Developing Countries (hereinafter called the Development Committee).

(b) The members of the Development Committee shall be governors of the Bank, governors of the Fund, ministers, or others of comparable rank.

(c) The members of the Development Committee shall be appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund. The members of the Bank shall appoint the members of the Committee for the first period of two years, which shall run from the date of the adoption of this Resolution until the date of the regular election of executive directors in 1976.

(d) Each member government of the Bank or the Fund, as the case may be, that appoints an executive director and each group of member governments of the Bank or of the Fund, as the case may be, that elects an executive director shall appoint one member of the Development Committee and up to seven associates, and, for any meeting when the member of the committee is not present, may appoint an alternate with full power to act for the member at such meeting.

(e) Each member and associate shall serve until a new appointment is made by the member government or member governments of the Bank or the Fund, as the case may be, that are entitled to make the appointment or until the next succeeding regular election of executive directors, whichever is earlier.

2. Chairman

The Development Committee shall select a Chairman from among its members, who shall serve for such period as the Committee determines. The Chairman of the Boards of Governors of the Bank and the Fund, or a governor designated by him shall convene the first meeting of the Committee and shall preside over it until the Chairman has been selected.

3. Meetings

(a) Members of the Development Committee, associates, and the executive directors of the Bank and the Fund, or in their absence their alternates, shall be entitled to participate in meetings of the Committee, unless the Committee decides to hold a session restricted to members, the President of the Bank, and the Managing Director of the Fund. Participation in respect of each item on the agenda of a meeting shall be limited to one person in respect of each member government or group of member governments that appoint a member of the Committee.

(b) The President of the Bank and the Managing Director of the Fund shall be entitled to participate in all meetings of the Development Committee, and each may designate a representative to participate in his place at any meeting when he is not present. Each may be accompanied normally by two members of his staff, at any unrestricted session of the Committee.

(c) The Development Committee shall invite the heads of other international financial or economic organizations, as well as other persons, to attend or participate in meetings of the Committee relating to their areas of responsibility.

4. Terms of Reference

(a) The Development Committee shall maintain an overview of the development process and shall advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad question of the transfer of real resources to developing countries, and shall make suggestions for consideration by those concerned regarding the implementation of its conclusions. The Committee shall review, on a continuing basis, the progress made in fulfillment of its suggestions.

(b) The Development Committee shall establish a detailed program of work, taking account of the topics listed in Annex 10 of the Outline of Reform. The Committee in carrying out its work shall bear in mind the need for coordination with other international bodies.

(c) The Development Committee shall give urgent attention to the problems of (i) the least developed countries and (ii) those developing countries most seriously affected by balance of payments difficulties in the current situation.

5. Procedures

(a) The Development Committee shall meet at the time of the annual meetings of the Boards of Governors of the Bank and the Fund and, in addition, as often as required. The Chairman may call meetings after consulting the members of the Committee and shall consult them on calling a meeting if so requested by any member of the Committee.

(b) A quorum for any meeting of the Development Committee shall be two-thirds of the members of the Committee.

(c) The Development Committee may establish sub-committees or working groups from time to time.

(d) The Committee shall appoint an Executive Secretary who shall be entitled to participate in all Committee meetings. The Executive Secretary, supported by a small staff as necessary, and drawing on the staffs of the Bank and the Fund to the maximum extent feasible, shall be responsible to the Committee for carrying out the work directed by the Committee.

(e) Appropriate arrangements shall be made for the coordination of the work of the Development Committee and the work of the Executive Directors of the Bank and the Fund.

(f) The President of the Bank and the Managing Director of the Fund shall arrange to carry out technical work requested by the Committee and provide administrative support for the Committee within the competence of their organizations.

(g) The Committee may request assistance from international organizations or other bodies or individuals in connection with the preparation of its work.

(h) In reporting any suggestions or views of the Development Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified.

(i) The Development Committee shall report not less than once a year to the Boards of Governors on the progress of its work and may publish such other reports as it deems desirable to carry out its purposes.

(j) The Development Committee may determine any aspect of its procedure that is not established by this Resolution.

6. Administrative Costs

The Bank and the Fund shall make such financial appropriations, in equal proportions, as are necessary for carrying out the work of the Development Committee.

7. Review

At the end of two years from the effective date of this Resolution, the Boards of Governors of the Fund and the Bank shall review the performance of the Committee, and shall take such action as they deem appropriate.

Agendas and Press Communiques of Meetings held during 1976-77

Meeting of October 3, 1976

A. *Agenda* (administrative items omitted)

1. Report of Executive Directors of Bank and Fund on Review of Performance of Development Committee
2. Future Work of the Committee in the Light of the Situation and Prospects of Developing Countries
3. Interim Report of Working Group on Access to Capital Markets

B. *Press Communique*

1. The Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Fund and the Bank on the Transfer of Real Resources to Developing Countries) held its sixth meeting in Manila on October 3, 1976, under the chairmanship of Mr. Henri Konan Bedie, Minister of Economy and Finance for the Ivory Coast. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund and Mr. M. M. Ahmad, Acting Executive Secretary took part in the meeting which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

2. The Committee approved for presentation to the Boards of Governors of the Fund and the World Bank its second annual report covering the period July 1975 to June 1976.

3. The Committee considered the program of its future work in the light of the situation and prospects of developing countries. The analyses presented to it by the staffs of the IMF and the World Bank showed that the current account deficit of non-oil developing countries had declined somewhat but was still expected to be running at a high annual rate of about US$32-33 billion in 1976 and the first half of 1977. These estimates did not suggest that a significant relief from current difficulties would be forthcoming in the early part of 1977. Many developing countries, especially the middle-income countries, borrowed heavily to maintain the flow of imports and to avoid undue interruption of their development programs leading to an increase in their external debt and debt service payments. The low-income countries have had little or no growth in per capita income since 1970 and their level of imports fell by some 20 per cent below those of the late 1960s. Official aid to them has been inadequate. To assist the developing countries in their adjustment process and to help them achieve a higher rate of growth, the low-income countries would require additional concessional assistance and the middle-income countries would need increased flows from both official and private sources. To be effective, these in turn would require a greater emphasis upon domestic policies attuned toward the necessary internal adjustment processes and toward employment creation.

4. The Committee reaffirmed its strong support for the timely and satisfactory completion of the Fifth Replenishment of IDA so as to permit a substantial increase in IDA resources which, in the opinion of many members, should be in real terms, and to maintain continuity of its operations beyond June 1977. The Committee also agreed that it was important that the lending programs of the international lending institutions remain adequate to help meet the capital requirements of the developing countries. They asked the Boards of these institutions to review the adequacy of their capital resources for this purpose and, where such capital is inadequate, to review the issues prerequisite to consideration of augmenting such capital.

5. The Committee, with due regard to the functions of the Boards of the IMF, the World Bank, and other international institutions, desired to focus attention on the resources situation of the international development finance institutions, on the volume, terms and distribution of official flows, and on the role of adjustment in the development process. The Committee agreed to establish a Working Group which would, initially, consider the study of the International Resources Bank requested of the World Bank. In addition, the group could be assigned other specific matters, including the volume, terms and distribution of official flows. The Working Group will present its conclusions and recommendations for the consideration of the Committee.

6. The Committee received a further interim report from the Working Group on Access to Capital Markets. It was agreed that capital market countries would endeavor, as far as their balance of payments situation permitted, to move progressively toward greater liberalization of capital movements, in particular capital outflows. In the meanwhile, when regulations governing capital outflows are maintained for unavoidable reasons.

- governments of capital market countries would afford favorable treatment, as among foreign borrowers, to developing country borrowers with regard to permissions to make an issue or place in the issue calendar;
- those capital market countries which currently maintain quantitative limits on the amount of foreign issues in their markets would endeavor to keep developing country borrowers outside these limits, at least up to specified amounts;
- since the Eurobond market presents potential opportunities for developing countries to raise finance, countries whose currencies are in strong demand, and which maintain restrictions on international issues denominated in their currencies, would endeavor to give favorable treatment, as among foreign borrowers, to developing country borrowers.

The Committee noted a number of recommendations in the report that consideration be given to the removal of legal and administrative barriers so far as is consistent with investors' protection and urged capital market countries to give them earnest consideration.

7. The Committee recognized the need to reinforce and expand technical assistance activities in the field of access to capital markets, noted the bilateral programs already in the field, recognized the need to coordinate the implementation of present and future available services, and recommended that attention be given by the Board of IFC to the possibility of IFC expanding its activities.

8. The Committee stressed the importance of co-financing by international and regional development banks as a means of augmenting private capital flows to some developing countries, noted the progress being made in this regard and urged that these arrangements be further expanded.

9. The Committee noted with satisfaction that the Working Group had considered the subject of multilateral guarantees and the proposal for an international investment trust and asked that it continue its studies on these subjects. The Committee also agreed that the Working Group should present to the Committee at its next meeting concrete recommendations for improving the various reporting systems on international financial stocks and flows.

10. The Committee agreed to meet again on October 6 in Manila and also tentatively to meet on April 17, 1977, in Washington, D.C., the time of the next meeting of the Interim Committee.

11. The Committee expressed its deep appreciation to the Government of the Republic of the Philippines for its warm hospitality and for the excellent facilities provided to the Committee for the conduct of its meetings.

Meeting of October 6, 1976

A. *Agenda* (administrative items omitted)
   1. Selection of Chairman
   2. Appointment of Executive Secretary

B. *Announcement*

At its seventh meeting in Manila on October 6, 1976, the Development Committee selected The Honorable Cesar E.A. Virata, Secretary of Finance of the Philippines, as Chairman and appointed Sir Richard King, K.C.B., M.C., of the United Kingdom, as Executive Secretary. Sir Richard is currently Permanent Secretary of the Ministry of Overseas Development.

Meeting of April 27, 2977

Agenda (administrative items omitted)

1. Role and future work of the Committee
2. Status Reports:
   a. IMF Developments
   b. IDA Replenishment
   c. IBRD Capital increases
3. Access to Capital Markets: Further Report of Working Group
4. Development Finance and Policy: Initial Report of Working Group

No Press Communique issued.

ACCREDITED MEMBERS OF DELEGATIONS AT 1977 ANNUAL MEETINGS

□ ° AFGHANISTAN

Governor .... Fazal Khaliqyer

Alternate Governor .... Sarwar Haidar

Advisor:
Abdul Wahed Karim

° ALGERIA

Governor .... Mohamed Seddik Benyahia

Alternate Governor .... Rachid Hassam

Advisors:
Abdelmadjid Amalou
Sid Ahmed Benguerrah
Mohamed Bessekhouad
Rachid Bouraoui
Slim T. Debagha
Habib Hakiki

□ ° ARGENTINA

Governor .... José A. Martínez de Hoz

Alternate Governor .... Carlos C. Helbling*

Advisors:
Alejandro Aliaga García
Horacio A. Alonso
Faustino Altamirano
Alejandro C. Antuna
Ricardo H. Arriazú
Alberto Ayerza
Hernan L. Ayerza
Marcos Balcarce
Mario Baratella
Mariano de Bary
Alberto Berisso
Carlos Brignone
Roberto J. Bullrich
Alberto J. Camps
Carlos A. Carballo
Jorge F. Christensen
Eduardo Conesa††
José María Dagnino Pastore
Federico Dumas
Carlos F. Etcheverrigaray
José Luis Fernández
Teodoro A. Fernández
Javier Gamboa
Alberto Guido Servente
Jorge R. Hayzus
Alberto P. Huergo
Juan Carlos Iarezza
Miguel Iribarne
Julio Augusto Macchi
Eduardo Marquez-Pelesson
Colonel Aldo G. Maspero
Juan Mon
Victor Mondino
Captain Hugo Montagnani
Narciso E. Ocampo
Raúl Ricardes
Raúl Pedro Salaberren
Commodore Rodolfo C. Santos
Francisco P. N. Soldati
Juan Carlos Sorondo
Arturo Valles Bosch
Alberto José White
Guillermo Zubaran
Guillermo Zoccali

□ ° AUSTRALIA

Governor .... Phillip R. Lynch

Alternate Governor .... J. C. Ingram

Advisors:
R. M. Beetham
J. H. Cosgrove
A. O. Hay
J. R. Hewson
R. A. Johnston†
R. J. Kirk
J.D.C.C. Moore
A. G. Morris
M. J. Phillips
E. L. Waterman
R. J. Whitelaw

□ IFC Member
° IDA Member
* Temporary
† Executive Director
†† Alternate Director

□ ° AUSTRIA

Governor .... Hannes Androsch
Alternate Governor .... Walter Neudoerfer

Advisors:
Manfred Buchacher
Herbert Sutter
Herbert Cordt

BAHAMAS

Governor .... Arthur D. Hanna
Alternate Governor .... Reginald L. Wood

Advisors:
Edgar Hall
David McGrath
Christopher Roberts
Livingston B. Johnson
Robert McGrath

BAHRAIN

Governor .... Ibrahim Abdul Karim
Alternate Governor .... Isa Abdulla Burshaid

□ ° BANGLADESH

Governor .... M. N. Huda
Alternate Governor .... A. M. A. Muhith*

Advisors:
Enam Ahmed Chaudhury
S. R. Karim
M. Syeduzzaman††
Abu Syed Choudhury
A. M. Nurul Islam

BARBADOS

Governor .... J.M.G.M. Adams
Alternate Governor .... Stephen E. Emtage

Advisors:
Oliver H. Jackman
DeLisle Worrell
C. A. T. Skeete

□ ° BELGIUM

Governor .... Gaston Geens
Alternate Governor .... Cecil de Strycker

Advisors:
Roger de Beckker
Bruno Guiot
Ludovicus Meulemans
Jan Vanormelingen
Jacques de Groote†
Georges Janson
Roger Vanden Branden
Jacques van Ypersele de Strihou

° BENIN

Governor .... Francois Dossou
Alternate Governor .... Abou Baba-Moussa

Advisor:
Jerôme Ahouanmenou

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° BOLIVIA

Governor .... Carlos Calvo
Alternate Governor .... Enrique Ackermann
Alternate Governor .... Claudio Calderon*

Advisors:

José Justiniano
Miguel Zalles

° BOTSWANA

Governor .... Q. K. J. Masire
Alternate Governor .... B. Gaolathe

Advisor:

B. Mookodi

□ ° BRAZIL

Governor .... Mário Henrique Simonsen
Alternate Governor .... Paulo H. Pereira Lira
Alternate Governor .... Karlos Rischbieter*
Alternate Governor .... Octavio Gouvea de Bulhões*
Alternate Governor .... Alexandre Kafka*

Advisors:

Alvaro Pinto de Aguiar, Jr.
Jofre Alves de Carvalho
Pedro Paulo Pinto Assumpçao
Theophilo de Azeredo Santos
José Mauricio Bicalho Dias
Leonidas Lopes Borio
Fernão Carlos Botelho Bracher
Antônio Calnon du Pin e Almeida
Gabriel Costa Carvalho
Dilson de Lima Ferreira
Miguel Lafer
Sergio Lins Andrade
Carlos Lyra Neto
Ermelino Matarazzo
Olavo Monteiro de Carvalho
Eduardo de Castro Neiva
Mailson Ferreira da Nobrega
Ary dos Santos Pinto
Fernando Quartim Barbosa
Joao Paulo Ricommard
Jose Maria Sampaio Correa
Eduardo da Silveira Gomes, Jr.
Peter Egon de Svastich
Ivo Tonin
Carlos Alberto Vieira
Clovis L. A. Albuquerque
Jorge Amorim Baptista da Silva
Eimar Avillez
Luiz Barbosa
Oscar Bloch
Fernando Arruda Botelho
Alcir Augustino Calliari
Elmo de Araujo Camões
Salomon Cohn
Constantino de Campos Fraga
Pedro Leitão da Cunha
Lincoln da Silva Lucena
Luiz Victor Nogueria Magalhães
Lazaro de Mello Brandão
Jose Carlos Morães Abreu
Zeuxis F. Neves
Floriano Pecanha dos Santos
Carlos Eduardo Quartim Barbosa
Casimiro Antonio Ribeiro
Jose Safra
Francisco Sanchez
Swiatoslaw Sirks
Horst Tiedemann
Paulo D'Arrigo Vellinho
Antônio Carlos Yazeji Cardoso

□ ° BURMA

Governor .... U Maung Shein

Advisors:

U Hla Maung
U Thein Swe
U Maung Maung Hla

□ IFC Member
° IDA Member
* Temporary
† Executive Director
†† Alternate Director

° BURUNDI

Governor .... Dominique Shiramanga

Advisors:

Pierre Caillat
Serge Kananiye
Bonus Kamwenubusa
Laurent Nzeyimana

□ ° CAMEROON

Governor .... Youssoufa Daouda

Alternate Governor .... Amadou Bello

Advisors:

Moise Ferdinand Beke Bihege
Godefroy Nguionza
Idriss Vessah Njoya
Benoit Bindzi
Augustin J. Njawe
Edouard Nomo-Ongolo

□ ° CANADA

Governor .... Jean Chretien

Alternate Governor .... Michel Dupuy

Alternate Governor .... R. K. Joyce*

Advisors:

Rolando Bahamonde
Pierre G. Cossais
B. J. Drabble
D. A. Hilton
R. Kaplan
G. Lalande
B. MacKenzie
F. R. Petrie
D. S. Wright
Jean-Marc Bisson
E. G. Drake†
Edward Goldenberg
A. Jubinville
M. G. Kelly
Miss Patricia Macgowan
D. S. McPhail
P. M. Towe

° CENTRAL AFRICAN EMPIRE

Governor .... André Dieudonné Magale

Alternate Governor .... Marc Babel Bedan

Advisor:

Hugues Dobozendi

° CHAD

Governor .... Ahmed Kerim Togoi

Alternate Governor .... Blayo Ngartando

Advisor:

Mahamat Ali Adoum

□ ° CHILE

Governor .... Sergio de Castro Spikula

Alternate Governor .... Sergio Undurraga

Alternate Governor .... Roberto Guerrero*

Advisors:

Miss Lucia Avetikian
Jorge Claro
Gonzalo Valdes
Camilo Carrasco
Sergio Marckman

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° CHINA

Governor .... Walter H. Fei

Alternate Governor .... Martin Wong*

Alternate Governor .... Paonan Cheng*

Advisors:

C. J. Chen
Pin Hsu
Richard K. Chi
H. W. Kung

□ ° COLOMBIA

Governor .... Abdón Espinosa Valderrama

Alternate Governor .... Leonel Torres*

Advisors:

Virgilio Barco
Anibal Fernandez de Soto
Alberto Mejía
Jorge Mejía-Salazar
Eduardo Nieto Calderon
Eduardo Wiesner
Juan-Maria Cock-Londono
Juan Manuel Medina
Jorge Mejía-Palacio
Manuel Mosquera
Fernando Rey
Carlos Zambrano

COMOROS

Governor .... Mikidache Abdou Rahim

Alternate Governor .... Ali Nassor

° CONGO, PEOPLE'S REPUBLIC OF THE

Alternate Governor .... Daniel Obela

Advisor:

Théodore Louhoungou

□ ° COSTA RICA

Governor .... Federico Vargas P.

Alternate Governor .... Juan Jose Arrea E.*

Advisors:

Federico Herrero S.
Rodolfo Silva
Roberto Picado H.
Rodrigo Sotela

□ ° CYPRUS

Governor .... A. C. Patsalides

Alternate Governor .... A. C. Afxentiou

Advisor:

N. Dimitriou

□ ° DENMARK

Governor .... Knud Heinesen

Alternate Governor .... Kaj Repsdorph

Alternate Governor .... C. U. Haxthausen*

Advisors:

Otto R. Borch
Finn Erskov
Henrik Hassenkam
Frede Hollensen
K. Willerslev-Olsen
Henning Dalgaard
Henrik Fugman
H. E. Hetting
Michael Sternberg

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° DOMINICAN REPUBLIC

Governor .... Fernando Periche
Alternate Governor .... Rafael Herrera*

Advisors:
Manuel Aristy
Ramón Martínez Aponte††
Alfonso Petit
César Gil García
Ramón Perez Minaya

□ ° ECUADOR

Governor .... Santiago Sevilla
Alternate Governor .... Alfonso Arcos

Advisors:
Pedro Aguayo
Bolivar Chiriboga
Mauricio Correa
Carlos Luzuriaga
Guillermo Penaherrera
Eduardo Cabezas
Polibio Cordova
Raúl Guerrero
Felix Orbe

□ ° EGYPT

Governor .... Abdel Moneim El Kaissouni
Alternate Governor .... Hamed El-Sayeh

Advisors:
Samir F. El-Kasry
Ahmed Shoukry El-Nahal
Yehia H. Hafez
Fouad Hussein
Samir Koraiem
Mashour Ahmed Mashour
Nasser Morsy
Ibrahim Oweiss
Abdel Moneim Zaki
Mostafa Shaker El-Khatib
Gamal El Nazer
B. E. D. Hamdi
A. H. A. Kabodan
Mahmoud Abdel Maogoud
Abdel Rahman Montasser
M. M. Omar
El-Motaz Sonbol

□ ° EL SALVADOR

Governor .... Roberto Chico Duarte
Alternate Governor .... Hugo Leonel Pineda*

Advisors:
Alberto Benítez Bonilla
José María Rosales Rivas
Rafael Rodríguez Loucel

° EQUATORIAL GUINEA

Governor .... Ondo Mañe Ondo Avang
Alternate Governor .... Ela Oyana Ela

□ ° ETHIOPIA

Governor .... Teferra Wolde-Semait
Alternate Governor .... Kebede Temesgen

Advisors:
Lemma Argaw
Kebede Shoandagn

° FIJI

Governor .... H. J. Tomkins
Alternate Governor .... J. Kubuabola*

Advisor:
J. Reddy

□ IFC Member
° IDA Member
* Temporary

† Executive Director
†† Alternate Director

□ ° FINLAND

Governor .... Esko Rekola

Alternate Governor .... Osmo Kalliala

Advisors:

Kaarlo Vilho Jannari
Veikko J. Kantola
Pekka Malinen
Kari Nars
Pertti Ripatti
Matti Vanhala

□ ° FRANCE

Governor .... Bernard Clappier

Alternate Governor .... Marcel Théron

Advisors:

Henri Baquiast
Michel Béguery
Dominique Berthet
Pierre-Henri Cassou††
Philippe Dulac
Didier Floquet
Gabriel Lefort
Jean-Christian Metz
Henri Pezant
Patrick Ponsolle
Jacques Henri Wahl†
Denis Samuel-Lajeunesse

□ ° GABON

Governor .... Michel Anchouey

Alternate Governor .... Jean-Felix Mamalepot

Advisors:

Frank R. Davis
Guy René Kombila
Hyacinthe Mihindou
Emmanuel Ondo Methogo

° THE GAMBIA

Governor .... A. M. Camara

Alternate Governor .... T. G. G. Senghore

Advisors:

M. C. Bajo
H. R. Monday, Jr.

□ ° GERMANY

Governor .... Hans Apel

Alternate Governor .... Manfred Lahnstein*

Alternate Governor .... Udo Kollatz*

Alternate Governor .... Horst Moltrecht*

Advisors:

Gunter Baer
Dieter Bucher
Thies Buenning
Wolf Dieter Donecker
Werner Flandorffer
Miss Lore Fuenfgelt
Lutz Halfmann
Heinrich Irmler
Hans-Dieter Hanfland††
Hans Janssen†
Alois Jelonek
Helmut Koinzer
Wilfried Koschorreck
Eberhard Kurth
Gerhard Laske
Gert Meissner
Stephen Modly
Reinhard Menzberg
Hans Dietrich Pallmann
Eckard Pieske
Wolfgang Rieke
Ruediger von Rosen
Hartmut Rudloff
Hans Michael Ruyter
Tilo Sarrazin
Dieter Seipp
Erich Stoffers
Johann Wertz
Guenter Winkelmann

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° GHANA

Governor .... A. K. Appiah

Alternate Governor .... K. Anane-Binfoh

Advisors:

J. S. Addo
M. K. A. Agyeman
T. E. Anin
S. K. Botchway
R. E. Odartei Laryea
S. Ogbarmey-Tetteh
Ernest Tetteh
Edward Afriye
M. T. Amoako-Atta
J. Kweku Bentil
G. K. Hagan
E. K. Mintah
Samuel E. Quarm
Bentum Williams

□ ° GREECE

Governor .... Aristides Kalantzakos

Alternate Governor .... Angelos Angelopoulos

Alternate Governor .... Costa P. Caranicas*

Advisor:

Michael Vranopoulos

□ ° GRENADA

Governor .... George F. Hosten

Alternate Governor .... Franklin Dolland

□ ° GUATEMALA

Governor .... Ramiro Ponce Monroy

Alternate Governor .... Jorge Lamport Rodil

Alternate Governor .... Vicente Secaira*

Alternate Governor .... Roberto Mazariegos G.*

Advisors:

Marco Antonio Aparicio
Federico Fahsen Ortega
Federico Linares M.
Julio Noriega H.
Augusto Contreras Godoy
Armando Gonzalez Campo
Hector Menendez de la Riva
Cesar Orantes

□ ° GUINEA

Governor .... Mohamed Lamine Toure

Alternate Governor .... Mory Keita*

Advisors:

Ibrahima Camara
Mamadi Toure
Mamadi Camara

□ ° GUINEA-BISSAU

Governor .... Victor Freire Monteiro

Alternate Governor .... José Gonçalves Caronnes*

□ ° GUYANA

Governor .... Franklin E. Hope

Alternate Governor .... Harold E. Wilkinson

Advisors:

Edward M. Agostini††
Clarence F. Ellis

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° HAITI

Governor .... Emannuel Bros

Alternate Governor .... Léon Mirambeau*

□ ° HONDURAS

Governor .... Porfirio Zavala S.

Alternate Governor .... Arturo Corleto Moreira*

Advisors:

Jorge Arturo Bueso Arias
Mario H. Castañeda
René Cruz Ucles
Manuel A. Fontecha
Larry Hershfield
Gabriel A. Mejía
Roberto Ramírez
Armando San Martín C.
Léonardo Casco
Luis Cosenza Jiménez
Ramón Euceda C.
Alberto Galeano Madrid
Juan C. Marinakys
Angel Ramón Ordoñez V.
Mario Rietti

□ ° ICELAND

Governor .... Matthias A. Mathiesen

Alternate Governor .... Thorhallur Asgeirsson*

Advisors:

Valgeir Arsaelsson††
Sigurgeir Jónsson

□ ° INDIA

Governor .... H. M. Patel

Alternate Governor .... Manmohan Singh

Alternate Governor .... S. R. Sen*†

Alternate Governor .... S. N. Saigal*

Advisors:

J. S. Baijal
Arvind Pande
J. Shivakumar
G. Venkataramanan
K. L. Deshpande
R. P. Sehgal
S. P. Upasani

□ ° INDONESIA

Governor .... Rachmat Saleh

Alternate Governor .... Julianto Moeliodihardjo

Alternate Governor .... Roesmin Nurjadin*

Advisors:

Sofjan Djajawinata
A. Effendie
Faisal Harahap
Byanti Kharmawan
W. T. Pandjaitan
B. Soegiharto
Leon H. Is Sumantri
M. Arief Djanin
Miss Nani Gandabrata
R. A. Kartadjoemena
Djamalius Luddin
Soesilo Sardadi
Partha Sukawati

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° IRAN

Governor .... Hushang Ansary

Alternate Governor .... Jahangir Amuzegar

Advisors:

Miss Afsar Afsari-Fard
Housin Kamali
Ahmad Karimi
Ahmed Kooros
Ali Manavi-Rad
Reza Mashhoon
Mohammad Shadman
Hadi Shams
Saif Alah Taheri

□ ° IRAQ

Governor .... Fawzi El-Kaissi

Alternate Governor .... Hashim A. Al-Ani*

Advisors:

A. Majid Al-Ami
Tarik Al-Haimus

□ ° IRELAND

Governor .... George Colley

Alternate Governor .... Tomas F. O'Cofaigh

Advisors:

Maurice Horgan
Donal Lynch

□ ° ISRAEL

Governor .... Arnon Gafny

Alternate Governor .... Amiram Sivan

Advisors:

Valery D. Amiel
Ephraim Davrath
Dan Drach
Dan Halperin
Moshe Meirav
Eitan Raff

□ ° ITALY

Governor .... Paolo Baffi

Alternate Governor .... Silvano Palumbo*

Advisors:

Pietro Battaglia
Luigi Bisignani
Lamberto Dini
Antonio Fazio
Ms. Fernanda Forcignano
Sergio Gambale
Lucio Izzo
Giovanni Magnifico
Luigi Marini
Giuseppe Pasqua
Giorgio Rota†
Fabrizio Saccomanni
Emilio Sacerdoti
Ms. Maria Teresa Salvemini
Marcello Serafini
Augusto Zodda

□ ° IVORY COAST

Governor .... Abdoulaye Koné

Alternate Governor .... Léon Naka

Advisors:

Timothée N'Guetta Ahoua
Florent Amany Gnissan
Auguste Daubrey
Oumar Diarra
Alphonse Diby
Kablan-Daniel Duncan
André Hovine
Camille Konan
Souleymane Koné
Kouamé N'Dri Kpatchibo
Casimir Kra Kouadio
Jean-Claude Rouher

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ JAMAICA

Governor .... David H. Coore
Alternate Governor .... Richard Fletcher
Alternate Governor .... Gladstone Bonnick*
Alternate Governor .... Noel Chin*

Advisors:

H. P. Bartlett
D. R. Clarke
Trevor DaCosta
A. C. Elliott
Errol Hewitt
Mrs. Daphne Innerarity
Alfred A. Rattray

□ ° JAPAN

Governor .... Hideo Boh
Alternate Governor .... Teiichiro Morinaga
Alternate Governor .... Michiya Matsukawa*
Alternate Governor .... Hirosuke Dan*
Alternate Governor .... Genso Fujimoto*
Alternate Governor .... Masanao Matsunaga*
Alternate Governor .... Susumu Murayama*†

Advisors:

Yoshihito Amano
Tarao Aoki
Tadao Chino
Nobuyoshi Doi
Hirotake Fujino
Hiroshi Fukada
Teruo Hirao
Sadao Inose
Fumiya Iwasaki††
Koichi Kakimizu
Shigeo Kashiwagi
Takehiko Kondo
Haruhiko Kuroda
Rei Masunaga
Fujio Matsumuro
Toshio Nagaoka
Tadahiko Nakagawa
Kazuo Nakata
Mrs. Kyoko Nakayama
Nariaki Nakayama
Shijuro Ogata
Yoshinori Ohno
Mamoru Ozaki
Hiromoto Seki
Kumiharu Shigehara
Reiichi Shimamoto
Noriyuki Toyama

□ ° JORDAN

Governor .... Hanna Odeh
Alternate Governor .... Hashim A. Dabbas

Advisors:

Miss Fadwa Kala'ji
Farouk Kasrawi
Walid Khairrallah
Zuhair Khouri

□ ° KENYA

Governor .... Mwai Kibaki
Alternate Governor .... L. O. Kibinge

Advisors:

J. M. Gachui
A. Githinji
J. M. Keriri
Frank O. Maina
J. S. Mathenge
J. P. Mbogua
J. N. Michuki
H. Mule
E. M. Mungai
F. M. Nyaga
Francis M. Thuo
J. K. Waiguru
W. N. Wamalwa
A. Vienna

□ IFC Member
° IDA Member
* Temporary
† Executive Director
†† Alternate Director

□ ° KOREA

Governor .... Yong Hwan Kim
Alternate Governor .... Sung Whan Kim
Alternate Governor .... Byong Hyun Shin*
Alternate Governor .... In Yong Chung*

Advisors:
Young Min Bang
Chong Hack Chung
Hyun Gon Kim
Woun Gie Kim
Hun Jai Lee
Jong Kun Park
Hyung Sup Shim
Byung Kug Choo
Yung Moh Chung
Joon Sung Kim
Chong Min Lee
Yong Sung Lee
Hoon Shim
Hwa June Tchah

□ ° KUWAIT

Governor .... Abdul Rahman Salim Al-Ateeqy
Alternate Governor .... Abdlatif Y. Al-Hamad

Advisors:
Laith Al-Ateeqy
B. Al-Marzok
Bader Al-Rushaid
Nabil Khalid Jaffar
Qais Al-Ateeqy
Mohammad Ali Al-Qadhi
Fahad Mohammad Al-Sabah

° LAO PEOPLE'S DEMOCRATIC REPUBLIC

Governor .... Bounhong Luangkhot
Alternate Governor .... Somphong Mongkholvilay

Advisor:
Somphong Vanisaveth

□ ° LEBANON

Governor .... Khattar Chibli
Alternate Governor .... Sabbah Al Haj

□ ° LESOTHO

Governor .... K. T. J. Rakhetla
Alternate Governor .... A. M. Monyake

Advisors:
J. B. Maieane
T. Makeka

□ ° LIBERIA

Governor .... James T. Phillips, Jr.
Alternate Governor .... Emmanuel O. Gardiner*

Advisors:
Miss Miata Beysolow
Elie E. Saleeby
Ms. Ellen Johnson-Sirleaf
Ms. Louise Summerville

□ ° LIBYA

Governor .... Mohammad Z. Rajab
Alternate Governor .... Abdulla A. Saudi

Advisors:
Suleman Ahtash
Omar Mehenni
Ayad S. Dahaim
Mohammad A. Mograbi

□ IFC Member
° IDA Member
* Temporary
† Executive Director
†† Alternate Director

□ ° LUXEMBOURG

Governor .... Jacques F. Poos
Alternate Governor .... Raymond Kirsch

□ ° MADAGASCAR

Governor .... Rakotovao-Razakaboana
Alternate Governor .... Rajaona Andriamananjara

Advisors:
Jean-Marie Henri
Bernardin Rajonhanes
Guy Rakotomaniraka
Richard Randriamaholy
Jacques Rajaofera
Norbert Rakotomalala
Alfred Rakotonjanahary
Miss Renée Razafintsalama

□ ° MALAWI

Governor .... D. T. Matenje
Alternate Governor .... A. A. Upindi

Advisors:
G. Kalinga
F. Z. Pelekamoyo
H. M. Mapondo

□ ° MALAYSIA

Governor .... Tengku Razaleigh Hamzah
Alternate Governor .... Richard Ho Ung Hun
Alternate Governor .... Duleep Singh•
Alternate Governor .... Ramon Navaratnam•

Advisors:
Alias bin Ahmad
Kamarul Arifin
Anaitullah Karim
Shukri Ibrahim
Fong Weng Phak
Tan Sri Nik Ahmed Kamil
Mohamed Salleh
Zakaria Ismail

° MALI

Governor .... Sekou Sangare
Alternate Governor .... Tiecoura Kone

Advisors:
Albert Clary
Seydou Sylla
Ibrahima Sima

□ ° MAURITANIA

Governor .... Sidi Ould Cheikh Abdellahi
Alternate Governor .... Moustapha Ould Abeidarrahmane

Advisors:
Mohamed Nassim Kochman
Bocar Wane

□ ° MAURITIUS

Governor .... Rabindrah Ghurburrun
Alternate Governor .... Bramduth Ghoorah

Advisors:
Guy Balancy
Miss Gilberte Francois
S. S. Tarapore
France Empeigne
Dipnarain Manna
Dennis H. Thompson

□ IFC Member
° IDA Member
• Temporary
† Executive Director
†† Alternate Director

□ ° MEXICO

Governor .... Julio Rodolfo Moctezuma
Alternate Governor .... David Ibarra
Alternate Governor .... Gilberto Escobedo*
Alternate Governor .... Bernardo Sepulveda*

Advisors:

Guillermo Flores
José Luis Flores
Pedro Galicia
Alfonso García-Macias
Luis García R.
Rafael Izquierdo
Carlos Leroux
Roberto Martínez Vara
Luis Orci
Enrique Olivares-Santana
Arturo Ortíz
Jesús Rodríguez y Rodríguez
Francisco Suárez
Fernando Torres
Jorge Villalobos

□ ° MOROCCO

Governor .... Abdelkader Benslimane
Alternate Governor .... Mustapha Faris

Advisors:

Mohamed Aissaoui
Lhassan Belkoura
Ali Bengelloun
Hadj Abdelmajid Benjelloun
Mohamed Benjelloun
Abdellatif Bennani
Abdelkader Bensalah
Abdelkrim Kadiri
M'Hamed Tazi
Ahmed El Harti Wardi

□ ° NEPAL

Governor .... Bhekh B. Thapa
Alternate Governor .... Nara Kant Adhikary
Alternate Governor .... Bharat B. Pradhan*††

Advisor:

P. L. Shrestha

□ ° NETHERLANDS

Governor .... W. F. Duisenberg
Alternate Governor .... J. P. Pronk

Advisors:

P. Arlman
D. H. Boot
T. de Vries
J. Lintjer
A. IJ. A. Looijen†
G. A. Posthumus
H. O. Ruding
A. Szász
R. van Boven
G. W. Baron van der Feltz
A. van Dorssen
B. F. Baron van Ittersum
J. Weijenberg
A. H. E. M. Wellink

□ ° NEW ZEALAND

Alternate Governor .... C. H. Terry
Alternate Governor .... M. B. Hyndman*

Advisors:

G. S. Aburn††
E. G. Buckton
A. C. Fenwick
R. D. M. Smith
D. A. Smyth
G. D. L. White

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° NICARAGUA

Governor .... Guillermo Sevilla Sacasa
Alternate Governor .... Juan José Martínez L.
Alternate Governor .... Ruben García*
Alternate Governor .... Ricardo Parrales Sanchez*

Advisors:

Mario B. Alonso	José Alvarez
Nöe Beltrand	C. P. Cardiff
Eduardo Chamorro Coronel	Oscar Delgadillo
Ernesto Fernández Hollman	Alan R. Joly
Edgard Martínez	Eduardo Mendoza Jarquín
Eduardo Montealegre	Gilberto Pérez Alonso
Guillermo Solorzano A.	Jaime Valdivia

° NIGER

Governor .... Abderrahmane Alfidja
Alternate Governor .... Boukary Adji

□ ° NIGERIA

Governor .... Musa Bello
Alternate Governor .... General J. J. Oluleye*
Alternate Governor .... G. P. O. Chikelu
Alternate Governor .... O. Jalaoso*
Alternate Governor .... S. N. Mbamarah*
Alternate Governor .... S. B. Falegan*

Advisors:

E. A. Ajayi	G. Akwaeze
J. O. Bass Musa	Bashir M. Borodo
E. A. Ekerendu	K. Keazor
C. E. Okobi	Godwin Okurume
P. O. Ononye	B. I. Onwamaeze
G. C. Oranika	A. U. Uwandulu
M. Yahaya	

□ ° NORWAY

Governor .... Hallvard Bakke
Alternate Governor .... Per M. Ølberg*
Alternate Governor .... Bjørn Skogstad Aamo*

Advisors:

Ove Chr. Danbolt	Trond M. Johansen
Einar Magnussen†	V. H. Schirmer
Hermod Skanland	Soren Chr. Sommerfelt
John Tvedt	

□ ° OMAN

Alternate Governor .... Sherif Lotfy

Advisors:

Farid Al-Hinai	Friedhelm Jost
Kevin Woelflein	

□ IFC Member
° IDA Member
* Temporary

† Executive Director
†† Alternate Director

□ ° PAKISTAN

Alternate Governor .... A.G.N. Kazi

Advisors:
Ziauddin Ahmad
Nisar Ali Shah
Tariq Saeed Haroon

□ ° PANAMA

Governor .... Nicolas Ardito Barletta

Alternate Governor .... Antonio Dudley

Advisors:
Ramón Perez
Felix Armando Quiros

□ ° PAPUA NEW GUINEA

Governor .... Barry Holloway

Alternate Governor .... Mekere Morauta

Advisors:
Ms. Patricia Curley
Lincoln Taru
Peter Paypool

□ ° PARAGUAY

Governor .... César Romeo Acosta

Alternate Governor .... Augusto Colmán V.

Advisors:
Colonel Raul E. Calvet
Julio Gutierrez
Eladio Loizaga
Gilberto Caniza
Juan Alberto Llanes
Cecilio Sanabria

□ ° PERU

Governor .... General Alcibiades Sáenz Barsallo

Alternate Governor .... Oscar Espinosa Bedoya*

Alternate Governor .... Armando Prugue Camino*

Advisors:
José Falconi
José Luis del Risco
Julio Vega
Javier Ortíz
Major Carlos Rubina Burgos

□ ° PHILIPPINES

Governor .... Cesar E. A. Virata

Alternate Governor .... Placido Mapa, Jr.

Advisors:
Ruben R. Ancheta
Albert Benezra
Panfilo O. Domingo
Jaime C. Laya
Ernest C. Leung
Manuel Morales
Reynaldo P. Palmiery
Oscar de los Santos
Mauel Soliven
Arturo Trinidad
Augusto M. Barcelon
Mrs. Escolastica B. Bince
Basilio Estanislao
Benito Legarda, Jr.
Alejandro Melchor
Antonio H. Ozaeta
Gil J. Puyat
Gabriel C. Singson
David Sycip
Alberto F. de Villa-Abrille

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ PORTUGAL

Governor .... Antônio de Sousa Gomes

Alternate Governor .... Ms. Maria Manuela Morgado Baptista

Advisors:

Antonio Cabral
Albino Cabral Pessoa

QATAR

Governor .... Abdullah Saleh Al-Mana

Alternate Governor .... Madhat Abdullatif Masoud

Advisors:

Bader Omar Aldafa
Attia Abd El-Moneim Attia
Abdul Rahman Al-Wohaibi

ROMANIA

Alternate Governor .... Mihai Diamandopol

Advisors:

Ion Besteliu
Mircea Moisescu
Ioan Cora
Dan Negrea

□ ° RWANDA

Governor .... Denis Ntirugirimbabazi

Alternate Governor .... Jean Damascene Munyarukiko

Advisor:

Bonaventure Ubalijoro

• SAO TOME AND PRINCIPE

Governor ... . Manuel Lópes Correia

Alternate Governor .... Manuel de Nazare Mendes

Advisor:

Leonel Mario D'Alva

□ ° SAUDI ARABIA

Governor .... Abdul Aziz Al-Quraishi

Alternate Governor .... Mansour Al-Turki

Advisors:

Ahmed Abdullatif
Abdullah Al-Gwaiz
M. Umer Chapra
M. Jamjoom
Abdul Aziz Al Dukheil
Saleh Alomair
Mohamed Idreis
Mohamed Said Al-Haj Ali

□ ° SENEGAL

Governor .... Ousmane Seck

Alternate Governor .... Famara Ibrahima Sagna

Advisors:

Bocar Cisse
Bayoro Diallo
Mamadou Faye
Pierre Babacar Kama
Ibrahima Lo
Amadou Tidiane Ndiaye
Moussa Tambadou
Alioune Diagne
Diaraf Diouf
Joseph G. Golan
Falilou Kané
Ady Khaly Niang
Mignane Sené
Mamoudou Touré

□ IFC Member
° IDA Member
• Temporary

† Executive Director

†† Alternate Director

□ ° SIERRA LEONE

Governor .... A. B. Kamara
Alternate Governor .... B. M. Strasser-King

Advisors:
E. N. Afful
O. W. Harding
C. J. Smith
J. K. E. Cole
Philip J. Palmer
A. B. Taylor

□ SINGAPORE

Governor .... Hon Sui Sen
Alternate Governor .... P. Coomaraswamy*
Alternate Governor .... F. J. D'Costa*

□ SOMALIA

Governor .... Abdurahman Nur Herzi
Alternate Governor .... Mohamoud Jama Ahmed

Advisors:
Abdullahi Ali Nur
Leone Fici

□ ° SOUTH AFRICA

Governor .... T. W. de Jongh
Alternate Governor .... G. P. C. de Kock

Advisors:
J. H. de Loor
J. C. Malan
A. M. Pretorius
C. H. du Toit
B. P. Groenewald
C. F. Noffke
R. S. Schoeman

□ ° SPAIN

Alternate Governor .... José Maria López de Letona
Alternate Governor .... Antonio Sanchez Pedreño*

Advisors:
Agustín Alcocer
Alberto Cerrolaza
Eduardo de Toledo
Luis Angel Rojo
Antonio Santillana
Germán Calvillo††
Guillermo Cid
Joaquín Muns Albuixech
Juan José Rovira

□ ° SRI LANKA

Governor .... Ronnie de Mel
Alternate Governor .... Lal Jayawardena
Alternate Governor .... N. T. D. Kanakaratne*

Advisors:
L. E. N. Fernando
S. Velayutham
Mrs. Mallika de Mel

□ IFC Member
° IDA Member
* Temporary
† Executive Director
†† Alternate Director

□ ° SUDAN

Governor .... General Nasr Eldin Mustafa

Alternate Governor .... Abdel Rahman Abdel-Wahab

Advisors:

Mirghani Mohammed Ahmed
Omer Salih Eissa
Mahdi El Faki
Fareed Omer Ibrahim Medani
Ismail El Misbah Mekki
El Tayeb Mirghani Shakkak
Isaac Bior Deng
Saad Mohammed Ali El Ezeirig
Farouk Ibrahim El Magboul
Hassan Ahmed Mekki
Ahmed Salim

□ ° SWAZILAND

Governor .... V. E. Sikhondze

Alternate Governor .... D. H. Mavimbela*

Advisors:

Phiwokwakhe Dlamini
S. M. Kunene
E. B. B. Gamedze

□ ° SWEDEN

Governor .... Gösta Bohman

Alternate Governor .... Lars Wohlin

Advisors:

Berndt Ahlqvist
Carl Bildt
Ulf Dinkelspiel
Ms. Gunilla Olofsson
Sten Westerberg
Frank Belfrage
Ms. Inga Björk-Klevby
Bertil Lund
Per Taxell
Percy Westerlund

□ ° SYRIAN ARAB REPUBLIC

Governor .... Sadek Ayoubi

Alternate Governor .... Abdul Hadi Nehlawi

Advisors:

Arfan El-Azmeh
Bashir Zouheiri

□ ° TANZANIA

Governor .... E. I. M. Mtei

Alternate Governor .... E. A. Mulokozi

Advisors:

Paul Bomani
M. T. Kibwana
P. A. Magani
F. D. Mbaga
Felix Mrema
Dickson Nkembo
T. W. Turuka
J. Khiyari
Herbert Lyimo
Mbegu Malipulla
G. F. Mbowe
E. A. K. Mwanjisi
L. L. Tairo-Urasa

□ ° THAILAND

Governor .... Amnuay Viravan

Alternate Governor .... Pandit Bunyapana*

Alternate Governor .... Thavil Khutrakul*†

Advisors:

Puchong Bhengsri
Pravit Klongwathanakith
Supachai Panitchapakdi
Mrs. Tanya Sirivedhin
Jarern Klinual
Tawee Noonpukdee
Mrs. Suvimol Ramakomud
Sathien Tejapaibul

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° TOGO

Governor .... Koudjolou Dogo

Alternate Governor .... Napo Kakaye

Advisors:

Messanvi Kekeh
Boevi Mawussi Lawson

□ ° TRINIDAD AND TOBAGO

Governor .... Overand Padmore

Alternate Governor .... Frank Barsotti

Advisors:

Ainsworth Harewood
Mrs. I. Sinanan-Rossi

□ ° TUNISIA

Governor .... Mustapha Zaanouni

Alternate Governor .... Rachid Sfar

Advisors:

Moncef Belkhodja
Habib Bourguiba, Jr.
Mokhtar Fakhfakh
Noureddine Hamza
Abderrahmane Jetlaoui
Chakib Nouira
Abdeslem Ben Younes
Ali Chaouachi
Moncef Guen
Ali Hedda
Slaheddine Khenissi
Ali Tekala

□ ° TURKEY

Governor .... Cihat Bilgehan

Alternate Governor .... Sadullah Aygun

Advisors:

Nurcan Akturk
Attila Arman
Candogan Boray
Yavuz Canev
Alptekin Muderrisoglu
Ismail Sengun
Alaeddin Yoruk
Tuncay Altan
Tunc Bilget††
Yuksel Caglayan
Omer Esener
Nurver Nures
Altan Tufan

□ ° UGANDA

Governor .... Brigadier Moses Ali

Alternate Governor .... Jino Geria

Advisors:

Zakaria Bukenya
Muhamed Faraj
Henry Kajura
Tarcisius Mathew Mutagamba
James Nduru
Tom Buraku
John Ikara
Mahmud Musa
Edward Muwonge
Aloysius Njala

° UNITED ARAB EMIRATES

Governor .... Hamdan Bin Rashid Al Maktoom

Alternate Governor .... Nasser Al Nowais

Advisors:

Yousef S. Reda Alhashemi
A. S. Assaad
Ahmed Lutfi Ali
Magdi Tanamli
Hamad Abdul Rahman Al-Madfa
Jean A. Bataillard
Abdallah Mazroui
Izzat Traboulsi

□ IFC Member
° IDA Member
• Temporary

† Executive Director

†† Alternate Director

□ ° UNITED KINGDOM

Governor .... Gordon Richardson
Alternate Governor .... Sir Douglas Wass
Alternate Governor .... K. E. Couzens*
Alternate Governor .... W. S. Ryrie*†
Alternate Governor .... P. S. Preston*

Advisors:

A. M. W. Battishill
R. F. R. Deare††
J. C. Edwards
Mrs. M. E. Hedley-Miller
J. A. Kirbyshire
I. Plenderleith
I. M. Cobbold
P. V. Dixon
P. D. M. Freeman
P. H. Kent
H. J. H. Maud

□ ° UNITED STATES

Governor .... W. Michael Blumenthal
Alternate Governor .... Richard N. Cooper
Alternate Governor .... Anthony M. Solomon*
Alternate Governor .... C. Fred Bergsten*
Alternate Governor .... Sam Y. Cross*
Alternate Governor .... Edward R. Fried*†
Alternate Governor .... John J. Gilligan*
Alternate Governor .... Henry C. Wallich*

Advisors:

Les AuCoin
Joseph W. Barr
John J. Cavanaugh
Silvio O. Conte
William P. Dixon
Mrs. Millicent Fenwick
Delio E. Gianturco
Mark W. Hannaford
John G. Heimann
Robert D. Hormats
Henry J. Hyde
Julius L. Katz
James A. S. Leach
Charles F. Meissner
William S. Moorehead
Stephen L. Neal
Edward W. Pattison
Hal F. Reynolds††
Charles L. Schultze
John Snyder
Newton I. Steers, Jr.
Paul Tsongas
Paul A. Volcker
F. Lisle Widman
C. W. Bill Young
D. Douglas Barnard, Jr.
Daniel H. Brill
John B. Connally
C. Douglas Dillon
David W. Evans
Henry H. Fowler
Charles E. Grassley
Sidney Harman
Alan R. Holmes
Gary C. Hufbauer
Mrs. Helen B. Junz
David M. Kennedy
Thomas B. C. Leddy
John L. Moore, Jr.
Arnold Nachmanoff
William D. Nordhaus
Henry S. Reuss
Richard Rivers
William E. Simon
J. William Stanton
Edwin M. Truman
Bruce F. Vento
Frank A. Weil
Charles Wilson

□ IFC Member
° IDA Member
* Temporary
† Executive Director
†† Alternate Director

□ ° UPPER VOLTA

Governor .... Patrice Ouattara

Alternate Governor .... Pierre Tahita

Advisors:

Kassoum Congo
Joseph Parcouda
Macaire Ouedraogo
Telesphore Yaguibou

□ URUGUAY

Governor .... Valentín Arismendi

Alternate Governor .... Juan José Anichini

Advisors:

Hugo M. Lorenzo
Luis Pigurina
Juan Olascoaga
Carlos Schroeder

□ VENEZUELA

Alternate Governor .... Héctor Hurtado

Alternate Governor .... Manuel Pérez Guerrero*

Advisors:

Claudio de Blois
Mariano Gurfinkel
Eduardo Mayobre
Alain Morales
Juan Pablo Pérez Castillo
Roosevelt Velásquez
Francisco García Palacios
Fernando Hernández
Héctor Meneses
Javier Pazos
Armando Sanchez Bueno

□ ° VIET NAM

Governor .... Dao Viet Doan

Alternate Governor .... Nguyen Manh Thuy

Advisor:

Do Van Nhien

□ ° WESTERN SAMOA

Governor .... Vaovasamanaia R. P. Phillips

Alternate Governor .... Tuilaepa Sailele*

Advisors:

Richard Carruthers
Keith Taylor

□ ° YEMEN ARAB REPUBLIC

Governor .... Mohamed Salem Basendwah

Alternate Governor .... Ali Al-Bahar

° YEMEN, PEOPLE'S DEMOCRATIC REPUBLIC OF

Governor .... Abdul-Aziz Abdul-Wali

Alternate Governor .... Jumaa'n Bin Saa'd

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

□ ° YUGOSLAVIA

Governor .... Momcilo Cemovic
Alternate Governor .... Miodrag Stojiljkovic
Alternate Governor .... Vuk Ognjanovic*
Alternate Governor .... Mirko Skakic*

Advisors:

Tomislav Badovinac
Mrs. Gordana Hofmann
Mirko Jamar
Veroljub Koricanac
Pavle Pavlovic
M. Stojanovic
Toma Gudac
Petar Ilic
Branko Komatina
Josip Kulisic
Gavra Popovic††
Joze Tepina

□ ° ZAIRE

Governor .... Kiakwama kia Kiziki
Alternate Governor .... Bazundama Mbandanu Luzumbulu

Advisors:

Ngole Iliki
Djamboleka Loma
Ambele-Limbayala-Embe

□ ° ZAMBIA

Governor .... J. M. Mwanakatwe
Alternate Governor .... F. M. Walusiku

Advisors:

M. W. Bell
G. B. B. Mbulo
P. M. Ngonda
W. Lufafa
Evan S. Munyama
A. M. Tembo

□ IFC Member
° IDA Member
* Temporary

† Executive Director

†† Alternate Director

OBSERVERS AT 1977 ANNUAL MEETINGS

Cape Verde
Corentino Santos
Manuel Costa

Maldives
Fathulla Jameel

Surinam
Roel F. Karamat
Rudy E. Van Bochove

African Development Bank
Kwame D. Fordwor
A. Milomgo
B. N. Unachukwu
Babacar N'Diaye
Christopher Kahangi
Georges Aithnard
Masumbuko Muhina

Andean Development Corporation
Julio Sanjines
Alfonzo Torres

Arab Bank for Economic Development in Africa
Chedly Ayari
Wahid Hadjeri
Ali A. Khosropur
Fawzi Mahresi

Arab Fund for Economic and Social Development
Saeb N. Jaroudi
Bourhan Chatti
Said Kana
A. Raouf Bouhaouala

Arab Monetary Fund
Jawad Hashim
Ibrahim Iskandar Ibrahim

Asian Development Bank
Taroichi Yoshida
Wolf Preuss
Shigemitsu Sugisaki

Bank for International Settlements
René Larre
R. T. P. Hall
Alexandre Lamfalussy
M. G. Dealtry
Andre Bascoul

Bank of Central African States
Casimir Oye Mba
Jean Edouard Sathoud

Center for Latin American Monetary Studies
Jorge González del Valle

Central American Bank for Economic Integration
Héctor Villagran
Alfredo B. Noyola
Félix Martínez
Mrs. Victoria A. de Diaz

Central American Monetary Council
Tómas Alfonso Medina

Central Bank of West African States
Abdoulaye Fadiga
Alassane Ouattara
Marcel Kodjo
Patrice Kouame

Commission of the European Communities
François-Xavier Ortoli
Ugo Mosca
Jean Durieux
Denis Gautier-Sauvagnac
Frederic Boyer de la Giroday
Giampietro Morelli
Jean-Claude Eude
André P. Louw

Common Organization of African and Mauritian States
Kouanvi Tigoue

Commonwealth Secretariat
R. P. Deane
F. B. Rampersad

Conseil de L'Entente
Paul Kaya
Vincent W. Brown

Contracting Parties to the General Agreement on Tariffs and Trade
Olivier Long
Gardner Patterson

Council of Arab Economic Unity
Abdul Aal Al-Sagban
Mohamed Ali Shalabi

East African Community

East African Development Bank
Iddi Simba
Misheck B. Ngatunga

European Investment Bank
Yves Le Portz
Sir Raymond Bell
Dieter Hartwich
André George
Jacques Silvain
Wolfgang Thill
Christopher Sibson

Food and Agriculture Organization of the United Nations
Cedric Fernando
D. C. Kimmel

Inter-American Development Bank
Antonio Ortiz Mena
Reuben Sternfeld
José Carlos Fonseca
Gunther Schulz
Henry J. Costanzo
Arnold Weiss
Pedro Iraneta

International Labor Office
P. Gopinath

Islamic Development Bank
Ahmed Mohamed Ali
Abdul Rehman Yousef

Latin American Economic System
Jaime Moncayo García
Augusto Bermúdez

League of Arab States
Mahmoud Riad
Abdul Hassan Zalzalah
Fouad Cherif
Mohamed Ahmed Kayed
Fathalla El-Boghdady

OPEC Special Fund
Ibrahim F. I. Shihata
Sakhr A. Tariki

Organization for Economic Cooperation and Development
Emile van Lennep
John D. Fay
Stephen N. Marris
Hellmuth Fuehrer
Rodney Dobell
Stephen Potter
Harry Travers
Thomas J. Alexander

Development Assistance Committee
Maurice J. Williams

Organization of African Unity
Arthur E. Osanya-Nyyneque

Organization of American States
José Luis Restrepo
Edward P. Davis

Organization of Arab Petroleum Exporting Countries
Fadhel Jafaar Chalabi

Organization of Arab Petroleum Exporting Countries
Ali M. Jaidah
Djemal E. Berrouka
Cyrus Sassanpour

Permanent Secretariat of the General Treaty for Central American Economic Integration
Roberto Mayorga-Cortes

Regional Cooperation for Development
Ahmad Minai

Switzerland
Fritz Leutwiler
Paul R. Jolles
Martin Thomann
Daniel Kaeser
Jean Zwahlen
Raymond Probst
Peter Gutzwiller
Roger Grossenbacher

United Nations
G. Van Laethem
C. V. Narasimham
J.-P. Benoît
Abd-El Rahman Khane
A. J. Aizenstat
G. Arsenis
A. Inostroza
C. Patel
Yusuf J. Ahmad
David H. Pollock
G. Rosenthal
K. Gunaratnam
Sven P. Blackberg
Samuel K. B. Asante

United Nations Development Programme
Bradford Morse
I. G. Patel
Sixten Heppling
Claude de Kemoularia
Krishan Kapur
Charles L. Perry
Richard C. Church

Unesco
Werner Moller
Christian Vieyra

West African Economic Community
Moussa N'Gom
Moussa Toure

World Health Organization
Dr. Martin Vasquez Vigo

EXECUTIVE DIRECTORS, ALTERNATES AND ADVISORS

September 30, 1977

Executive Directors	*Alternate Executive Directors*	*Advisors to Executive Directors*
Jacques de Groote (Belgium)	Tunç Bilget (Turkey)	
Earl G. Drake (Canada)	Edward M. Agostini (Guyana)	
Said E. El-Naggar (Egypt)	Saleh A. Al-Hegelan (Saudi Arabia)	Basil K. I. Al-Bustany (Iraq)
Ernesto Franco Holguin (Colombia)	Ramón Martínez Aponte (Dominican Republic)	
Edward R. Fried (United States)	Hal F. Reynolds (United States)	
Julio C. Gutierrez (Paraguay)	Eduardo R. Conesa (Argentina)	
Hans Janssen (Germany)	Hans Dieter Hanfland (Germany)	
R. A. Johnston (Australia)	Gerald S. Aburn (New Zealand)	
Yahia Khelif (Algeria)	Kwaku Gyasi-Twum (Ghana)	Mohamed Terbèche (Algeria)
Anthony IJ. A. Looijen (Netherlands)	Gavra D. Popovic (Yugoslavia)	
Einar Magnussen (Norway)	Valgeir Arsaelsson (Iceland)	
Susumu Murayama (Japan)	Fumiya Iwasaki (Japan)	
Eduardo Pesqueira (Mexico)	Eduardo A. McCullough (Panama)	
Armand Razafindrabé (Madagascar)		Ali Mohamoud Kalfan (Somalia)
Giorgio Rota (Italy)	Germán Calvillo (Spain)	
William S. Ryrie (United Kingdom)	Ronald F. R. Deare (United Kingdom)	
S. R. Sen (India)	M. Syeduz-Zaman (Bangladesh)	
Timothy T. Thahane (Lesotho)	A. H. Madinga (Malawi)	Y.S.M. Abdulai (Nigeria)
Thavil Khutrakul (Thailand)	Bharat B. Pradhan (Nepal)	Thein Swe (Burma)
Jacques Henri Wahl (France)	Pierre-Henri Cassou (France)	

OFFICE OF
THE BOARD OF GOVERNORS
AND JOINT PROCEDURES COMMITTEE
FOR 1977-78

OFFICERS

Chairmen	Malaysia
Vice Chairmen	El Salvador
	Norway

JOINT PROCEDURES COMMITTEE

Chairmen	Malaysia
Vice Chairmen	El Salvador
	Norway
Reporting Member	Canada
Members	Argentina
	Canada
	Colombia
	El Salvador
	France
	Germany
	Japan
	Korea
	Malaysia
	Mauritius
	Morocco
	Norway
	Saudi Arabia
	Senegal
	Turkey
	United Kingdom
	United States
	Western Samoa
	Yemen Arab Republic
	Yugoslavia
	Zambia

REFERENCE LIST OF PRINCIPAL TOPICS DISCUSSED[1]

---

[1] *This list relates only to the Addresses and Statements of Governors. It excludes discussions of individual countries, tributes to the host country, and personal tributes. References are to pages.*

WORLD BANK / IFC / IDA

Headquarters
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: (202) 477-1234

European Office
66, ave. d'Iéna
75116 Paris, France
Telephone: 723-54-21

Cable Addresses
World Bank: INTBAFRAD
IFC: CORINTFIN
IDA: INDEVAS