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GORDON

ANNOUNCEMENT OF SPEECH BY
DAVID L. GORDON OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AT THE NORTHEASTERN UNIVERSITY, COLLEGE OF BUSINESS ADMINISTRATION
May 3, 1950

At the invitation of Dean Roger S. Hamilton, Mr. David L. Gordon, Staff Assistant in the Office of the Vice President of the International Bank for Reconstruction and Development, will address the College of Business Administration of Northeastern University, Boston, on May 3 at 12:00 o'clock Noon.

The International Bank, or World Bank, was founded at Bretton Woods, New Hampshire, in July, 1944, and now has a membership of 47 nations. It was established to make loans for sound productive projects, to encourage the revival of private international investment, and to advance the long range growth of international trade and thereby improve standards of living of the peoples of the world.

Since it began its operations, the Bank has made 24 loans totalling approximately $750,000,000 in France, the Netherlands, Denmark, Luxembourg, Chile, Mexico, Brazil, Belgium, Finland, India, Colombia, Yugoslavia, and El Salvador. Another form of aid rendered by the Bank is technical assistance which has become an increasingly important part of its activities during the past year. Bank missions have visited the majority of its member countries, giving economic and financial help of many kinds.

Mr. Gordon has been a member of the International Bank's staff since August, 1947. During World War II he was Chief of various divisions of the Foreign Economic Administration in Washington. In 1948 and 1949, he was successively Deputy Director of the European Cooperation Administration's China program and Special Assistant to the Chief of the ECA China Mission. For a year prior to coming to the International Bank he was Economic Adviser to the Chinese Supply Mission in Washington.

ECONOMIC COMMISSION FOR AFRICA
Second Session
Provisional Agenda Item 6.

INFORMATION PAPER ON TECHNICAL ASSISTANCE ACTIVITIES OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Prepared by the International Bank For Reconstruction And Development.

The Bank's primary function is to provide financing for productive projects in its member countries. Its technical assistance activities, however, are becoming increasingly important in scope and volume. In part they stem directly from the Bank's loan operations; in this connection they may include, for example, helping a government to determine priorities for financing among different projects, or making suggestions with regard to a project to make it more economical or more suitable to the country's needs, or making recommendations with regard to the administration of a project or its financing, including measures for raising local capital. However, the Bank's technical assistance activity of a broader character, unconnected or only remotely connected with loan operations, has steadily expanded over the past several years.

In general, its advisory assistance has emphasized, but is by no means confined to, the fields of development programming and of mobilizing local capital. The following paragraphs summarize more specifically some of the activities undertaken by the Bank in African countries.

General Survey Missions. The Bank has organized four general survey missions on behalf of African countries - Nigeria, the Trust Territory of Somaliland, Libya and Tanganyika. The Nigerian report was published in 1955, and that for Somaliland was duplicated by the Bank for more limited circulation in 1957. The surveys in Libya and Tanganyika took place in 1959 and the mission reports are now in preparation; they will probably be published in 1960. The Bank has been approached to organize similar missions - to survey development potentialities and problems in comprehensive fashion and make recommendations for a long-term development programme - for some other African countries but no firm decision has yet been taken.

Other Programming Assistance. In 1959, by agreement with the Ethiopian Government, the Bank assigned a resident representative to Ethiopia, the first such assignment in an African country. He will serve as liaison between the Bank and the Government on matters relating to loan projects or operations and also when requested will advise the Government on questions relating to economic development in Ethiopia.

Development Institutions. Among the most valuable instruments for promoting development in industry and agriculture, and for bringing together the technical, entrepreneurial, managerial and financial requisites to carry out projects in these sectors, are the development banks or corporations that have been established in many countries. The Bank has furnished both financial and technical assistance to the Development Bank of Ethiopia; it has been consulted by the Arab League Secretariat in the formation of the projected Arab Financial Institution for Economic Development; and has made a preliminary appraisal and recommendations with regard to development institutions proposed for Morocco and Tunisia.

Special Fund Projects. The Bank has agreed to act as Executing Agency for the Niger Valley survey project among others.

Recruitment of Individual Experts. Several African countries have sought the Bank's assistance in finding and employing highly qualified expatriates for executive or advisory posts that involve coordination of economic development studies, policy or planning. For example, the Bank has recruited or recommended candidates for such posts as Governor of a State Bank, senior financial advisor to a Government, advisors on development planning, port administration, petroleum and minerals policy, and numerous others.

Economic Development Institute. The Economic Development Institute, organized by the Bank in 1956 as a staff college for senior officials responsible for preparing and carrying through development programmes and projects in less-developed countries, has had 23 participants from Africa - nearly one-quarter of the four-year total. In the current (1959-60) course, the ratio is 7 out of 24 - from the Belgian Congo, Ghana, Ivory Coast, Kenya, Nigeria (2) and the United Arab Republic, respectively.

Other Training Programmes. The Bank has a General Training Programme, given annually for about six months, designed to acquaint more junior career officials with the Bank's policies and methods, and broaden their understanding of economic problems and techniques, and of various phases of financial administration. It is designed to meet the needs of more as well as less-developed countries, and consequently the proportion of participants from Africa has been lower than for the Economic Development Institute - 10 out of a total of 101. Individual specialized training has also been provided for numerous officials of member countries, who have been invited to spend various periods in the Bank for this purpose.

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For the past several years, the countries of the African continent have been increasingly important clients, in relative as well as absolute terms, for technical assistance from the Bank. This trend is a logical reflection of the transition of many territories to independence, and of the fact that the number of African countries who are members of the Bank in their own right has risen since 1957 from three to eight. The demand in Africa for the kind of services to which the Bank gives emphasis - general surveys, other types of programming assistance, assistance in the organization of capital markets and development institutions, etc. - is unlikely to decline; and the Bank will make every effort within the limits of its resources, especially of staff, to meet this demand. The prospective establishment of the International Development Association, as an affiliate of the Bank, will not directly affect the demand for, or the Bank's ability to furnish technical assistance, but it may help to make the practical application of such assistance easier and more effective.

Gordon Jan 29, 1960

Remarks by the Representative of the International Bank for Reconstruction and Development at the Second Session of the Economic Commission for Africa

Mr. Chairman:

The World Bank is gratified indeed at the opportunity afforded by this important meeting to renew and broaden our relations with the countries of Africa, and to reinforce the bases of cooperation between this Commission and the Bank. It was especially interesting for me to participate last week in the deliberations of the Committee on Work Program. And I join with the distinguished delegates that have spoken in appreciation of the warm hospitality and excellent arrangements offered by our hosts, the Government of Morocco.

May I also add the World Bank's congratulations to the Executive Secretary and his associates on their very impressive achievements during the past year -- in organizing their staff, in laying a solid groundwork of initial studies and relationships, and in projecting a varied and constructive program of work for the future. Their performance in the year past augurs well for the years to come, and the Bank welcomes the prospect of close and cordial cooperation with ECA in many aspects of our common task of fostering economic development on the African continent.

Mr. Chairman, we in the World Bank have no doubt of the importance and urgency of this task in Africa. At few other places on earth does so much of mankind live so precariously on the margins of misery and death. At few other places on earth do so many human beings yearn so keenly to emerge from the darkness of centuries past into the light of the century present.

Ahead of the new Africa are magnificent opportunities. Much has already been done to show what progress is possible. But we are only at the beginning, and the problems that remain should, by their size and complexity, make us very humble. In relation to what needs to be done in Africa, none of us can say that we have made so far more than a modest contribution.

We, in the World Bank, hope and expect that our contribution will grow, that the trend established over the past few years -- by which the African states have progressively increased their participation in the Bank's membership, its loans and its technical assistance activities -- will continue upward for a considerable time to come. Many of the main facts about the Bank's operations in Africa are set out in the documentation provided for this Conference. It remains for me only to bring certain figures up-to-date and to highlight a few points.

First, may I recall to you a fact that too often is left to go without saying. It is that the Bank is a cooperative financial institution - an international credit union, as it were -- which draws on the resources of member countries to meet the capital needs of other members and the territories associated with them. All European countries having responsibilities on this continent are members of the Bank, with one exception; the latter's membership was approved by our Board of Governors at their last meeting, and we trust the required formalities will soon be completed. Meanwhile, the number of independent African members has risen, within the past three years, from 3 to 8, and we look forward to additional accessions in the near future.

Since 1950, when the Bank made its first loan on this continent, to Ethiopia, through the end of this past year the total of our loans in Africa has equalled about $725 million. This sum represents something over one-sixth of all the Bank's development loans; and currently, with the rising trend of our lending in Africa, about one-fifth of our loans are for the benefit of this continent.

The trends that underlie this total figure are revealing. In the first half of the decade, 1950 through 1954, the level of Bank lending fluctuated widely from year to year, the annual average being about $48 million. But for the past five years the rate has risen steadily, to $59 million in 1955, then to $80 million, to $85 million, to $111 million and in 1959 to $153 million.

The regional distribution of these totals has also altered significantly, as the planning and the process of economic development have spread more widely in Africa. From 1950 through 1957, much the largest share, more than five-sixths, of the Bank's loans were made to three countries in the South and the center of the continent. In 1958 and 1959 the proportions were reversed; some 80% of our lending was to other countries in the North, East and West of Africa. We hope and expect to continue financing productive projects in the territories of those large borrowers of the early years, but we welcome the broadening of our sphere of activity and look forward to its further enlargement.

Much the greater part of the Bank's lending has been for provision of the basic facilities that form the indispensable foundation for a modern economy. Of the loans to African countries, roughly 60% ($441 million) were for the construction or improvement of various means of transport and communications -- railways, roads, port facilities, telecommunications, and so on -- designed to enlarge markets, to stimulate and make feasible the development of new resources and (not least important) to widen human contacts and bring more of the necessities and amenities of life to once-inaccessible areas. A total of $178 million (25%) was lent for electric power projects, including the largest one we have financed anywhere in the world. And 15%, just over $100 million, went into industry or into projects involving a combination of investments in different fields.

It is inevitable and appropriate that the major part of the Bank's lending should continue to be for such "infrastructure" investments;

they have fundamental importance for, and a pervasive influence on, economic development in all fields. But we have been seeking ways to diversify the impact of our lending, so that a larger (if still minor) proportion may be applied more directly to the agricultural and industrial sectors that furnish the livelihood of the great mass of the population. As has been pointed out in the course of this session, the hope of a better life for the people depends mainly on the prospects for substantially raising productivity in these sectors, on transforming the traditional patterns of agriculture and industry through more advanced organization and techniques. This is one reason for the Bank's lively interest in the possibilities of development banks in various countries or regions, both as means of promoting enterprise and investment within the country and as potential channels for Bank lending.

Our loans for specific projects can more easily give the desired lift to the economy as a whole, and to the general standard of living, if these projects form part of an integral program of mutually complementary and reinforcing investments and other measures. This, again, is one reason, though by no means the only one, for the Bank's concern with and assistance to the over-all programming of development. At the request of member governments we have undertaken general surveys -- nearly a score of them so far -- with a view to helping establish a good foundation and framework for program decisions, and for the formulation of specific plans, by the Government. Four of these missions have been organized on behalf of African countries, including the two most recent, and we expect to undertake at least one more on this continent during the current year. The Bank would also be glad to consider other ways in which it may assist individual member countries or territories, if they desire, in the programming of their development.

I said earlier, Mr. Chairman, that the Bank desires and expects to contribute in ever-increasing measure to the vital task of African economic development, which engages the hopes and energies of all those assembled here. We do not underestimate the magnitude and difficulty of the task, and we are well aware -- indeed, we insist -- that the help the Bank can provide at present will meet only a part of the needs for financing of this development. The distinguished delegates are aware of the limitations set by the Bank's charter, by the inherent nature of its function, and by the size and character of its financial resources; I shall not dwell on them here. I should like, however, to call briefly to your attention some steps that have recently been taken toward enabling us to deal with a wider range of development problems and needs.

I would mention first the increase, approximately doubling, of the Bank's capital during the last year. This does not directly add to our loanable funds, since the increased subscriptions are not to be paid in; they merely mean that the member countries will now guarantee the Bank's obligations up to a higher figure. But this enables us to continue selling these obligations, and thus to obtain funds for lending at a substantially higher level than seemed likely just two or three years ago.

In the second place, we have established very close relations with the United Nations Special Fund. Our President is a member of its Consultative Board, and the Bank is Executing Agency for several pre-investment surveys that may result in projects of the kind we normally finance. The Special Fund thus helps to fill a major gap between the conception of a project and its being ready for financing.

Finally, upon instructions given by the Bank's Board of Governors last October, its Executive Directors, representing all member countries, have prepared a draft charter for the proposed International Development Association. This new organization is designed to provide financing in a more flexible form, that will not burden the balance of payments of borrowing countries; thus it can supplement the Bank's lending and serve to finance projects of a kind, or located in countries, where Bank loans would not be suitable. It is expected that the IDA will have some $750 million of convertible (and therefore effectively usable) funds, designed to last it for five years -- that is, an average of perhaps $150 million per year. The Executive Directors were expected to approve the draft charter, on behalf of their governments, during this very week, and the Bank hopes that the necessary ratifications will be completed well before the end of this year.

Mr. Chairman, I should like to conclude by quoting one paragraph from the message of greeting which the President of the Bank conveyed to the Commission at its First Session a year ago. He said:

> "Very possibly the largest untapped reserve of human and physical resources left on earth lies in the lands from which you come. The world at large has been increasingly drawn to Africa by its great material resources. But to realize the whole splendid endowment of nature here will require the fullest participation of the African peoples themselves -- their most unremitting work, the widest engagement of their talents, and their wisest leadership."

I am happy to have the opportunity at this meeting to confirm again the Bank's hearty desire to take part, with the African governments and peoples, in this magnificent and arduous task.

Thank you, Mr. Chairman.

Friday, January 29, 1960.

Not to be given outside by Office of Inf. -- copies with Mr Gordon

October 20, 1960

THE PROGRAMMING FUNCTION IN ECONOMIC DEVELOPMENT: ITS SIGNIFICANCE AND SOME SUGGESTIONS FOR ITS STRENGTHENING

David L. Gordon

Introduction

1. The essential rationale for our aiding economic development, it seems to me, is that the development process affords the most promising opportunity and means for the West to influence the revolutionary forces at work in Asia, Africa and much of Latin America, to direct their energies toward constructive ends, and to foster the evolution of stable, responsible societies that we could live with in reasonable security. At best this is an immensely complex and arduous task. The possibility of success will depend in large part on how our cooperation with the emerging countries in this process is offered and organized, and on the atmosphere surrounding it -- whether the pervading tone is favorable or otherwise to a relationship of confidence, frankness and "mutuality" between the Western development practitioners and key officials and opinion leaders in the emerging countries; whether or not it helps these countries to take a consistent, far-sighted view of the requisites and problems of development and face up responsibly to the difficult choices involved; and whether it promotes or inhibits the evolution of institutions and attitudes conducive to orderly progress.

2. In these respects Western programs in aid of economic development still leave a good deal to be desired. Problems are caused by:

(a) Their multiplicity. Considerable variety and flexibility in the channels and instruments of development aid is advantageous, of course, to both aid-givers and recipients. But to the latter, especially, with their inexperienced administrations, the present array of parallel or overlapping programs, each with its special pitch, is undoubtedly confusing. The fuzzy, changing, partially competing alternatives they pose hamper the setting of clear and consistent goals, priorities and standards of performance, by the less-developed countries for themselves or by the agencies providing aid. And the former are tempted to "shop around," to play various aid-givers off against each other, and thus to evade the necessity of financial discipline or politically distasteful choices. It is important, then, to find means of counteracting these demoralizing effects without imposing a straitjacket on development.

(b) The year-to-year character and shifting emphasis of many programs, which tends to focus attention on short-term considerations and results whereas orderly development requires above all a long-range perspective. (Improvements in this regard have been made in some important programs, however, and further progress is likely.)

(c) Their preponderantly unilateral sponsorship, which almost inevitably distorts in some degree their purpose and relevance. The amount and application of aid are often based (or seem to be, which has the same effect) on considerations of domestic or world politics having little to do with any particular country's development needs or performance. There is a natural tendency to stress what the source country is interested in exporting -- whether this be capital equipment, agricultural surpluses, contracting services, private investment know-how, or some other expertise or attitude -- rather than what the prospective recipient most needs. And, most important, the bilateral relationship is inherently unfavorable, if not indeed fatal, to any real "jointness" -- intimate participation by Westerners with the leaders of emerging countries -- in dealing with the touchy issues of national policy and politics in those countries that underlie most of their important development decisions.

(d) The centralization of program decision-making. In most of the aid-giving agencies key decisions, even essentially operational matters for a single country, are generally taken at headquarters -- at several removes from the special conditions and needs, and the responsible authorities, of the country concerned. This detracts from the recipients' sense of participation and responsibility, and makes it harder for them to deal with their problems in far-sighted, comprehensive fashion.

(e) The "project approach" followed by most development agencies. While valid and indispensable as an operating principle, it is incomplete. The projects need to be properly related and placed in their socio-economic context. Otherwise, again, a myopic, fragmented conception of development emerges.

3. Practitioners of economic development are generally aware of these weaknesses, and a number of steps have recently been taken or recommended to overcome them -- without forfeiting the valuable qualities that sometimes are closely intertwined with the defects. Significant progress has been made toward tighter direction and integration of the Western world's multifarious development efforts, through formation of DAG and plans for a reoriented OECD; establishment of the Special Fund and IDA; some strengthening of the UN/TAB programming machinery; the special U.S. aid programs for Africa and Latin America; the "consortia" organized for aid to India, Pakistan, the Indus projects, etc. These are hopeful moves toward the necessary coordination and focussing of Western assistance to development.

4. Most of these initiatives, however, stress coordination at the aid-givers' end. This is a natural emphasis, and necessary in the first instance, but it has grave drawbacks:

(a) It may be interpreted in the emerging countries as a "ganging up" by the industrial nations, designed to further enhance their relative bargaining strength and impose improper conditions on their aid.

(b) It aggravates the administrative log-jam in Washington and New York, London and Paris, and imposes additional burdens on policy-makers and administrators at these centers.

(c) It tends to divorce the programming of external assistance from the recipient countries' own decision-making process, obscuring the vital relation between them.

(d) It thereby limits the opportunities for Western influences really to participate in the critical development decisions of these countries.

(e) At the same time, it weakens the local government's sense of responsibility in making such decisions (because it cannot adequately gauge a major relevant factor -- namely, the prospects for external aid).

5. To be sure, in their deliberations the aid-givers, individually or collectively, generally take account of the over-all situation in a particular country. But their appraisal is blurred or distorted by distance, an inevitable oversimplification of issues and often a special perspective. More important, it is <u>their</u> appraisal, which the local government has had little real share in making, whose premises it does not fully understand and for which it feels no responsibility. Hence agreements may be reached repeatedly, on amounts of aid and attached conditions (if any), without real meeting of minds -- and without much progress toward establishing within the country an adequate conceptual and institutional framework to sustain and guide its development.

<u>The Importance of Country Programs</u>

6. The remedy, I suggest, is not for the aid-givers to abandon their coordination arrangements, but rather to complement these arrangements by laying much greater stress on development programming, in the broadest sense of the term, in and with the various recipient countries. A realistic, well-integrated country (or in some cases regional) program would constitute the framework most favorable for

(a) appraising what amounts of foreign assistance the country could effectively use, and comparing its needs and possibilities with those of other claimants;

(b) coordinating external assistance from different sources (sometimes including the Soviet Bloc) and putting it to work in a rational way, in accordance with definite criteria and local circumstances;

(c) giving proper emphasis to the country's own savings and efforts, in relation to external help, and defining goals and standards of achievement against which these efforts can be measured;

(d) posing clearly the hard choices that inhere in the development process, and focussing the recipient country's attention on these domestic choices rather than on the deficiencies of foreign aid;

(e) encouraging the evolution of stable institutions and orderly procedures for reaching these decisions in a responsible way;

(f) enlisting popular support and participation, by giving the public a sense of pace, purpose and direction;

(g) giving aid-giving governments and agencies a chance to participate effectively with the local authorities in considering issues of development policy; and

(h) consequently, enabling the aid-givers to gain a better insight into the needs and problems, and invaluable opportunities to influence the direction, of the emerging countries' development.

7. "Programming," as the term is used here, should not imply the totalitarian planning of a Communist state nor, on the other hand, an academic diagnosis of problems and prescription of remedies. Rather, it refers to the deliberate weighing of objectives, possibilities, needs and alternatives for action over the foreseeable future, and the making of practical choices among them, which any government that is responsibly seeking to promote development must engage in. It is not a one-shot exercise but a continuous process. It may make use of elaborate projections or simple rule of thumb, as circumstances require; the important thing is that it illuminate the problems and decisions involved in development so that they can be considered and dealt with realistically. A very few of the less-developed countries, notably India, have the knowledge and the governmental stability and machinery to perform this function fairly well, but in most of them it is done poorly at best.

8. National development programming is not, of course, a universal cure-all. It provides no automatic solution to a country's development problems, nor any guarantee of political stability or that the government and the people will understand and adhere to Western ideals. But there can be little doubt that the existence of a comprehensive long-term program, periodically up-dated -- which the local authorities and public opinion regard as their own and in which the principal aid-givers could have confidence -- would improve the country's prospects for development, greatly ease its relations with the providers of economic and technical assistance, and enable that assistance to be applied more intelligently and effectively, by establishing a steady but dynamic frame of reference and policy.

9. In many countries, to be sure, programming at the Indian level of sophistication (for example) will hardly be conceivable for years to come. But even where development concepts and institutions are just emerging or

still in embryo it will be highly desirable to press for a start on development programming, in however rudimentary form. For it can be learned only by doing; and the process may be even more important than the end result, the program itself. The essence of that process is the definition of economic possibilities and limitations, the identification of priorities and prerequisites for development, in a way that will facilitate responsible decisions -- or at least make them harder to evade. This would be a salutary discipline for the authorities in most emerging countries -- and doubtless for many development experts in the Western world as well.

10. Realistic country programming, therefore, is potentially one of our most useful instruments for strengthening the foundations -- psychological and political, as well as economic -- of development, and for guiding its progress. And it is applicable, at varying levels of complexity and sophistication, to almost the entire spectrum of emerging and developing countries. Those at the more advanced end of the scale can and should do most of the programming job themselves, but even India has profited and could still profit from foreign technical help and consultation in many fields; and foreigners could learn a good deal from India's experience that would be relevant in still less developed countries. In the latter, foreign experts would have to play a more central role; and their participation, if conducted with intelligence, sympathy and tact, could yield important corollary benefits for the West.

Some Essential Conditions

11. If this approach makes sense, how can it be put into more general, practical application? Why is its promise not more widely fulfilled: What obstacles now exist to orderly programming of development in most of the emerging countries, or to the Western-sponsored aid agencies being able to participate effectively in such programming? Some of the necessary conditions, and the problems involved in meeting them, are suggested in the paragraphs that follow.

12. Obviously a certain minimum of governmental stability and direction is required for any effective programming of development -- the Congo in recent weeks has not been a promising candidate -- but this minimum is very low by the standards of North America or Western Europe. A really stable, responsible government, capable of taking well-considered decisions and putting them into effect, should be regarded not as a prerequisite, but rather as one of the hoped-for products, of our efforts at development programming. Few countries are so backward or chaotic that some start could not be made.

13. It is important, however, that the government be receptive and committed, in some degree, to the idea of orderly programming. Almost all the less-developed countries, to be sure, give it lip service; and a glamorous "5-year plan" -- too often an ill-digested compound of inspirational slogans, preliminary architects' drawings and a listing of

unscreened projects -- has become almost a symbol of nationhood and a political necessity. But these plans, once they have exhausted their initial public relations impact, often pass into limbo. There is not much political pay dirt, usually, in serious long-range study of the complex issues of development policy, nor in making awkward choices before it becomes absolutely necessary to do so. Where development programming is seriously attempted, too often it is an academic exercise, having little relation to or influence on operational agencies and decisions.

14. The aid-givers, national and multi-national, have generally deplored this situation, but in practice some of the policies tend to foster and aggravate it (see paragraph 2 above) and thus to undermine the elements in these countries who are working toward a more orderly pattern of development policy and planning. A prime requisite, therefore, for wider and more effective programming within the developing countries is the existence of a positive, and a reasonably concerted and consistent, attitude on the part of the Western aid-givers. This implies an understanding of some kind among the various national and international aid agencies that they would apply the greater part of their assistance in accordance with programs internationally agreed with the respective recipient countries, rather than on the basis of their separate criteria, special perspectives or competitive impulses. They need not undertake to give automatic or uncritical acceptance to any such program, but merely to take it as the basis for their consideration of the country's needs and of how they might best help, jointly and severally, in meeting those needs.

15. The Western consortium for India, organized under World Bank auspices, is a first working model for such concerted review and support of a national development program; but India is a rather special case, having much less need than other less-developed countries for outside assistance, encouragement and guidance in its programming. A smiliar consortium is now being organized for Pakistan, whose situation in this regard is perhaps more typical. These initial experiences may lead to a more general accord among the Western aid-givers, the lack of which remains the first obstacle to effective use of the country program approach to promote and guide development.

16. As has already been suggested, most of the emerging countries will need considerable help in organizing basic data, analyzing their situation, adapting the experience of other countries to their special problems, appraising policy alternatives in various fields and relating them to other fields, etc. -- all necessary prerequisites to sound decisions and plans. Such help will necessarily go beyond technical assistance in the conventional sense, for it will and must reach into sensitive issues of social policy; in effect, it involves helping to orient and blueprint a peaceful social revolution. This is a touchy

business, but it is inherent in any real participation in country programming and fundamental to attainment of our main developmental objectives.

The Organization of Country Programming

17. What kind of measures, what changes in policies or institutions, are needed to enable the Western world to realize these opportunities, and to minimize the attendant risks? The essentials, largely implied in what has already been said, may be summarized as follows:

(a) agreement among the principal Western countries as to their objectives and the approach to be followed in their effort to promote and guide economic development;

(b) as a major element in such a concerted policy, fostering of the concept and function of programming in each of the developing countries we are jointly aiding or proposing to aid, in a form tailored to the special circumstances of each, and assignment of broad responsibility for assisting and taking part in the programming function to a strong (but not numerous) resident mission in each country; and

(c) establishment of the necessary minimum of global authority and machinery to provide general policy guidance and administrative backstopping for these resident missions, as well as continuing coordination for national and international efforts in aid of development.

18. This may seem an ambitious (not to say utopian) prescription. But a good deal of progress has already been made toward coordination of Western policy and financial and technical assistance, and a number of likely components are lying about -- concepts, techniques and administrative devices that have proved useful in the past and that might be refurbished and fitted together into the kind of efficient, flexible mechanism that is needed to further our developmental aims. The creation of such a mechanism deserves highest priority attention by the Western governments, notably the incoming U.S. Administration.

19. The function of the field missions assigned to aid and participate in the programming process is vital. This function must be so defined and organized as to command the confidence of both aid-givers and recipients, and encourage their intimate collaboration in studying and deciding the key issues of development policy. It must, therefore, be under international auspices, of a character that will enlist the active and responsible participation of the Western industrial nations and less-

developed countries alike.[1] Within this over-all framework, individual country missions might be constituted in various ways -- by assignment of staff from the IBRD or a regional development institution (e.g., the Inter-American Bank, the proposed Arab Financial Institution or the UN Economic Commission for Africa), as a continuing project under UN technical assistance or financed from the Special Fund, under the sponsorship of a private foundation, university or research institute, or through a combination of such methods. The essential is that the country mission be at least tacitly recognized, accepted and supported, by both the local authorities and Western aid-givers, as the focal point of contact between them for defining and pursuing agreed approaches to the country's economic development.

20. The country mission has a delicate and somewhat ambiguous role. This is not necessarily a defect. Indeed, its strength and potential effectiveness lie partly in this ambiguity -- in the possibility of the mission working, for many purposes, as an integral part of the local government, while still retaining independence of judgment and action. Because of this independence, because they are not tied to any local faction or interest, and because of their association with the vital sources of external assistance, these international representatives may be able to achieve an extraordinary position and influence in the official councils and among leaders of public opinion in the country -- influence that can usefully reinforce that of sympathetic local officials or foreign advisers contracted directly by the government, whose position (precisely because it is more clear-cut as to responsibility and dependence) is often inherently weaker. The possibilities for gaining such an advantageous position depend, of course, on the international mission members being regarded by the local government and political leaders as co-workers in a task for which the local people feel primary responsibility (not as outsiders imposing an alien economic or ideological pattern), and as sincere proponents of the country's real interest (not as agents of the Powers). There are numerous instances where international representatives have been so accepted; it is harder in certain countries than in others, and in some it may be wholly impossible over the short run, but by and large there is ground for optimism on this point.

21. The delicacy of the country mission assignment, and the wide discretion that must necessarily be allowed, underlines the importance of finding and developing key personnel of the very highest caliber. They

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1/ In most of the emerging countries, acutely jealous of their sovereignty, any real participation in national programming by the U. S. or another major power will generally be unacceptable. This point could be developed and illustrated at length, but I assume no such elaboration is needed here. The <u>provision</u> of aid, including most technical assistance, is a rather different matter and will still, presumably, be administered bilaterally in large part -- although it would be advantageous to increase the proportion handled through the proper kind of international channels.

need, among other qualifications, experience in economics and public administration, including extensive first-hand acquaintance with these matters in less-developed countries; a broad sympathy for the aspirations and problems of such countries, but a tough-minded, practical approach in dealing with them; a well-developed sense of public policy and of practical politics; a flair for incisive analysis and for patient, persuasive argument; a flexible mind, solidly grounded in moral principles; and a notable capacity for initiative, innovation and arduous work. In short, the job calls for paragons of virtue and competence -- and offers a challenge that should be enormously attractive to people who approach these standards. A few such exist, and raw material for forming a few more; a mere hundred or two, placed in the right spots and given proper backing, could be immensely effective.

22. The foregoing emphasis on the country mission's responsibility does not detract from the need for strong central direction. On the contrary, the need is accentuated. For the desired diversity of contacts and points of decision, of instrumentalities and approaches pragmatically adapted to the circumstances of different countries, could lapse into incoherence or near-chaos unless it were guided by common principles and purpose and by vigorous executive leadership. But such guidance must be understanding and flexible as well as firm, and the objective of shifting the focus of analysis and operations to the developing countries should be kept constantly to the fore.

23. Deliberate stressing and pursuit of this objective, against all the forces that normally work to attract key decisions and personnel to headquarters, is essential to successful performance of the central directive role, however that function may be defined and organized. Aside from the considerations of basic policy and strategy mentioned earlier, such an emphasis is sound tactics for the administrative in-fighting that accompanies the creation of any new agency or responsibilities. First, it will help to avoid jurisdictional collisions with existing agencies for promoting development abroad, which are headquarters-centered to a high degree; in the field, as a practical matter, the coordination function is largely a vacuum. Second, from the standpoint of the less-developed countries, it will take some of the curse off the preponderant influence that the capital-exporting nations would necessarily possess at the center. Without such preponderance these richer nations could not possibly be expected to take part with the poorer in a joint developmental effort. But representatives of the less-developed countries will be under strong political-psychological pressures to increase their weight, and make it felt, in the councils of the global development agencies; one way to relieve these pressures is to concentrate the programming function in the field, where responsible officials of those countries can play their proper part.

Overall Coordination and Direction

24. What kind of organizational framework is needed, then, for management of the kind of program -- concentrated in purpose and direction but decentralized in application, varied as to sources and instruments but effectively focussed at the point of impact -- that has been sketched above? The general characteristics of such a framework seem quite simple:

(a) It must be international in character, and capable of enlisting active and responsible participation by both the Western and the less-developed nations.

(b) Its constitution and policy direction must be such that the Western aid-givers can have confidence in them; thus in its Governing Board the capital-exporting countries must not be outweighed as they now are in most of the U.N. organs.

(c) Even more important, it must have strong management with wide discretion and power of initiative in day-to-day operations, which would be adequately insulated from interference by representatives of participating governments.

(d) It should be charged, by formal agreement or informal understanding among the participating countries, with the functions

(i) of defining general priorities and allocation criteria for the guidance of agencies providing economic and technical aid under Western auspices;

(ii) of establishing terms of reference for the country missions assigned to analyze the potentialities, needs and problems of the respective developing countries, to help them work out and administer realistic development programs and continuously to appraise their performance; and

(iii) of selecting, backstopping and generally supervising these missions, with special attention to guarding against a loss of perspective on their part, through too close involvement with a particular country's problems.

(e) Preferably it should control the provision of some significant fraction of total aid from Western sources; such operational responsibility would help to keep its program recommendations on a realistic basis and enable it to fill some of the gaps and correct imbalances arising from the inevitably imperfect articulation of the various types of assistance from different sources.

25. The principal U.N. organs (the Assembly, ECOSOC and its subsidiary bodies, the Secretariat, the TAB, etc.), indispensable as they are for many purposes, are clearly unsuited to the function now under discussion -- by reason of the one-nation-one-vote principle on which they are constituted, the politically-charged atmosphere that typically surrounds them and the extent to which member governments intervene in their operations. More promising candidates, as an organizational model or nucleus, are (a) the Bretton Woods institutions, especially the Bank-IDA complex, and (b) the U.N. Special Fund.

26. The establishment of IDA will broaden the geographic and functional areas within which the World Bank can operate, and make it more clearly a developmental (as distinct from a lending) agency. The Bank has given considerable attention to development programming, and gained a good deal of experience through its general survey missions, resident advisers, etc. It has the invaluable assets of a strong, established Management, weighted voting, and a reputation for competence, independence and objectivity acquired in development operations over the past dozen years. And, of course, it plays a substantial role in the financing of development.

27. There are, however, some possible objections to its becoming the central backstop for development programming:

(a) Its approach to development is sometimes alleged to be too "bankerish". This criticism stems partly from the limitations imposed by the source and character of its funds; it should be tempered by the possibilities for liberalized financing terms that will be opened by IDA. Strict standards of project appraisal, on the other hand, should be vigorously upheld.

(b) Votes in the Bank's councils are weighted so heavily against the less-developed countries, their power in the Bank's affairs is so limited, that some of them apparently regard it as essentially a U. S.-European institution in which their participation is merely nominal. This view, while by no means universal, deserves attention because of the great importance of the developing countries' feeling a real sense of participation. But as was suggested above, the decisive authority in any agency which the Western nations could trust to manage the programming or financing of development would have to be weighted in some such way; and greater emphasis on country programming should lessen the objections.

(c) More basically, some inconsistency may be feared between the Bank's lending role and the program coordination function. Its express or tacit approval of a particular country program would doubtless be construed as an implicit commitment to financing -- especially as the existence of IDA will reduce the importance of creditworthiness criteria. However, such an implication already exists to some extent, and has been accepted, as a consequence of the Bank's role in the India consortium, and this pattern is likely to be extended. In fact, the ability and willingness of the agency that sponsors or endorses a country program to share in its financing may provide the best assurance that its endorsement is realistic and responsible.

28. As for the Special Fund, its scope and staff would have to be greatly expanded, and its character would be substantially changed, if it were charged with backstopping the programming function. As a framework for this function, however, it also has certain assets and at least one major liability. Taking the assets first:

(a) The Managing Director has established a strong position and has wide operational discretion in relation to his Governing Council.

(b) The Governing Council is evenly divided between more and less developed countries, which gives the latter a feeling of effective participation and weight without overwhelming the former.

(c) Its Consultative Board -- including the Secretary-General of the U.N., the President of the World Bank, and the Executive Chairman of TAB as well as the Managing Director of the Special Fund -- provides informal but explicit liaison.

(d) Its field representatives are also the Resident Representatives of TAB, which avoids duplication and provides a measure of coordination of their activities (but does not remedy the essential weakness, the Resident Representative's lack of real authority over the program and priorities of the various TAB constituent agencies in "his" country).

(e) Its present terms of reference include the financing of broad surveys, a kind of fractional country programming that might readily be broadened. (However, the Special Fund does not carry out or direct such surveys itself, but farms them out for execution by the several Specialized Agencies.)

29. The Special Fund's Management has sought to insulate its operation from the highly political atmosphere of the U.N. Headquarters, and has had considerable success in doing so, but the influence of this environment is still disturbingly evident, making dispassionate, hard-headed direction of any program very difficult. And the problem would certainly be aggravated if the Special Fund were to take on such broadened responsibilities, with such significant political overtones, as those under discussion.

30. Moreover, the membership of the Special Fund, unlike the Bretton Woods institutions, includes the Soviet Bloc countries. In analyzing how

significant this factor is, one must distinguish the potential effects of Soviet participation at three levels:

(a) In the Governing Council the USSR is one of eighteen members, and can expect the support of a few others on some issues. At each semi-annual session the Soviet delegate intervenes in the discussions at length, but his views have little apparent effect on the Council's resolutions and even less (because of the extensive discretion allowed the Managing Director) on the Special Fund program.

(b) In the headquarters staff no Soviet nationals now hold responsible positions (so far as I know), but there will surely be continuing pressure from the USSR to place Russians or satellite nationals in the Special Fund, especially if its functions were greatly broadened. However, a strong Managing Director should be able to prevent unduly disruptive activity on the part of subordinates coming from Communist states.

(c) In country programming and advisory missions, however, this problem could be crucial, in view of the exceptional importance of these missions, the discretion that should be allowed them, and the influence they would be expected to exert not only on international economic and technical assistance to a country but on its whole pattern of development. The USSR would certainly demand key posts in these missions, and it would be hard for the Managing Director to resist such demands. A Soviet chief of mission in, say Ceylon or Cameroons or Costa Rica, entrusted with the vital responsibilities of program guidance described earlier, might obviously do great harm to Western interests and objectives in those countries.

31. The Russians did not join the Bretton Woods institutions, although they were entitled to charter membership, presumably because to do so would have involved a substantial capital contribution, and an even more significant delegation of authority, to an institution they could not hope to control. But in the Special Fund set-up, if responsibility for the central programming-coordination function were assigned to that agency, the Soviet Bloc might acquire great leverage at nominal cost. Unless some means could be found to neutralize this danger, the Special Fund, valuable and promising as it has shown itself in its present role, could not be considered a satisfactory agency for the central programming responsibility -- especially its vital aspects that center in the country missions.

Tentative Conclusions

32. Western efforts to promote economic development and strengthen the bases for orderly progress in the emerging countries badly need a new impetus, clearer direction, and more ample resources. But the kind of new look that is required is more a matter of pace, emphasis and follow-up

than of drastic innovation. Creation of a vast new financial and institutional structure, to carry out a Marshall Plan-type program on a crash basis, does not seem likely -- nor really desirable. Its advantages, mainly a transitory political impact, in all probability would be outweighed by the delay and confusion involved in getting such a program off the ground, by the exaggerated hopes it would arouse, and especially by its effect in reinforcing the impression that salvation for the emerging countries lies chiefly in massive external aid rather than in resolute domestic efforts and the building up of local capabilities and institutions.2/

33. The central feature of the required new look is a greater emphasis on country programming, organized and aided under international auspices, that will favor overall Western purposes and effective Western participation. Of the organizational frameworks now in being the one best suited to this task is the Bank-IDA combine -- supported by its sister agency, the International Monetary Fund, in dealing with related shorter-term issues and monetary problems. The Bank's undertaking this function would entail important changes in the size and character of its staff and in its accustomed mode of operation, changes that would surely complicate its hitherto relatively smooth existence. But a number of these changes are already taking place, or are implicit in the recent trend of the Bank's activity; they could doubtless be accelerated somewhat without excessive strain.

34. Fortunately, moreover, such a shift does not have to take place everywhere and at once. It can be introduced and tried out progressively. Over the next year or so the Bank might station small resident missions in three or four new countries (or perhaps merely expand the terms of reference of an already established mission), after informal consultation with the members of the DAG, with the United Nations, and of course with the governments of the less-developed countries in question.3/

2/ Crisis situations and emergency needs (as in the Congo, for example) have to be dealt with on a crash basis, of course; and stabilization of these situations is necessary before real developments can start. But this <u>precondition</u> should not be confused with the <u>process</u> of development itself.

3/ The likeliest areas for early expansion of the Bank's activity and initiative along these lines are South Asia, the Middle East and Africa. Latin America, in the earlier years of the last decade, received a good deal of attention and assistance from the Bank in the field of programming. But the U. S. recently initiated a major regional development program and clearly indicated its preference for using the Inter-American institutions as the principal organs of cooperation.

35. As an experiment, also, the TAB might designate one or more of the Bank's country representatives to serve concurrently as the TAB Resident Representative, and the Bank might reciprocally give one or more of the TAB representatives a second hat as head of its mission. I do not mean to suggest that all resident representatives of either agency should act in a dual capacity (as, for example, the TAB representatives automatically act for the Special Fund). Such a combination would probably be inappropriate for some countries -- and certainly for some of the persons now occupying the respective posts. But it would seem to be worth trying in a few cases, agreed informally and _ad hoc_ between the Bank and TAB Managements, to see how it would work and how useful it would be in practice.

36. Arrangements of this kind could thus be put into effect through informal discussion and agreement -- without altering the constitutional structure of international organizations or (in most cases) requiring any new national legislation, and with a minimum of political controversy and ideological argument. Such arrangements could be initiated quite quickly and extended progressively as pragmatic considerations might dictate. The one immediate requisite is a clear indication from the principal members of the Bank, which are also the main contributors of development assistance, that they would favor and support an initiative along these lines, by the Bank in consultation with the other agencies concerned. Given such an indication, even in quite limited and general terms, exploratory discussions could be started with good prospects for a fruitful outcome; without it there would be nothing to talk about.

Radio Pakistan

Radio Talk by David L. Gordon,
Resident Representative
of the
World Bank
January 11, 1961

The full name of the World Bank is the International Bank for Reconstruction and Development. You can understand why most people prefer to use the shorter title, but the more formal one is not merely a name; it is also a summary description of a quite unique institution.

First, it is international, a specialized agency of the United Nations, formed in 1946 as a result of the Bretton Woods Financial Conference. Its members and shareholders are 68 nations; and the 650 persons, more or less, that make up its staff come from 53 different countries.

In the second place it is a bank - an agency for helping to finance long-term investment. It does not provide grants or relief for temporary financial crises. It makes loans for economically productive projects, and it expects these loans to be repaid, with interest. So far they always have been. This favorable financial record, the reserves which the Bank has built up in the course of its loan operations, and the backing of its member countries' guarantee, all enable the Bank to borrow money in the ~~main~~ capital markets of the world - in New York and London, Germany and Switzerland and many other countries - from private and institutional investors. We have been borrowing, for the past two or three years, at the rate of about $400 million annually, and the Bank's total funded debt as of last October was more than $2 billion, denominated in seven different currencies. These borrowings now provide most of the funds that the Bank has available to lend.

It is not, however, a bank in the usual commercial sense. It does make nominal profits, to be sure, but these all go back into new loans to serve its essential purposes of economic reconstruction and development. The postwar reconstruction phase of our work having ended some ten years ago, the key word now is development. Of the Bank's total lending to date - nearly $5½ billion in all - over 90% has been for this purpose; much the largest part ~~of this~~ has gone to the less-developed countries of Asia, Africa and Latin America. 53 countries, in all, have received loans from the Bank. The volume of its lending, the number of countries that have benefitted and the proportion of loans received by its less-developed members, all have risen sharply in the past three or four years. About $700 million of new loans have been made in each year since 1957.

The Bank is required by its Charter to make loans for "productive" projects, and they must either be made to a member Government or guaranteed by that Government. In practice, much the largest part of the Bank's financing has been for power, transport and communications, irrigation and certain large scale industrial works. It has also helped to establish and finance development banks or corporations in various countries, which in turn provide assistance to smaller industries within the country; one such is PICIC, the Pakistan Industrial Credit and Investment Corporation. In general, the Bank's Charter restricts it to financing the foreign exchange required for a project - the part that corresponds to imported equipment, materials and services - leaving it up to the borrower to finance the local currency portion from other sources.

A decade's experience with development problems convinced the Bank's Management and Directors that these limitations on the kind of financing we can do - that is, the fact that our loans have to be repaid in hard currencies at a fixed rate over a relatively short term, that the interest rate we have to charge must be high enough to cover the service on our own borrowing and to build up reserves, and that we cannot finance local currency costs or projects that would not yield a relatively short-run financial return - these limitations made it difficult for the Bank to serve its less-developed member countries as adequately as its founders had intended.

Consequently, in 1958, several member countries proposed, and the Bank's Governing Board endorsed, the creation of a new agency under the Bank's Management, that would be able to provide credit on much easier and more flexible terms. This agency, called the International Development Association, came into being about three months ago and has begun operations. Its resources, so far, are quite limited; it will initially be able to add only about 20 percent to the amount the Bank has been lending annually in recent years. But it can supplement the Bank's loans in a very flexible way, and of course its aid will be especially important for the countries whose relative need is greatest.

Finally the World Bank, because it is not merely a bank but an institution for promoting development in the broadest sense, has provided a good deal of technical advice and help along with its financing. Some of this technical assistance has been directly connected with projects for which we were making a loan-advising, for example, on the design of the project, or possible means of raising additional capital to complement that lent by the Bank, or administrative arrangements for its operation. But much has been done also to provide assistance of a broader and more general kind, not directly related to our financial operations. To avoid duplicating the work of other specialized agencies the Bank mainly concentrated in certain areas of such assistance - notably aiding member governments to assess their economic resources and potentialities in comprehensive fashion, to plan and organize general development programs, and to mobilize their own savings more efficiently for productive investment, through better organization of their capital markets and the establishment of local development financing institutions.

This is a very condensed and superficial description of the Bank's world-wide activity. In the short time that remains to me I should like to focus more specifically on our relations with Pakistan. So far the Bank has lent over $241 million to this country, for 13 projects - including the financing of railway equipment, agricultural machinery, the Sui Gas Pipeline, electric power and Port works in Karachi, the Karnaphuli Paper Mill, PICIC, and most recently the Indus Basin Project. This last project is the culmination of some ten years of negotiations between Pakistan and India, in which the Bank acted as mediator at the request of both parties. In addition to its own financial contribution, the Bank took the responsibility for lining up grants and credits from six friendly governments, besides India, amounting in all to about $900 million, + is acting as Administrator of this combined Indus Basin Fund.

Just a few months ago, the Government of Pakistan asked the Bank's assistance on a still broader, more ambitious scale. It asked us to form a consortium of countries willing to assist Pakistan financially, not for the Indus Basin Works alone, but for the entire program of development projected under the Second Five-Year Plan. The first meeting of this Consortium - comprising the United States, Great Britain, Germany, Japan, and Canada ~~and Australia~~ - took place in Washington last October. As a result of of their preliminary deliberations, a mission of experts from the Bank's staff will be here this month and next, to make a comprehensive review of specific projects and plans all over the country and to present to the next meeting of the Consortium, in about three months' time, a full report on Pakistan's needs for foreign financing, ~~and how they might best be met.~~

Pakistan, then, is not only a valued member and major borrower of the World Bank. It is also a country with which the Bank has enjoyed a peculiarly intimate relationship, touching on almost every aspect of the national development plans and problems. We have every hope and confidence that this close collaboration will be maintained and will be increasingly fruitful for a very long time to come.

Karachi
January 5, 1961

Draft of speech to Louisville Committee on Foreign Relations, November 10, 1964

by David Gordon - unfinished; Mr. Gordon extemporized the rest and skipped over some of it in the talk.

THE OBSTETRICS OF ECONOMIC DEVELOPMENT

In economic development, as in human reproduction, conception is the easy and pleasurable part. It is associated often with the honeymoon glow of new nationhood or a new revolutionary regime, when the difficult circumstances of the present are suffused by rosy hopes for the future. The development planners, looking forward ~~to~~ a decade or a generation, can see in their imagination a numerous offspring of sturdy projects and lovely burgeoning economic indices. These dreams may never come to fruition, but even after a number of miscarriages the conceiving of new schemes and programs is still an exhilarating process.

So much so, indeed, that it is sometimes hard to persuade the newly developing countries to think much beyond the conception stage. In too many countries still, development programs consist largely of enthusiastic gleams in the leaders' eyes or elaborate statistical models worked up by dedicated planners without much relevance to present realities. When their high hopes fail to be realized, when the plans are abortive or result in burdensome economic monstrosities, the resulting disillusionment may sometimes be the beginning of wisdom -- or it may merely lead to growing apathy, or to a violent reaction that could start the whole cycle again.

I don't want to strain unduly the analogy between human growth processes and those of economic and social development. We know even less about the latter than about the former, and our efforts to foster and guide it are even more fumbling. Until a very few years ago it was a general assumption, at least among non-Marxists, that economic development would more or less take care of itself -- through the progressive transfer of technology, the extension of education, the accumulation and investment of capital -- if a reasonable measure of social stability prevailed. In the colonial areas of Africa, and some parts of Asia and the Caribbean, there was expected to be a gradual evolution toward independence, under benevolent tutelage that would last a generation or more. Even the Marxists envisaged development as a fairly simple process of modernization under forced draft, once the exploitative imperialist hold had been broken and the means of production and capital accumulation transferred to social ownership.

The matter was by no means so simple, of course -- as we have progressively and painfully learned over the years since World War II. The International Bank for Reconstruction and Development, better known as the World Bank, was set up just at the end of that war. At the start, it saw its functions as the relatively narrow one of providing capital, more specifically foreign exchange, to finance well conceived and prepared projects -- railways, roads, power plants and transmission lines, and an occasional industrial or irrigation scheme -- for which the need was clear and for which the country concerned could service a debt without undue difficulty. Like any good banker, of course, once it agreed to assist a project the World Bank took a continuing interest in its financial welfare, management and further development.

To oversimplify considerably, its role was a bit like that of the philanthropic merchant or banker who used to appear in an early chapter of the Horatio Alger novels and, being impressed with Ragged Dick's enterprise, upstanding character and worthy parentage, gave him generous financial backing and moralistic guidance through his rise to maturity and worldly success. But this solid citizen didn't concern himself with other Ragged Dicks, possibly just as deserving, who had not happened to come to his notice. Similarly, the Bank liked to find its projects up-and-coming, already fairly mature but still malleable.

In fact, this role of the World Bank was and remains a very valuable one. There were and still are a large number of projects that fit the relatively simple criteria I mentioned. In the process of assisting them, the Bank developed a variety of techniques and standards for evaluating projects, that are more widely applicable and useful not only for the purposes of the Bank itself but also in other development activities of the borrowing countries and institutions. The Bank has been able to establish its credit solidly in the capital markets of the world -- which would probably have been less receptive if it had taken a more daring or innovating line at the start. And having avoided raising undue hopes in the developing countries, the Bank's reputation and relations with them have been soundly based and rather steadily improving.

Nevertheless, it became clear even in the quite early days of our experience that the Bank would have to take a broader, more active initiative in order really to fulfill its potential and intended role as an international development institution. The more-than-anticipated complexity of the process; the dependent areas' faster transition to, and less adequate preparation for, independence; the wrong-headed policies often pursued by reckless or feckless governments in the developing countries; the pressures and tensions associated with the Cold War and with commercial competition among the capital-exporting countries; the fluctuations and, during most of the post-Korea period, the persistent decline in prices of most basic commodities; the stubborn stagnation of agricultural productivity -- all these and other difficulties call for a broader and more intensive concern with the preparation and gestation of projects, long before they are ready to be embodied in a loan application.

The Bank still finances only full-fledged projects -- and only if they appear, on the basis of a hard-headed technical appraisal, to be soundly conceived, of high productive potential and ready to go forward. Some of these projects come to our attention already quite mature, like Ragged Dick in the story, but for most of them there is a considerable history of encouragement, guidance and help by the Bank that goes back long before the final project sees the light. Thus, in many of its activities the World Bank is acting not merely as a financial backer of economic development, but also in a sense as its obstetrician; and it is this aspect of our task -- nurturing the embryonic schemes that embody the developing world's hopes for economic progress, to a point where these schemes appear reasonably viable -- that I want to emphasize this evening.

The preparatory work often starts well before a project is thought about in any specific terms. One of the earliest ways in which the Bank sought to be of service to its member countries, apart from financing, was by mounting what we call a general survey mission. These are organized on a highly selective basis, on request of a member government, to countries that have reached a stage in development where they are faced with basic decisions about their economic potential and program and want qualified, disinterested help in setting their future course. The first such mission was to Colombia just 15 years ago. I had the good fortune, in fact, to be a member of this Colombian mission -- that was in an earlier period of my employment with the Bank, which was interrupted for several years -- and it was a fascinating experience. Since then, we have organized similar missions for 23 other countries, most recently for Morocco.

The size and composition of these missions vary considerably, depending on the character of the particular economy. The mission to Spain was naturally a good deal larger, and its report much more complex, than was the case, for example, for Surinam. Generally, the mission's purpose is to diagnose, in a comprehensive and realistic way, what are the country's potential economic resources and problems, and to suggest the broad lines of economic policy and of an investment program for a period of, say, five to ten years. Typically, these general survey missions take nearly a year -- several months of intensive investigation in the field followed by a longer period of consultation, analysis and report-writing back at headquarters.

The Bank doesn't try to dictate the substance of a survey mission's recommendations. These are the responsibility of the Mission Chief and his associates, two or three of whom may come from the Bank staff, the rest being specially hired. Our concern is that members of the missions should be as well qualified and objective as possible; the acceptability and effectiveness of their recommendations obviously depends mainly on this factor. Our task in this regard is made easier by the international character of the Bank, and the fact that past survey reports have generally had a good reception and been quite influential, some outstandingly so. As much as anything, perhaps, their value is political -- providing an over-all frame of reference within which specific policy and investment decisions can be considered, helping Governments get across to their people the problems and limitations, as well as the potentialities, of their national development and the need for difficult choices and some unpalatable measures, and in some countries helping to take the onus for unpopular decisions. A good survey mission report focuses, in a rather dramatic way, the fundamental issues of development policy and may serve as a catalyst for resolving them.

As a supplement or alternative to the impact of a general survey mission, the Bank has provided resident advisers to a number of countries, to help their Governments on a day-to-day basis in organizing planning machinery and formulating and carrying out national development programs. In some cases these resident missions also have some operational duties on behalf of the Bank; but more usually the advisers are seconded to the service of the Government and, like the survey missions, are not subject to the Bank's substantive direction. Since the start of 1960, we have had an average, at any one time, of 12 such resident advisers stationed abroad. Quite frequently also we send out staff members from headquarters for shorter periods to provide the same kind of help.

The attention of these advisers tends to focus mainly on the merits, priority and readiness of specific development projects. It goes without saying that the value and viability of any important project depends essentially on its relation to the national or regional economy of which it is a part -- the minerals that may be tapped by a railway; the agricultural production that a road may stimulate or bring within reach of a hungry city; the potential market for an industrial plant, or the industries that may be encouraged to grow by providing a cheaper and better power supply. Thus each project must be looked at in the context of a broader program. By the same token a development program that is not worked out in terms of specific, well-studied projects is likely to be a barren academic exercise.

I would not think it worthwhile to make this obvious point if there were not, in developing countries around the world, so many development programs, so-called, that are not much more than such academic exercises. One can cite several reasons for this. In the first place, having a Plan has become almost a political necessity -- and indeed it can be a valuable and constructive means of guiding policy decisions, crystallizing opinion and eliciting public support. Governments in a hurry to obtain these advantages may rush through a glowing Plan and announce it with great fanfare, hoping thereby to gain a little time to fill in the grubby details. This often takes longer than was expected, and the details, when they become available, may turn out to be irreconcilable with an over-ambitious and optimistic framework.

In the second place, development programs are usually worked up by economists -- probably young economists because in most developing countries that is the only kind there is. They possess youth's natural optimism and desire to please; and they have at their disposal -- as a result of some ingenious and intriguing analytical work that has been done in the great universities of America and Europe, and that has progressively been transferred to and taken root in the economic faculties of the developing countries -- an elaborate paraphernalia of growth models, capital/output ratios and the like, which can illustrate quite persuasively how economic development ought to take place on certain assumptions. This makes it possible to construct a perfectly beautiful macroeconomic framework, containing all sorts of dynamic assumptions, without ever deciding, or even seriously considering, precisely what anyone will actually <u>do</u>. A given amount of investment is supposed to take place, a certain increase in industrial and agricultural output is anticipated, savings and public revenues should accrue, and hopefully the cycle continues.

But in order to have it work that way in practice, there must be not merely a certain <u>level</u> of investment but a wide variety of <u>specific</u> investments, not only an appropriate policy framework but a number of difficult specific decisions. Some entrepreneur, or more properly a number of entrepreneurs, must study alternative market and profit possibilities, make decisions to build certain industrial plants of certain size to produce particular ranges of goods, somehow raise the necessary capital, and arrange a hundred other details required to get into reasonably efficient production within a reasonable time. The desired increase in agricultural output is likely to involve an even more complex and arduous series of actions: organization or expansion of an extension service, training of extension agents, programs of research and demonstration, provision of fertilizers, insecticides and other requisites, establishment and adequate financing of an agricultural credit system, improvement of tenure and marketing arrangements, and so on.

All these are projects. They constitute the real content, and pose the practical choices, that determine the validity and success of any development program. All of them make specific calls on scarce resources of capital and, not less important, of human skills and organizational abilities; in effect, the decision to undertake one project means foregoing something else. It means, to some extent, giving one economic group or locality preference over others. It may affect deeply entrenched interests or prejudices. Given the delicate and controversial nature of the choices, it is perhaps not surprising that some development planners, whether nationals of the developing countries or foreign advisers, prefer to shy away from specifics and concentrate instead of general trends and mathematical models /Example: Ethiopia/.

At the other extreme there are some development programs that essentially consist of nothing but projects -- everyone's favorite project indiscriminately jumbled together and added up. This also avoids the embarrassment of choices but entails other difficulties. It may involve spreading the available funds and manpower so thin that nothing gets done properly. For example, in Colombia at the time of the Bank's survey mission the development budget for highways included 101 different construction projects. At the start of each fiscal year each project would receive a little money and two or three pieces of equipment; the work would proceed for a few weeks until the funds ran out and then the crew would disband until the next year. It was calculated that at the then current rate of progress some of the crucial highway links could be finished only after 10 years, at which time the portions already completed would have to be rebuilt. Still each department and locality held on tenaciously to its little allocation. One good result of the Bank's survey was to break this impasse and persuade the Government to put highway planning and budgeting on a more rational basis, concentrating on and completing a dozen or so top priority jobs.

More often than one might expect, the number of projects for inclusion in a program is actually less than the country in question should, in principle, be able to undertake. This may be because some newly independent countries, and even some that have been independent for a considerable time, have no very clear notion of investment. The governmental administration, and often also their private businessmen and agriculturalists, are used to keeping things going from day to day, or at most from year to year, without planning ahead. In other cases there is some sense of the need to organize ahhad and a desire to invest for productive return, but little reliable knowledge of the country's resources or the potential for increasing its output;

David Gordon

Draft of Speech to the Kentucky World Trade Conference, Louisville, Kentucky, November 11, 1964

THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United Nations Conference on Trade and Development, UNCTAD for short, opened last March 23, after more than a year of intensive preparation, and ended on the 16th of June. It was the first really comprehensive, fundamental international review of the problems of world trade since the Havana Conference 17 years earlier; indeed, it was far more inclusive, in both participation and subject matter, than the Havana meeting.

The agenda was encyclopedic. The preliminary list of main topics comprised a score of such omnibus categories as, for example, "International trade and its relations with national development planning, policies and institutions;" or "Measures for stabilization of primary commodity markets at equitable and remunerative prices including commodity arrangements;" or "A reappraisal of the effectiveness of the existing international bodies dealing with international trade in meeting trade problems of developing countries, including a consideration of the development of trade relations among countries with uneven levels of economic development and/or different systems of economic organization and trade." In all, they touched on, or could be interpreted to extend to, almost every imaginable problem of international or domestic economics.

The initial documentation prepared by the Secretariat amounted to something like 5,000 closely typed pages, and new floods of paper emerged from the delegations and the discussions during the Conference itself.

122 countries were represented; they sent a total of some 2,000 delegates since, in order to cover the vast range of subject matter, it was necessary to break the Conference down into a large number of committees and working

parties, and every country wanted to have a voice in almost every aspect of the discussion. For example, a small working party set up to consider the special problems of land-locked countries like Switzerland, Afghanistan, and Bolivia, eventually grew to about 70 members -- including San Marino and the Vatican, which incontestably lack any seacoast.

In the summary statement which he presented to the U.N. Economic and Social Council, a month after the close of the Conference, its Secretary General, Dr. Raul Prebisch, pointed up the contrast between it and the earlier Havana meeting:

> "Ideas which at Havana appeared only in a tentative form and were then the subject of lively controversy, ideas which had only just begun to be mooted in a world undergoing development, were accepted and recognized explicitly or tacitly at the recent Geneva Conference. The ripening of these ideas has been a lengthy process, a process fostered and encouraged by the new political, economic and social forces that are becoming more and more firmly established in the developing world."

To put it another way -- although Dr. Prebisch is probably too diplomatic to do so -- the Havana Conference was sponsored and dominated by the larger industrial nations of North America and Western Europe. It reflected their desire to codify trading rules in a way that would avoid the self-defeating expedients of the 1930s and would encourage a progressive expansion and liberalization of international commerce. While the legal and institutional framework envisaged at Havana never came fully into being, largely because the U.S. Congress refused ratification, the interim machinery of the General Agreement on Tariffs and Trade progressively was elaborated and set the tone for international trade relations during the 1950s.

The attitudes and pressures of the Geneva Conference, on the other hand, derived mainly from the Asian, African and Latin American countries -- described in the official U.N. terminology as the "developing countries," whether or not they are in fact developing. It reflected their dissatisfaction with the trends and results of world trade in the 1950s, and their increasingly articulate criticisms of the principles underlying GATT.

A large share of the credit, or from some standpoints the blame, for formulating and crystallizing the developing countries' viewpoints undoubtedly belongs to Dr. Prebisch. During his long tenure as Executive Secretary of the U.N. Economic Commission for Latin America, his general thesis became almost universally accepted doctrine in that region, and, expressed with varying degrees of sophistication, has come to dominate the thinking in most other developing areas. In brief and crude summary, it contends that the terms of trade for developing countries have an inevitable tendency to deteriorate in the long run. That is, the value of their exports, mainly primary products, tends to decline in relation to the cost of their imports of manufactured goods. In consequence, increases in the output and productivity of these countries do not lead to a corresponding rise in their living standards; the benefits accrue rather to the wealthier industrial nations in the form of relatively lower imports costs. These changes in price relationships largely negate the transfers of capital through foreign aid and credits from the more to the less developed countries. To quote Dr. Prebisch again:

> "In 1950, the capital thus transferred amounted to barely 0.3% of the national income of all the market economy countries [the industrial nations outside the Soviet bloc]. Twelve years later, by about 1962, it had risen to 0.7%, but this figure is not very satisfactory when it is remembered that, in the same period, the loss of earnings of developing countries due to deteriorating terms of trade again reduced to 0.3% the proportion of their financial resources which the developed countries transferred to the developing countries in one form or another."

The validity of the "Prebisch effect" and, if it exists, the size of the consequent "gap" in the financing of economic development, has been the subject of lengthy and abstruse argumentation among economists. The elaborate statistical demonstrations of those who support the Prebisch view are not wholly convincing; long-term data are often lacking, unreliable or open to a different interpretation; and the trends vary widely for particular countries, products and periods of time. Even the underlying concepts are not always clear or consistent, and one can ~~sometimes~~ detect a certain emotional bias behind their appearance of scientific objectivity.

Nevertheless, one does not have to buy the Prebisch thesis intact, with all its controversial premises and implications, to recognize that as a practical matter, under present-day conditions, a preponderantly agricultural economy that is really subject to the vicissitudes of supply and demand is at a serious disadvantage. The reasons are various: the law of diminishing returns, so dear to the hearts of the classical economists, which applies much more to agriculture (and to other types of primary production) than to modern industry; the slower rate of increase in the demand for basic foodstuffs than for other goods, in countries that are rich and growing richer; the spectacular rise in agricultural productivity in these latter countries themselves, backed by their modern technology, by heavy capital investment and often by large subsidies; the inability of agricultural producers, numbered in the hundreds of millions in scores of countries, to organize themselves to adjust their output to demand; the ingenuity of scientists in America, Europe or Japan, who are constantly developing substitutes or devising stretching techniques for natural raw materials; and so on. Within all the important Western countries the agricultural sector enjoys special subsidies or protection; and their internal prices and costs of production may bear little relation to the so-called world prices at which they export their surpluses. For poorer countries, whose production and exports are mainly agricultural goods, such measures are out of the question.

Part of the solution, of course, is for the primary producers to develop a more varied pattern of exports, including manufactured goods. But in this endeavor also they suffer from grave disabilities: for example, their home markets are often too small to support modern industries of efficient scale; they lack a reputation and experience in highly competitive export markets; they have no resources to finance export credits. Some developing countries nevertheless possess or have managed to achieve a comparative advantage in relatively simple or labor-intensive industries, only to come up against protective measures imposed by the more advanced countries to safeguard their own traditional industries.

I do not mean to impute any blame to the industrial nations, or to GATT, or to the system of rules and agreements developed under its auspices. The situation I have outlined is a rather natural and predictable consequence of the wide disparity that exists between the richer industrial nations of the world and the much larger and more populous group of poor countries, with their traditional patterns of production and exports. I do want to suggest, however, that there are quite understandable reasons for the growing skepticism and dissatisfaction of most of the developing countries regarding the working of the orthodox principles of international trade. Their grievance was confirmed by the general deterioration of their terms of trade during the 1950s, and was not much mitigated by the upturn in commodity prices that started about two years ago.

To the Soviet Bloc, of course, the whole Western position on trade -- the liberal, multilateral policies exemplified in GATT, modified by a system of special restrictions on East-West trade -- was anathema. They sought, predictably, to exploit to the full the developing countries' suspicion and discontent, and added their voice to the demand for a fundamental review, and a new pattern, of trading relationships.

Finally, as the 1950s rounded into the 1960s, there emerged another challenge to the accepted pattern -- the preferential arrangements associated with the European Common Market. On the one hand, in the thinking of the Six, these arrangements, and the negotiations and deals which they involved, took precedence over maintenance of the integrity of the GATT system; and on the other, the preferences envisaged for the African Associated States threatened to aggravate the problems of the other developing countries.

The consensus of the 1950s, deriving from the Havana Conference and embodied in the principles of GATT, thus came under increasing pressure from three directions -- the Soviet Bloc, the Common Market and the ill-organized, but increasingly numerous and articulate, developing countries. This last group, which found its spokesman in Dr. Prebisch, exerted most of the pressure and largely set the tone for ~~the~~ UNCTAD. The emphasis at Havana had been on allowing trade to expand through the free working of market forces, on the assumption that these forces, with relatively minor and marginal exceptions, would adequately protect the trading interests of developing countries and promote their economic progress. At Geneva the development objective was paramount; and the majority of participants seemed to start from the premise that some basic changes would have to be made in the existing pattern and rules of international trade, in order to achieve this objective. They did not seem, however, to agree on much else.

The Conference deliberations were long and confused, and its decisions heavily overlaid with compromise. Their significance will not be entirely clear for some time, perhaps not for years to come. But it may be of interest to summarize some general impressions, issues and points of agreement that are likely to influence international trade and development policy for the future.

First, something on the evolution of the various national groupings and of their positions in the Conference. The Soviet Bloc had been among the earliest proponents of a comprehensive meeting on international trade -- primarily, it appeared, as a forum for attacking East-West trade restrictions. As the Conference eventually evolved with the emphasis placed on development, their role became less active and their influence waned. The developing countries regard Eastern Europe as an industrially advanced, relatively rich region, which in their view has a duty, like other rich regions, to give substantial concessions and capital assistance to the poorer countries of Africa, Asia and Latin America. The Russians and their allies took rather a different view of their obligations and interests; they offered Socialist homilies, but otherwise were not very forthcoming. On many issues, paradoxically, they found themselves voting with the U.S., Western Europe and other industrial countries against the less-developed majority.

The French made an initial splash with a call for a radical restructuring of international economic relations. They advocated the formation of regional groupings, to include both more and less developed countries, similar to the Common Market and its associated states. They would deliberately raise the world prices for temperate zone agricultural products to those that actually prevail in the producing countries, thus eliminating subsidies; the gains to exporting countries from these higher prices -- paid, of course, by the large food importers, notably Britain -- would finance a sort of international Food for Peace. Similarly, they would seek to organize markets for the tropical raw materials and foodstuffs produced by the developing countries by means of a system of levies to raise prices in the consuming countries, the proceeds of which would be turned back to the producing countries for purposes of economic development. Finally, they would introduce a system of selective preferences for the developing countries' industrial products, in the markets of wealthier nations, to be negotiated on a case-by-case basis.

The French proposals were endorsed with varying warmth by their Common Market partners and by the former French colonies in Africa; but the complexity of the agreements and negotiations that would be required, especially for the myriad selective, temporary and variable preferences for industrial products, gave pause to many delegations. Some of the Latin Americans, while criticizing the French and Common Market preferences for African products, sought to use them as an argument for getting similar concessions themselves from the U.S., but they made little headway. The Asian countries, and the Africans not tied in with the Common Market, feared that they might face discrimination in both European and American markets, with no compensation elsewhere, and reacted strongly against the French approach.

This approach was also opposed, it goes without saying, by the two most important trading nations of the world, the U.S. and Great Britain. They generally supported the maintenance and extension of the GATT system, supplemented in several ways to mitigate the developing countries' problems. The British (although not the U.S.) proposed that exports from developing areas might be granted a general (not selective) preference in the markets of industrial countries. Both the U.S. and Britain favored moves toward economic integration or reciprocal preferences among the developing countries; commodity price stabilization measures, largely unspecified; and supplementary financial assistance for development, possibly linked in some way with compensation for falling export proceeds.

The developing countries, constituting the majority of the Conference, were united at the start only by their shared dissatisfaction with things as they are. They were divided in a number of ways: by ideological or political disputes in some cases; by commercial rivalry as, for instance, the competition between African and Latin American producers of tropical commodities; and by the special relationships which many of them held with one or another of the industrial nations, as part of the Commonwealth or the Interamerican system or the Common Market arrangements. And the specific proposals which they advanced in the early stages of the Conference reflected a wide range of economic viewpoints and levels of realism and sophistication.

One of the most striking developments of the Conference was the emergence of a broad common front among these disparate countries. The group of 75, which later became 77, developing countries progressively resolved their differences and upheld their joint interests with considerable skill. The initial committee stages of discussion saw a good deal of demogogy, and some resolutions were pushed through by a less-developed majority over the resistance of the industrial nations, without whose concurrence the resolutions were wholly academic; but in later behind-the-scenes negotiations the developing countries, for almost the first time in international meetings, delegated real bargaining authority to one or two of the most experienced of their number, who were able to find a common denominator with the Western delegations.

Often this consensus was expressed in very general, high-sounding language which could be variously interpreted; nonetheless, a number of important statements of principle were agreed. One of these explicitly recognized the need for an adequate inflow of external resources, including both capital transfers and export earnings, into the developing countries to accelerate the pace of their economic growth; set a target for net transfers of financial resources from the more to the less developed countries of 1 per cent of national income of the former; and at the same time underlined the developing countries' responsibility for effective mobilization of their own resources.

Another broad resolution, sponsored by the U.S. and a mixed group of developing countries, stated a number of general and essentially unobjectionable principles that ought to guide the provision of economic and technical assistance and promotion of the flow of capital. There was a resolution endorsing international private investment and suggesting a variety of measures for encouraging it; and still another, which the U.S. did not support but most other Western nations did, to the effect that the public sector was also important and should not suffer discrimination in foreign aid programs.

On the matter of preferences for the developing countries' manufactures in the markets of industrial nations, no agreement was reached. A resolution proposing sweeping concessions on this point was pushed through the Committee on Trade by a less-developed majority, without the concurrence of any of the industrialized countries. In the end it was quietly shelved, and a very noncommital text -- called in French the "chapeau", roughly translated as "umbrella" -- in effect postponed the whole issue.

The significant substantive resolutions were mainly those having to do with financing of development; and these,too, put off many of the real problems for further study and discussion. The Conference referred several proposals to the World Bank for analysis, a task which the Bank has undertaken with some misgivings in view of the complex and controversial issues involved. But it is our hope that in the relatively objective and nonpolitical atmosphere that prevails in the Bank -- as distinct, perhaps, from some other international organizations -- and taking advantage of the Bank's experience in development matters and the good relations it enjoys with both Western capital-exporting nations and most of the developing countries, it will be possible for us to make a constructive contribution, at least to the clarification of issues and perhaps to their resolution. From our standpoint, one of the most encouraging aspects of the Conference was the degree of confidence in the World Bank that was shown by the developing as well as the developed countries among its membership.

The most specific proposal submitted to the Bank for study was the idea of Mr. David Horowitz, the Governor of the Central Bank of Israel. He started from the premise that if capital transfers are to take place on the scale required by the developing countries, without posing unmanageable debt servicing problems, a substantial part of these transfers must be on terms of interest and amortization considerably more lenient than conventional loans—on terms something like those of credits from the International Development Association, the soft loan affiliate of the World Bank, or of the USAID financing of recent years. This view is widely accepted in the Western industrial countries, all of which have provided funds of this kind through contributions to the IDA and some of them also on a bilateral basis. Mr. Horowitz suggested, however, that these countries are finding it increasingly hard to provide enough soft loan money from their budgets. As a substitute he proposed that the World Bank or IDA borrow larger sums in the capital markets of the world, preferably in countries having a balance of payments surplus, and then relend the proceeds on easy terms through IDA. In order to induce private investors to buy these bonds, the governments of the advanced countries would have to guarantee them in some way, and also make annual contributions to an "interest equalization fund" that would make up the difference between borrowing at, say, 5 per cent and relending at, say, 2 per cent interest. On this assumption, the equivalent of a billion dollars of capital could be made available to the developing world on easy terms at an annual budgetary cost to the capital-exporting countries, as a group, amounting to only some $30 million. The burden of providing the capital would thus be shifted from national budgets to the money market. This proposition involves, obviously, a number of significant premises and problems, which are now being analyzed by the Bank's staff.

An even more far-reaching financial proposal, put forward initially by Great Britain and Sweden, relates less to means of increasing IDA funds than to the purpose for which they would be increased and used. It would aim to provide long-term financing for developing countries whose export earnings, for reasons beyond their control, fall below reasonable expectations to such an extent as to threaten disruption of their development programs. This idea also raises a number of policy and operational issues. How are <u>reasonable</u> expectations of future export earnings to be defined? In administering the funds earmarked for this scheme, how far must IDA satisfy itself that the country's development program is sound and <u>deserves</u> support, or that the country is doing everything within its power to shift its own resources from nonessential to developmental purposes? And suppose the terms of trade for most developing countries should <u>improve</u> over an extended period; would the earmarked funds remain idle until a new deterioration set in? And so on.

The Bank also was asked to expedite its study of multilateral investment insurance, on which it had made a preliminary report in 1962; to inform the United Nations on the results of its exploration of the possibility of setting up procedures to facilitate the settlement of investment disputes, a matter that is now under active discussion; and to make a study of suppliers' credits, including not only various possibilities and problems of financing sales from the industrial to the developing countries, but also means to enable the latter to sell their exports on credit terms.

These and a host of other matters relating to trade and development policy will be under continuing study and discussion in the Bank, the U.N. Secretariat, the interested governments and future conferences -- for UNCTAD seems likely to evolve into a periodic Ecumenical Congress on international economics. The precise form of its continuing machinery is still being negotiated at U.N. headquarters.

What is definite is that there will be another international commission, the Trade and Development Board, to serve as an interim deliberative body between plenary conferences. It will comprise 55 members, chosen from specified regions. The 61 members of the Afro-Asian group (for this purpose including Yugoslavia) will designate 22 members of this new Board, the 29 Western industrial nations will choose 18, the 22 American republics 9, and the 9 members of the Soviet Bloc 6. This composition gives the industrialized countries' representation very slightly greater than their relative numbers, but nowhere near in proportion to their importance in the world economy. The Western nations pressed for some kind of weighting of votes in the Trade and Development Board, pointing out that major decisions, if they are to have any practical effect, must be accepted by the countries that control most of world finance and trade. The validity of this point was not disputed by the developing countries, but they were unwilling, for obvious reasons, to allow the one nation-one vote principle to be called into question. It was finally agreed that some procedure would be devised by which a minority in the Conference, in the Trade and Development Board or in their subsidiary organs could refer an important controversial issue to a process of conciliation, designed to try to reconcile differences in private discussion, with the help of disinterested experts, before a vote would be taken. Such a conciliatory mechanism, set up ad hoc, had considerable success in the later stages of the Geneva Conference. Whether it will be possible by this means progressively to bridge the obviously large, though perhaps narrowing, gap between the conceptions of the less and the more developed countries will not become clear for some years at least.

For the dialogue that started at Geneva will go on a long time. The developing countries have succeeded in opening up for discussion, without restriction and very much on the terms set by them, a whole range of issues about which they have been stewing for a decade or more. None of these issues was really disposed of by last spring's Conference. The pre-existing orthodoxy was not destroyed but it was seriously undermined; a new accommodation of interests and viewpoints is clearly necessary. The ideas and the gimmicks, the negotiating machinery and the men, that emerged at Geneva will certainly have considerable influence on the form and content of this accommodation. This is not, I know, a very profound conclusion, but I don't really think one can be much more definite than that.

THE WORLD BANK NEW DIRECTIONS IN AFRICA

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Chief of the World Bank's Permanent Mission in East Africa

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THE WORLD BANK
NEW DIRECTIONS IN AFRICA

A talk by David Gordon
Chief of the World Bank's Permanent Mission in Eastern Africa

For the World Bank, operations in tropical—or, more explicitly, in Black—Africa have only quite recently become really important. Up to 30 June, 1968 the Bank and its soft loan affiliate, the International Development Association (IDA), had committed to this region $1,162 million (a little less than £500 million), which represented only 8.7 per cent of their world-wide commitments.

The trend, however, has been very sharply upward. During the entire time from the Bank's establishment through June 1958, loans for the benefit of tropical African countries totalled about $270 million. In the five years 1958-63 Bank loans plus the initial credits from IDA reached nearly the same amount ($256 million). For the period 1963-68 this total rose by 150 per cent to $636 million. And in his inaugural speech to our Governors' meeting last September, Mr. Macnamara projected its tripling over the next five years to roughly $2,000 million. The actual commitments in the first half of this current fiscal year have been over $135 million, in spite of the very near exhaustion of IDA funds, which are especially important for Africa. (These have now been partly replenished, including a very substantial British contribution, and we have every hope that the full amount agreed on will be available very shortly).

But, as Mr. Macnamara also stressed, our role is to be not just a bank but a development agency in the broadest sense. And fulfilment of such a role depends not merely on the amount of financing provided but on whether it serves a trail-blazing or catalytic purpose; and on the extent to which, through analytical, advisory, or co-ordinating activities, we can help to improve the planning and execution of development. Strictly speaking these broader activities are not 'new' directions of World Bank activity; they have been prominent in our thinking for a long time. But they are getting renewed emphasis and clearer definition, and they are probably more important in relation to Africa than to any of the other regions that we are concerned with.

In the initial years almost all the Bank loans were made for power facilities, communications—mainly railways and ports—and mineral development. These are, frankly, the easiest and safest objects of investment. They are useful, necessary, clearly justified, and they are relatively easy to prepare and administer because the processes and the problems involved are hardly different in Africa from those we have experienced and solved in Europe and America. But

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economic development is not simply a matter of transplanting the technology of the more advanced countries into an African setting, although this is certainly part of it. It requires a transformation of traditional rural societies and the development of a balancing industrial and commercial economy, all of which poses difficulties far tougher than any that we or our ancestors had to face in our own countries.

Rural Development

In most of Africa for a long time to come agriculture must be the main source of livelihood and employment for the great mass of the people, and of the capital and foreign exchange needed for balanced economic growth. In most of Africa, also, the agricultural sector is woefully backward, producing a precarious subsistence and all too often visibly destroying the fertility, the very structure, of the land. Paradoxically the most encouraging feature of the agricultural picture—for what that is worth—may be precisely this backwardness; there is so much room for improving productivity at relatively low capital cost.

Expansion of agricultural output in Africa since the end of the Second World War has been achieved mainly on the one hand by commercial plantations and on the other through extending the area of African cultivation at a productivity level barely above subsistence. The potential for further expanding plantations is limited. They are politically vulnerable, especially when the owners are foreigners or anonymous corporations; and their relatively heavy fixed costs also make them economically vulnerable in a period of softening demand and prices.

The hope lies generally, I think, in fostering development of the more progressive productive pattern of smallholder, and perhaps in some cases co-operative, agriculture. This is hardly a novel idea. Efforts have been made over many years and despite some encouraging experience the overall results have not been brilliant. Are there any reasons to hope for greater success in the future?

I think there are. First there is the fact that it is now the African governments and leaders, not the colonial rulers, who are on their mettle, whose interests are directly at stake. Foreigners may help or hinder and in either case are often made the scapegoats. But African politicians and administrators are quite aware, as a rule, that ultimately they will be held responsible for success or failure in rural development efforts; and they are seeking by all sorts of means to enlist their people's participation in these efforts.

More generally there has been a growing awareness in rural areas of the possibilities for economic and social change. It results from the spread of education, from increased migration and contact with the cities; from the opening of roads and cheap bus services; from radio and cinemas penetrating into the smaller towns; and from a variety of other influences, mutually reinforcing, that create dissatisfaction and suggest alternatives to the traditional pattern of

rural life. These influences may not of themselves make the agricultural economy more efficient, but they create a receptiveness to programmes and measures for doing so.

There are many such programmes under way in Africa, mostly aided from external sources, including the World Bank group. They incorporate a variety of approaches. In Kenya, 1.2 million acres of European farms were taken over, broken up and re-organised with credit and intensive supervision into small farm holdings. The contribution which Britain made to this programme is a most notable example of intelligent far-sighted self-interest, and more important, of the interest of all mankind. Similar settlement programmes are being carried out or planned in several other countries, in some places breaking up former European holdings or traditional communal land; in others maintaining the communal pattern of production, as in Tanzania's *Ujamaa* villages. Often the need is for land reform without the movement of populations—the establishment of secure tenure or the reorganisation of fragmented traditional holdings into viable units. Sometimes, as in a project we are organising in Ethiopia, resettlement of some of the population into an under-utilised area reduces overcrowding and permits more rational productive allocation of land to those who remain.

Some of these projects involve not only a package of agricultural improvement measures but also a better organisation of education, health, communications and other services; and special efforts to develop local responsibility and leadership in a definite zone. The several components of such an integrated programme should be mutually reinforcing unless the intensified services prove too elaborate for the productive base to support, or the educational and sociological innovations too distracting. There is some danger of these latter defects, given the attractiveness of the rural development concept and the multifarious aims and intellectual disciplines to which it seems to offer fulfilment. But a zonal project around Lilongwe in Malawi, modestly conceived, appears to be thriving and several others along the same lines are being organised.

Most important of all is the availability of new inputs—improved tools, better seeds, new varieties, insecticides and fertilisers. In few African areas are these used with anything like full efficiency, but their use is growing and is showing results. In Kenya, for example, the acreage planted to hybrid maize rose from about 30,000 in 1964 to some 230,000 in 1968; and of this, the maize area on small scale (which means African) farms increased from less than 2,000 acres in 1964 to about 130,000 in 1968—by roughly 75 times in four years. The value of other material inputs apart from improved seed rose by 17 per cent per annum, compounded from 1963 to 1966—fertiliser by 2.3 times—other agricultural chemicals more than twice, fuel by 1.9 times—and this in a period of rapid Africanisation of commercial farms. As a result, average commercial maize yields in 1967 were double those of 1958-65. For wheat, the yield increase for the same period was 40 per cent—less dramatic but hardly discouraging.

I cite data for Kenya which happened to be readily available, but there has been a similar development in other countries. In Tanganyika, for example, before independence, almost all observers—including a prestigious survey mission from the World Bank—took a dim view of the potential for progress of the average small cultivator. The new African government therefore gave top priority to an ambitious programme of village settlement designed to transform the farmers' life by taking them out of their previous environment and subjecting them to intensive modernising influences. Yet the sector that has shown the most significant growth—the only one to surpass plan targets over the past several years—has been precisely smallholder agriculture, whereas the village settlement programme has proved a costly fiasco.

I am not suggesting that the generality of African farmers are achieving a revolutionary technological breakthrough, but clearly a number of them are learning the vital lesson that improved farm inputs can pay off. The return is worth the risk. If they are given reasonable security of tenure and market, suitable price incentives and access to simple means of improving productivity, they do respond. That these ideas have taken hold so quickly, though only in spotty fashion so far, is an encouraging sign of the African farmer's flexibility and potential for progress, and a promise that the spots of modernisation will spread.

Market Prospects for African Commodities

This poses an obvious and crucial question. If many of these countries can hope to expand agricultural output significantly, what are they going to do with it ? Most of the traditional African export commodities face bitter competition from synthetics and from producers in other regions in a slack, even declining, market. The World Bank has, I am afraid, no ready made solution to this problem. Its staff is engaged in co-operation with the Monetary Fund in studies in depth of the long-run character and magnitude of the commodity problem, possible means of mitigating it and the difficulties and costs of doing so. But the achievement of a rational organisation of international commodity markets on terms that will give the primary producing countries reasonable returns and incentives for increased productivity—of a system that would afford them a modicum of the stability enjoyed by agriculture in any of the richer industrial nations—will be a long and painful process at best. While awaiting such a mini-millennium the Bank is seeking to help particular countries to improve their position in various specific ways.

Even for commodities in overall surplus there are some countries which, because of comparative advantage or sheer desperation, have a claim to assistance in expanding their output. An example is coffee in Burundi, which has no significant export alternative in the short run, and whose current production is well below historic levels and its quota in the International Coffee Organisation. An IDA coffee-intensification project for Burundi is in the last stages of consideration. Again, tea is a crop particularly well suited to conditions and especially to smallholder cultivation in certain African regions. The Kenya Tea Development Authority, which over the past five years has organised the planting of over 25,000 acres of tea, and the collection and processing of the leaf to standards that command peak prices in the world market, is a model of low-key pragmatic efficiency. Two IDA credits have financed its expansion and another the improvement of access roads, and similar tea projects are being carried out or prepared in Uganda, Tanzania and Cameroon.

One commodity group for which demand is most evidently expanding in both the more and the less developed world is that of wood products, notably paper. The natural forests of Africa, lush and diverse as they are, are not very well suited to commercial exploitation and, in any case are largely disappearing, but once uniform stands of commercial species are planted they grow like mad. The investment is low, although it takes a long time to mature. This is certainly a potential growth export for tropical Africa.

Livestock also has great possibilities in many countries, provided the traditional reluctance to sell off stock can be overcome. In roughly a dozen countries livestock projects are being undertaken with Bank or IDA assistance, involving a variety of technical and organisational approaches : development of state breeding or fattening ranches as commercial entities in themselves, or as nuclei and demonstrations for private holdings ; stud farms or artificial insemination stations to up-grade native stock ; co-operative ranches grouping the herds of traditional pastoralists ; water supply and disease control facilities in pastoral areas or along stock routes ; credits to private ranches for pasture improvement or better quality stock—and so on. Most of these projects are too recent to judge their success, but they certainly hold promise.

There is one grave danger however. In traditional areas, unless provision of water and disease control are linked with strict stocking limits, hard to enforce and politically touchy, or with a rapid growth of appetite for money that will encourage the sale of surplus stock, the cattle population explosion may soon far outrun the carrying capacity of the range. This is a recipe for instant desert and could set back progress in vast areas of the continent for many decades.

The demand for meat is growing apace in the rich nations. It will be hard, however, for many African countries to exploit fully the export possibilities because of quarantine restrictions on chilled or frozen meat. But, while giving all due emphasis to exports, we should not neglect local consumption. Africans by and large certainly need more protein, and the exchange of meat from pastoral areas for simple consumer goods produced in the cities is a most orthodox and effective way to stimulate production at both ends. Similarly, exploitation of fish from the coasts of Africa and from its teeming lakes and rivers could greatly enlarge standards of nourishment. Unfortunately fish, unlike cattle, cannot walk to market.

Perhaps in our conventional diagnosis of the African agricultural dichotomy—a commercial sector largely oriented towards specialised and increasingly uncertain export markets, and a traditional sector producing almost wholly for subsistence—we have under-estimated the potential of the domestic market. The rapidly growing populations would eat, not only more meat and fish, but also more vegetables and bread and maize if prices were lower. The present domestic price of grain is much above that in world markets, the result not only of low productivity, but even more of high transport, storage and other handling charges. But these charges stem from the uncertain marginal character of production in the past. As soon as surpluses are substantial and reliable one could think about organising the cereals trade more efficiently—in bulk instead of single bags, by specialised railway wagons or lorries instead of as odd-lot cargo. At that point it may make economic sense to feed maize to cattle for quick gains in weight and improvement in the quality of meat which could be exported at a profit; while the lower grades, that now go out as low-priced canned beef, would be switched to the local market. Alternatively, it might make sense to export the grain directly, even in competition with America, Canada and Australia; or, again, to sell the grain cheaply for local food or industrial uses. This flexibility is what characterises a modern agricultural economy, and government price policies must be adapted knowledgeably to take advantage of these alternatives as supply and market conditions change.

The Industrial Sector and Tourism

The agricultural sector presents us with the most urgent and vexing problems and its development is the key to all else. But a modern economy must have more than one leg to stand on and we need to develop the stunted or atrophied legs of other sectors as well. As regards industry, development in Africa has so far been confined largely to minerals production, to the basic processing of agricultural raw materials and to the manufacture of a few simple consumer goods. Attempts to go much farther encounter formidable obstacles that are well known: low purchasing power and the small size of market, shortage of technicians and trained labour, paucity of investment resources, lack of entrepreneurial experience and managerial skills, often combined with political aversion to the foreign investments that might otherwise make up some of these deficiencies.

One of the institutions of the World Bank group—the International Finance Corporation (IFC)—aims specifically at promoting industrial development through private enterprise and investment. It can make either loans or equity investments in an industrial project along with local or foreign capital, usually both. It invests on commercial terms in expectation of a satisfactory return and of being able eventually to sell out at a profit. However, its international character, the fact that its shareholders are governments (mostly of countries on the receiving end of international investment) ensures that it will seek to protect the legitimate interests of these countries, and helps to give them confidence in its advice about the merits or defects of particular deals or the terms offered by

private investors. By the same token, the latter can expect that IFC participation in a project will, in some measure, discourage arbitrary government action. Thus the IFC can serve as a combination of catalyst and partial safeguard, to private investors and host governments alike.

IFC's direct contribution to industrial investment is limited, however, legally to enterprises of preponderantly private character, and as a practical matter to fairly large projects of several hundred thousand dollars at least. In most African countries there is no great number of industrial projects that fit both criteria. With a view to assisting smaller industries, the Bank group has financed national development banks or finance companies in a number of countries, including four in tropical Africa so far. But again, IFC's charter sets a condition of private majority ownership; and in many African countries there is little possibility of organising strong private development finance companies—sometimes no doubt because of anti-capitalist bias, but also because the short-term investment opportunities are too few or uncertain to make the effort seem worth-while.

The World Bank and IDA were also reluctant until recently to channel funds through state-owned institutions from fear of political control and distortions. This self-limitation has now been abandoned, although we shall continue to insist that any government entities we support have businesslike criteria and management—and we often assist in their organisation and training of staff. We are also seeking in other ways to help small industries to get established on a sound basis—for instance, by developing industrial estates which combine capital facilities with provision of technical assistance.

One of the most serious obstacles to any industrialist in Africa, it seems to me, is the difficulty of getting competent answers to his technical and economic problems, some of them quite simple but nonetheless crucial. For example, is there enough prospect that local manufacture of a certain chemical would be profitable to justify his commissioning a detailed feasibility study? If so, how much should it cost and how should he select the firm to undertake it? Would the addition of other products improve the viability of his plant? What is the likely market and demand trend for these products? Which among alternative processes and types of machinery would best suit his situation?—and so on.

In America or Europe dozens of industrial consultants are accessible at a moment's notice with staff, files and reference libraries capable of answering such questions quickly and reliably. They charge substantial fees but are generally well worth it. In Africa, even more than in other under-developed regions, such services are almost totally lacking. To get a consultant out from Europe to America, just to take a preliminary look, is fantastically expensive, and a proper feasibility study costs the moon. Moreover the imported consultant may know nothing of local conditions and so may give wrong advice or take inordinate time and expense to find his way. And, however well he does his work, the next job is more likely than not to be done by someone else; there is little continuity or systematic build-up of data and experience.

What is urgently needed, I think, is to establish a number of industrial advisory institutes permanently located in key regional centres, each having a staff of practical experts in various aspects of industrial technology, economics and management, and close working relations with consulting institutions or firms in industrially advanced countries. These institutes should be accessible to governments, to financing institutions, to private entrepreneurs, and to others interested in industrial development in the region. They could deal directly and immediately with questions for which their staff is competent and call on their associates abroad for help with more complex problems. In any case, they would progressively build up and apply knowledge of the local economy, policies, institutions and other data. As I see it, the services provided by such institutes ought to be paid for, but one could not expect them to become commercially self-supporting in the immediate future. They would need some subsidy. They should not be set up as part of the government establishment attached to a ministry or development bank. This would prejudice their standing with private investors, both foreign and domestic, and would make it more difficult to give them the regional character that is essential, in the interest both of their efficiency and of promoting a rational pattern of industrial development. Perhaps the solution would be to set up a non-profit foundation, or several separate ones, in which the local governments, donor agencies, universities and private enterprise could all have representation. A successful effort along these lines would require a broad collaboration in which the Bank should certainly take part—hopefully a leading part.

Tourism is one of the true growth sectors of the world economy at present, and the outstanding touristic resources of tropical Africa have so far been exploited only superficially. These resources appeal to a wide variety of tastes: hot sun and beaches for escapees from European winters; game parks and safaris; native villages and tribal dances; the exotic history of Timbuctoo or Axum; carvings, textiles and other crafts. The touristic potential is enormous, limited mainly by high air fares and lack of accommodation at present. But it requires highly sophisticated judgment to take full advantage of this potential, to design and organise facilities that will appeal to the different categories of demand and avoid destructive competition among them.

The Bank group has only recently entered the field of tourism. Previously, I think, it was regarded as too frivolous and unproductive, from the rather Calvinistic viewpoint of our early mentors. But, once having realised its importance for economic growth, employment and foreign exchange earnings in our developing member countries, we have leaped in with enthusiasm. Beach hotels and game lodges, water supply and roads, in game parks and other touristic areas, airports—all are on our list for potential, and in some cases actual, financing.

In this field, as in industry, a regional approach seems vital. Tourists come from the rich countries, not to enjoy the sights and amenities of Tanzania or Ethiopia, or of Mali or Nigeria alone, but of one or another major region of Africa. To them national boundaries are meaningless; and if the national boundaries pose difficulties, they will simply not go to tropical Africa, but to Morocco or Thailand or Latin America instead.

Education and Population Problems

An indispensable condition for progress in any of these fields is the development of manpower resources—more competent, more sophisticated, more flexible. And it is to this purpose that the Bank has given special attention in the past five years. Education credits in tropical Africa have so far amounted to \$82 million.

We have found that a good deal more is involved than just expanding facilities. For the existing education structure in most African countries is still heavily biased towards the academic tradition, designed to prepare candidates for British or French universities, or for African universities committed to the same pattern. This made sense when the main object of the system was to prepare an élite of African administrators and intellectual leaders; but it does not give due weight to the need for development personnel of all kinds—in agriculture, industry, public works, and in both professional and technical categories—and for entrepreneurs and commercial staff.

Only a very small fraction of those who finish primary school in most African countries can hope to get into university. This is unavoidable, given the shortage of facilities and teaching staff, and also of job opportunities for graduates. The great majority of school leavers are a most valuable resource—they could contribute to national development in their way as much as the university honours graduates—but all too often the education approach and curriculum in the secondary schools do little to fit them for their probable future, and indeed may act to aggravate their frustration. Thus our education projects have increasingly involved an element of curriculum reform to orient it more toward agricultural and industrial or commercial values.

We are also seeking ways to bring more immediacy and relevance into the classrooms, and at the same time to alleviate the shortage of teachers, through the use of audio-visual media. But this must be done with care; the instructional materials need to be properly designed to suit African conditions and the teaching staff handling and supplementing these media require special training.

In his speech to the Bank Governors, Mr. Macnamara laid explicit and special stress on population problems as an obstacle to development. His concern was not so much the threat of absolute pressure of population and resources—the danger of having insufficient food to eat or space to occupy (although for such poor, crowded little countries as say, Rwanda, this danger is not wholly academic); but rather with the drain imposed by extraordinarily inflated population growth—inflated by the conjuncture of contemporary health measures with traditional reproduction rates—which results in lower productivity, increased consumption requirements and consequent reduced savings and investment. He compared two hypothetical developing countries with similar standards of living, each with a birth rate of 40 per thousand, and asked what would happen if the birth rate in one of these countries in a period of 25 years were to be halved to 20 per thousand, a rate still above that of that in most developed countries. The country which lowered its population growth would raise its standard of living 40 per cent above the other country within a single generation. In terms of the gap between rich countries and poor, it was more than anything else the population explosion which, by holding back the advancement of the poor, was blowing apart the rich and the poor and widening the already dangerous gap between them.

This preachment, as you can imagine, was not greeted with universal acclaim in Africa. It goes against tradition; it arouses suspicion of white motives, aggravated by the South Africans' dream of achieving eventually a white majority in their Republic; and it challenges the conventional view, inherited from the last century, that much of Africa is empty country awaiting population for development. Very few African governments have yet found it politically expedient to adopt a policy of population control (although there are some), but many individuals recognise the problem and I am confident it will receive very serious attention over the next few years.

But how does one use money, investment funds from the Bank and IDA, to deal with population problems? The direct investments are small; factories for producing loops or contraceptive pills are neither large nor very costly. Training of technicians and especially of diagnostic and counselling personnel will however require considerable sums. Moreover, to be effective their services need to be integrated with broader programmes for improving family health and welfare, especially in the rural areas.

Perhaps the major role of the World Bank group in this area of population policy is through education, in two senses. First, we can bring the problem and its significance for economic development to general public attention and in a variety of forums; and second, in all our economic analyses and reports, and consultations with governments on their development programmes, we are seeking to highlight the implications for the specific country of the population growth rate and pattern.

Other Aspects of World Bank Activities

This is a good point at which to turn from the outline of the objects to which World Bank financing is applied and to look at some of our other not strictly financial activities in Africa. These can be summarised under three heads; assistance in preparing programmes and projects; in their management; and in the co-ordinated application of external aid.

Assistance in Preparing Programmes. This is the primary function of the Bank's two permanent missions, one for Western Africa located in Abidjan, the other for the eastern half of the continent in Nairobi. While both the regional offices have a numerous clientèle—eighteen countries in the one case, sixteen in the other, and the prospect of a few more to come—most of the countries are within two or three hours by air from these centres. Ease of access and continuity of contact is certainly greater than is possible from our Washington headquarters. Each of these offices includes technical and economic experts, specialising in the sectors of agriculture and road development; education has recently been added. They are engaged continually in reviewing with the various governments their plans and ideas for development in these sectors; picking out those that seem good potential objects for Bank or IDA financing and helping the governments to prepare them for practical execution. Let me stress the word 'helping'. It is not our purpose to identify and shape and justify projects all by ourselves and then serve them up fully formed. We try to foster the evolution of projects enlisting at all stages the fullest possible participation by national agencies and personnel; helping them by defining the kind of data needed, posing policy questions and alternatives that have to be resolved, suggesting how these have been dealt with in some other developing countries and so on. In the process, of course, we get a better knowledge of the several sectors and the key people engaged in them, which is most valuable for many other aspects of our operations.

The Bank has also been helping several African countries to formulate development programmes and policies for the economy as a whole, or for major sectors. At various times it has assigned planning advisers to Ethiopia, Ghana, Nigeria, Sudan, Tanzania and Zambia. It has undertaken on its own account, or as executing agency for the UN development programme, comprehensive transport planning studies in eleven countries. It has brought Kenya and Uganda together in planning for joint power development, which promises to effect very substantial economies for both countries. In co-operation with the Economic Commission for Africa and the African Development Bank it is sponsoring continent-wide studies looking toward rational integration of transportation, power and telecommunications networks. This kind of assistance will continue to be an expanding part of the work of the regional missions and of staff seconded or contracted from headquarters.

Assistance in Project Management. In the agricultural sector we have taken a special initiative to help to strengthen the management of projects and of agricultural operations generally by organising, three years ago, an Agricultural Development Service for Eastern Africa which is attached administratively to the Nairobi office. It consists of expatriates having long and varied practical experience in Africa, some of them former agriculturists in the Colonial Service, some successful farmers on their own account. These are people acceptable to the African governments, of a kind whom these governments would like to make use of during the crucial period of transition and training of African staff, but to whom they are unable to offer any long-term career prospects. In such circumstances many were leaving permanently and their specialised qualifications were wasted.

We are employing a selected number, eighteen up to now, of these broad-gauge agricultural operators on long-term contracts, and seconding them for shorter assignments to organise and run projects and train African successors. Because they have job security regardless of the duration of the particular assignment, there is no threat to the Africanisation principle. Members of this group have developed and are running a pilot irrigation scheme in Kenya ; an integrated programme of rural development in Malawi ; a mechanised farming scheme in the Sudan, ranching projects in Tanzania and Zambia ; a smallholder tea growing scheme in Uganda ; and there are a number of others under way.

The acceptance and success of this agricultural development service, together with the gravity of the problem of management for development programmes steadily growing in magnitude and complexity, have impelled the Bank to take broader responsibility for finding and supplying managers in other regions and sectors. In the past, in Africa certainly and to a large extent in other regions, we have been exploiting a reserve of knowledge and experience built up in the colonial and other specialised services. This has been disappearing without being replaced in any systematic way. Developing substitute sources that can fill even a substantial part of the gap will be a formidable task, but it is crucial to sound development progress.

The Co-ordination of Aid. Improvement is needed also in the way the rich industrial countries manage their assistance to economic development. The sources and channels of aid to African countries, the criteria and conditions that govern its use, are bewildering in their complexity. There is a good deal of duplication and some crossing of wires. The recipient countries quite naturally want to take the best advantage of all opportunities, but the confusion, uncertainties and frustrations they encounter may turn them to contractor finance which, though onerous in its terms, is at least quick and simple to arrange.

For a number of countries where our own operations and those of bilateral aid programmes are quite active, the Bank has been asked to organise a co-ordinating mechanism called a consultative group. Three have been established so far in tropical Africa—for Nigeria, Sudan and East Africa. The first two have been relatively inactive in the past year or two because of political difficulties. The East African Consultative Group is the newest and so far the only one organised by the Bank for a regional grouping rather than a single country.

Formal meetings are held usually in Europe and attended by senior officials from the aid-giving countries or agencies. They undertake a comprehensive review of the economic situation and prospects of the East African countries, singly and in the context of their Common Market and other Community functions, based on a report in depth prepared in advance by the Bank. Questions are raised and views exchanged between the African and donor representatives

about the needs and priorities for aid, about their respective policy criteria and procedural and staffing difficulties, about apparent overlapping or gaps in the application of aid. More frequent, shorter, less formal meetings are being held in East African capitals among the Bank's regional mission and local representatives of the donors, sometimes including officials of the recipient governments and sometimes not—again to exchange information, avoid duplication and clear the lines for specific negotiations.

This modest degree of co-ordination is far from the kind of Marshall Plan for Africa that has been advocated by Tom Mboya, Robert Gardiner and various others. I do not foresee any such massive transfers of resources being organised in the near future, given the present climate of opinion in the richer nations of the world. As regards Africa this climate is heavily influenced by reports of crises and coups erupting in various countries—reports that are not inaccurate, but are often out of proportion. Moreover, many people in the Western world still retain tribal memories of *The Heart of Darkness* and the Tarzan films ; of Mau Mau and the Congo uprising. They do not always distinguish between one African country, or even region, and another; and they are largely ignorant of the progress and potential that are evident in many areas.

Today I have tended to accentuate the positive factors, not in any Pollyanna spirit but because I believe these positive factors deserve to be realistically appreciated. There will doubtless be plenty of difficulties and disappointments and not a few disasters during the coming years, but I think Mr. Macnamara's target of tripling our investment in Africa is attainable. And I would hope that we might help to prepare programmes and establish links that could bring about a substantial rise in sound bilateral and private investments as well. I believe the Commonwealth relationship, for all its ambiguities and frustrations, can also make a most important contribution to this end.

Africa can make good use of more investment and aid, but equally important it needs to achieve a much greater degree of internal integration to permit more rational development of the continent's own resources and markets. And Western economic and technical aid must be so organised as to promote such integration. In that sense, perhaps, we can begin at once working towards the kind of economic framework that could give an eventual Marshall Plan for Africa some meaning and prospect for success.

Rotary Club - Dacca - Mr. Gordon

D. Gordon

October 6, 1970

East Pakistan poses a unique challenge to those, like myself, concerned with international economic development. Its problems are extraordinarily complex: population pressure; scarcity of national resources and of skilled manpower; the drastic alternations of flood and droughts; the high cost and risks of transport and construction; the heavy dependence on a single static export crop; and arbitrary separation from its natural hinterland - from markets and sources of supply, and from any share in management of the watershed on which the country's life depends.

The fact that despite all these handicaps East Pakistanis have continued to survive and multiply, and even to achieve some measure of economic advance is a tribute to their tenacity and adaptiveness. But the achievements to date are far from enough to satisfy the people's natural aspirations or provide a sound base for future progress. Moreover, the problems of population and water, and of output and market for traditional products, have been getting worse. Unless vigorous remedial measures are taken, the future may bring decline rather than development.

This is a critical juncture, but also, I believe one that offers hope. The urgent need for action is now more widely recognized than ever before, not only in East but in West Pakistan and the outside world, and there is evidence of readiness to respond. The Fourth Plan, as now agreed, more than doubles the investment target for the region, and substantially meets the claims of the East Pakistan members of the Panel of Economists. The current election campaign should provide, for the first time in many years, effective organs of political communication and decision, and for mobilizing popular efforts toward development. To make these efforts and opportunities effective, a realistic strategy is essential - and it seems to me that the outlines of such a strategy are also emerging.

Its essence can perhaps be expressed in four principles:

1. The development program should aim not so much at certain investment targets but at producing goods that the people need;

2. In choosing investment projects and technology those that make fullest use of unskilled and underemployed labour, relative to capital, should be favoured;

3. Administration, especially in rural areas, should be decentralized, with major reliance on local initiative and responsibility;

4. Local resources of finance and manpower must be mobilized for investment more effectively and equitably.

Like all broad principles, these have exceptions, but I believe they are valid as general guidelines.

They are reflected in the Action Program for Agriculture and Water Development which the World Bank staff produced some three months ago. The first stages of this program are already being carried out, and we hope to enlist all the members of the Pakistan Consortium as well as other sources of financial and technical assistance, with the Government of Pakistan, in making it effective.

It comprises:

(1) A program for multiplying and disseminating high yielding rice varieties, with fertilizers and other improved inputs, supported by a greatly increased extension effort;

(2) rapid expansion of irrigation through low lift pumps and tubewells, designed to permit a winter crop and also increase the reliability and yield of the monsoon crops, to facilitate use of improved seed, fertilizer and better cultivation methods, and to diversify the cropping pattern;

(3) construction of a series of large polders – artificial islands below the flood level, protected by dikes, which can be drained in the flood season and irrigated in the dry through use of reversible pumps and the natural channels, making possible a highly productive agriculture all-year-round;

(4) some very elaborate studies of hydrology and water balance of the extremely complex river systems of East Pakistan, with a view to defining a feasible, hopefully optimum, combination of civil works and other measures for control of the rivers that nourish and affect this region; and

(5) a number of related studies of how the rural economy can be made more efficient and productive - improved crop varieties, new outlets for jute, livestock and fisheries development, the domestic marketing system, farm economics and means of increasing savings and revenue from agriculture, the potential for processing and other rural industries, and so on.

Let me be clear. The Action Program which the Bank has prepared does not provide for universal flood control in East Pakistan - not yet anyway. It aims at protecting some areas - quite large areas, millions of acres in all - from floods but not the entire country. So far as I know no one now knows how or whether the whole country could be protected, or even whether, on balance, it would be advantageous to do so. The hydrological studies I mentioned earlier should provide a more reliable basis for these decisions.

Meanwhile the interim development pattern of polders, pumps and tubewells anticipates the results of these comprehensive water studies. It concentrates on what can be done without drastic and dangerous disruption of the natural river flow. And it should permit a very substantial advance in agricultural technology - one might almost say a quantum jump over a relatively short time period. Moreover, the physical works involved require very little capital equipment, mainly hand labour. Their construction will serve directly to reduce the distress of the great mass of the rural population - immediately by providing employment and wages and over a slightly longer time span by raising agricultural output — far more effectively than capital-intensive industrial projects.

This pattern of development also lends itself to flexible decentralized administration, unlike the vast reservoir/barrage/canal complex of West Pakistan. Each irrigated block can be as small as the reach of a single pump or well; there's no need for elaborate infrastructure or a remote, sophisticated water control agency. Each farmer can see the working of the system at first hand, identify the cause of any breakdown and put direct pressure on the pump operator, who is close at hand, to correct it.

One vital condition, however, is the formation of effective cooperatives, comprising sufficient acreage to use the water from one pump. These pump groups can evolve, given proper encouragement and guidance, into strong village cooperatives for other purposes also — to organize the purchase of farm inputs, marketing of produce, savings and credit and so on. The Action Program strongly endorses the Government plan to extend throughout the Province the grassroots organizational pattern developed and tested at the Comilla Academy.

I have dwelt so long on agriculture because of its overwhelming importance in regional output and employment, and its immense problems and potential. In the construction sector, the country's needs are in large part related to agriculture — polders and irrigation works, building of storage facilities and roads to allow proper distribution of inputs and sale of produce. And, as was suggested earlier, most of these works can and should be done by hand labour in ample supply, and locally organized; for many of them the Rural Works Program is the proper approach.

Industrial needs and priorities also relate in large measure to the agricultural sector: processing plants, provision and servicing of agricultural inputs, and production of consumer goods that will give incentives and raise living standards for the rural population. Some of these industries might well be established by Cooperative Federations set up under the Rural Development Program. Others, of course, will be private enterprises, and the World Bank has recently provided funds for both IDBP and the Small Industries Corporation to finance such enterprises.

Large-scale industry in East Pakistan has expanded rapidly, in percentage terms, over the past decade, but from a very low base. And the general level of efficiency, especially in the public sector, is quite unsatisfactory — underutilized capacity and high costs. This is due partly, no doubt, to general Government policies that tend to distort incentives and inhibit the most efficient allocation of scarce capital and foreign exchange, and affect private and public sector industries alike. But it must be said frankly that the EPIDC presents special and critical problems. With its haphazard structure and archaic bureaucratic procedures, it cannot possibly organize and manage efficiently the over 200 crores of investments already made, to pay nothing of 400 crores of further schemes underway or planned. A comprehensive rationalization is essential.

No development strategy can succeed in East Pakistan in the long run unless the population explosion can be curbed. The family planning program has been creditable in comparison with other countries - but the problem here is much graver and more urgent than in other countries. It calls for redoubled effort.

We come finally to finance. The Fourth Plan targets for East Pakistan will require a sharp rise in investment. Most of what is needed in the first 2-3 years for the Action Program for Water Development can be financed within these targets, but later phases of the Program will be much more costly. And God only knows what it might take to carry out the long-range proposals for broader flood control and water use. But the short-run investments should yield outstanding short-run benefits and thus generate resources for the longer pull. It is most important that policies and plans be devised without delay to recapture some of these benefits, as private savings and public revenue, to support the momentum of future growth.

This is a necessary condition both for obtaining foreign aid on the scale needed over the next few years, and for progressively becoming independent of such aid later on. The aid-givers represented in the Pakistan Consortium, under the Bank's chairmanship, are favourably disposed toward East Pakistan at present; they aim to shift the main impact of aid from the West to the East Wing, in line with Government's own professed policy. The strategy and program that we have worked out with the Government seems to be a good framework for doing so. And despite the physical, sociological, economic and doubtless political obstacles that have to be surmounted, we must succeed.

Letter No. 428
Registered

October 13, 1970

Mr. Lars Lind
Deputy Director
Information and Public
Affairs Department
IBRD
Washington, D.C.

Dear Lars:

My stopover at the University of Hawaii, September 21-22, was somewhat less interesting to me and less useful for the Bank than I had hoped. Despite the warm invitation which Harlan Cleveland had extended, the arrangements made to meet and talk to people interested in the Bank and in Pakistan were rather haphazard - partly, perhaps, because Cleveland was largely preoccupied on the first day with a Trustees meeting and on the second had to fly on very short notice to San Diego, leaving matters in the hands of a rather casual subordinate.

I had two meetings, both at lunch and thereafter, one with a small group of faculty especially interested in Pakistan and in agricultural development (mainly) and the other with about a dozen Pakistani students and Research Fellows. About seven or eight had been invited originally to attend the latter session; the remainder learned of it by word of mouth, the University administration apparently being unaware of their existence or origin (perhaps because the new academic year had just started and records were still in flux). The Pakistani students were really quite stimulating, more so than the faculty members; while quite friendly and constructive, they pressed their questions and arguments frankly and articulately; there was a very satisfactory give and take among themselves as well as between them and me. The University authorities, who were present, said it was the most active exchange, on the part of a group of overseas students, that they had experienced. I should emphasize that the atmosphere was not at all hostile to the Bank; our initiatives in East Pakistan were especially welcomed.

It would be hard in retrospect to justify a special trip to Hawaii on the basis of its actual contribution to the Bank's interests. However, since it was a stopover en route, and since we were accommodated (most comfortably) in Cleveland's residence, the cost to the Bank was nominal - except for my salary and I did get some additional work done in the free time available. I think that informational visits in transit to Japan to the University or the East-West Center may well be useful in the future - it is a major concentration of Asian studies and Asian students - but we should try to ensure that they are more adequately prepared and organized.

During my stay in Dacca last week, I made a speech to the Rotary Club, the news reports of which have, I think, already been sent to the Bank. A clipping is enclosed. It is reasonably accurate with the exception of the last line, which should read "rationalization" instead of "nationalization". Enclosed also is a copy of the full text. Comments received after the appearance of the news reports were ~~generally~~ uniformly favorable; presumably those who may have disagreed did not tell me so.

Best regards.

Yours sincerely,

(Sgnd) David L. Gordon

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Resident Representative

Enclosures:

copy in Pakistan bk

Speech Box

THE ROLE OF MANAGEMENT

IN

DEVELOPING COUNTRIES

Speach delivered
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<u>The Role of Management in Developing Countries</u>

When I was asked to give a talk to the Pakistan Management Group, I was naturally flattered, and also a bit diffident. The very name of the Group radiates prestige, which is confirmed by the presence here today of so many distinguished figures from Government and the business world. The Group's purpose, I was informed, is to promote recognition and raise the standards of management as a <u>profession</u> and in this field I can claim at best to be an interested, moderately informed amateur.

Still the organization that I represent in Pakistan, the World Bank, is an insatiable user of consultant services, including those of management consultants. And in my own contacts with a couple of dozen developing countries over the years, and at least superficial acquaintance with the progress and problems of numerous development projects in a variety of fields, it has been borne in on me again and again how crucially important is the management factor in determining success, or lack of success, in the development process; and how very much we have to learn about adapting and improving management techniques to meet the increasingly complex, repidly changing needs of this process.

Most developing nations, including Pakistan, inherited from the period of colonial or semi-colonial rule in the past century a dual pattern of management-- governmental administration on the one hand, private enterprise on the other. Call them, for short, the "bureaucratic" and the "entrepreneurial" mode, respectively. In both the dominant figure, the ultimate authority, has been the generalist -- or more precisely the professional layman, one whose professional pride it is to be a non-specialist. This was characteristic of the ICS or the Colonial Service, on the one hand, and on the other of the prototype business tycoons in Europe, America and later the developing world.

In other respects the two managerial patterns diverged and in part were opposed, though interdependent. The bureaucratic mode stressed hierarchy and precedent; defining and limiting authority at each level and discouraging uncalled for initiatives. It has tended to hold its executants accountable more than to encourage their taking responsibility, and to advance and reward them in relation to their survival capacity through the seniority principle.

The entrepreneurial mode, on the other hand, put a premium on initiative, flexibility, imagination and daring, often to the extent of flouting accepted social values and customs. It paid off not on ability to avoid or survive difficulties, or maintain a stable equilibrium, but rather on breakthroughs -- on the identification and exploitation of novel opportunities.

In attempting to define these different emphases I don't intend any invidious connotations. For both modes of management have made essential contributions to economic and social development: the bureaucrat, the agent of stability, social order, and protection of the public interest; and the entrepreneur, the trail-blazer into new frontiers of industry, commerce, and for that matter, education and culture. And the limitations & aberrations of each have in some measure been limited or offset by the other. Over considerable periods stability was maintained without becoming stagnation; private advantage, assiduously pursued, proved to be not irreconcilable with the public interest; and economic efficiency and technological progress were reasonably well served within a social order which, though subject to increasing strains and criticisms, commanded general acceptance.

It is a truism, I think, that this equilibrium has been deteriorating in recent years almost everywhere in the world. The dichotomy between the public and private sectors has been eroded, and the qualities from which the bureaucratic and entrepreneurial modes, respectively, derived their strength and legitimacy have become confused or enfeebled.

The reasons are not hard to identify. The exigencies of polities, and of technological and institutional development, have compelled the State to reach out more and more beyond its original concern with law and order into spheres of economic regulation and active entrepreneurship. Senior civil servants, whether as part of their expanding professional duties or after retirement as reward for services or favors rendered, increasingly enter the upper reaches of the business establishment. And as the larger private concerns have vastly expanded the size and complexity of their activities, their bureaucratic characteristics are enhanced, and the scope for personal initiative and control is reduced.

Inevitably, also, these huge business corporations and their counterparts in the public sector (such as the railways, airlines and power companies in most countries, and the oil and gas monopolies that exist in several) are less and less subject to any outside influence or control, whether by the Government or by their owners, the shareholders, even when the two coincide and Governments are the shareholders. They are run by their employees, full-time managers who alone can understand and keep track of their inner workings.

Given the essentiality of the goods and services which these mammoth enterprises provide, the size of their investment and the complexity of their operations, it is clear that they must be reasonably insulated from interfering amateurs or self-seeking politicians. There is no satisfactory substitute for professional management. Still, one longs for the clear-cut functional division of an earlier day, and seeks for ways of reinforcing the public service traditions of integrity, disinterestedness, and consistency, and the private enterprise virtues of initiative and flexibility, that will be effective in the present, fast-changing politico-economic environment.

This poses a major challenge for politicians and public policy makers but no less so for the management profession. For the increasingly sophisticated management tools that are now being developed need to be applied imaginatively not only toward achieving greater efficiency in the micro-economy accounting methods or the handling of materials or paperwork in a particular enterprise but also toward improving the rationality of decision making and the quality of the resulting judgments and actions in both public and private entities.

This is a tall order, to be sure. But let me give a few examples of the kind of problem I have in mind.

I have touched on the general question of the changed roles of public and private managment. Their automatic balancing, to keep private interests in general consonance with the public welfare, can no longer be taken for granted--or even be considered plausible in a wide range of modern economic activity. However, the alternative usually suggested--nationalizing of large scale industry and commerce--has not been outstandingly satisfactory either. There is little evidence that State-owned enterprises are typically less costly to the consuming public, or more responsive to their legitimate needs and complaints, than profit seekers. Indeed, given the nature of corporate bureaucracy, this is hardly surprising. A government enterprise has no effective competition and runs little risk of financial failure. It is not really expected to make a profit, indeed may well be criticized if it does so, and its losses tend to merge indiscriminately with the debit side of the Government budget; their impact is spread over the whole population; and no particular individual or group has a crucial interest in making the most of opportunities for earnings or savings, perhaps at considerable personal risk but with chances of even greater gains. One of the great challenges that face experts in managment is to find effective ways (a) to maintain (or reintroduce) opportunities and incentives for initiative and innovation in public, and large-scale private, entities; and (b) to subject these entities to the degree of governmental supervision that is needed to prevent conspiracy against the public interest or abuse of public trust, without stultifying initiative and reducing efficiency to a low common denominator. With some diffidence I suggest a few general approaches.

First, the development of diversified, reliable sources of economic information will, on the one hand, help the manager to assess opportunities and problems, and make more realistic decisions, in the operation of his enterprise; and on the other will enable Government supervisory agencies to check more efficiently and objectively on whether he is meeting the requirements of law and public policy. Recent development in statistical technique and access to computer services permits the assembly and use of information beyond the wildest dreams of the previous generation. Some 18 months ago, at the request of the Government the World Bank sent out a team to make a comprehensive examination of Pakistan's statistical system, and recommendation for its improvement. The draft report of this mission has been under review by the Government agencies concerned for some time, and a number of its proposals have been endorsed or put into effect. We hope and expect over time-- and it will take time--that implementation of the recommended program will substantially improve the quality, consistency and timeliness of the statistical basis for economic decision-making.

Second, a special aspect of information gathering is accountancy--the compilation of financial data so as to show as clearly and reliably as possible whether (and often why) an enterprise is going well or badly. Modern accounting is far more than book keeping; its concepts and methodology have become highly sophisticated; and it can be an indispensable tool of economic and financial analysis, of guidance to management, and of public regulation without too rigorous control. The progressive establishment of uniform accounting standards, taking advantage of the latest technical advances, should help both the entrepreneurial and the bureaucratic roles to be performed more rationally and efficiently.

Third, there is the matter of contracting practices. This is an area, it seems to me, where standardization and strict observance of procedures is of the highest importance. Always, of course, there will remain some room for judgment and controversy; every unsuccessful bidder alleges collusion and fraud if he thinks he can make a plausible case, or even cause embarrassment to gain added leverage on the next go-round. But if the rules are clearly defined and observed, not simply mechanically but in evident and intelligent good faith, then the number of protests inevitably declines; the trouble and expense to the complainers becomes excessive. I was told recently of one European country where it is a legal requirement that bids on contracts for public entities be evaluated and awarded within a fixed time after opening. Then, during another fixed period, any dissatisfied bidder has an absolute right to examine all the competing tenders, and all the documentation of the tender evaluation committee, the supporting and opposing technical memoranda, etc.; he is given a private room and all the time he needs to go through the files to see if he can find a flaw in the judgment. In the past several years, I understand, only one rejected bidder has availed himself of this opportunity and, after spending a couple of hours with the documentation, he agreed he had no case. Pakistan, I am afraid, has not reached this utopian stage in its contracting procedures.

In projects financed by the World Bank Group, we make a special effort to ensure that generally-accepted standards for tendering are followed, and I have been the target of a good deal of tendentious or abusive correspondance as a result. But that is all part of the process of getting a proper routine established; once there is confidence in its integrity then it _is_ routine.

I admit to a certain bias toward private enterprise, with all of its deficiencies, as a pattern for organizing manufacturing industry. But in a country like Pakistan private enterprise, however effective, the governing policies and incentives, cannot fully meet the National objectives. The Government needs to have some instrument through which to undertake projects that are not profitable in the short run but are desirable on other grounds--projects of a trial nature, or which have important demonstration or training effects, or which afford valuable linkages or create employment in especially depressed areas, or whatever. This is what the PIDCs were set up for in the two Wings. I think the fairly recent appointment of a first-rate professional manager as Chairman of the WPIDC is a most encouraging move.

The EPIDC is no less in need of professional management assistance. It bulks even bigger in the industrial economy of the Eastern province, because industry as a whole, and the private sector in particular, is much smaller there than in the West Wing. It has sponsored over a hundred manufacturing plants, with investment in excess of 200 crores--a big operation by any standard. Several major new projects look promising, especially a proposed petrochemicals complex. But the Corporation's growth has been haphazard and its performance far from satisfactory. It is a classic case requiring study and recommendations in depth by a highly competent management consulting firm, leading (1) to more effective autonomy for EPIDC, with Government control exercised indirectly through setting performance goals and continuing or changing the management in accordance with their fulfillment of these goals, rather than through specific directives; (2) to revision of its financial structure to convert part of its debt to Government into equity or quasi-equity; (3) to rationalization of management, perhaps separating the promotional/investment function from the operation of specific industries, but with effective procedures for financial control and performance evaluation; (4) to reform of its accounts so as to provide a clearer picture of real costs and returns, distinguish between commercial and non-commercial activities and enhance operational flexibility; (5) to putting the management of the corporation and its operating subsidiaries on a professional career basis--with criteria, conditions, continuity and incentives that are appropriate to a financial/industrial enterprise rather than to an adjunct of Government; and so on.

Another area that I think deserves priority attention for study and advice by management consultants in Pakistan is the relation between large and small industrial units. One of the more encouraging aspects of the country's economic development has been the success achieved by dozens of small industries. Their financial resources are limited, their premises often cramped and ill-equipped, but the skill, ingenuity and adaptiveness shown by many of them is quite remarkable. Henry Ford started with a bicycle repair shop, and no one can say how many potential Fords there may be in the little metal-working plants that line the Grand Trunk Road north of Lahore. In the early stage of their growth--and permanently, for the great majority that will never expand beyond forty or fifty employees-- their prosperity, their very survivial, depends on finding and holding onto some chink in the industrial economy that is not preempted by the corporate giants. There is a natural tendency for these latter to seek maximum extension and integration of their output, bringing all the component parts and processes under direct control, and in doing so they have the advantage of access to credit and import licenses on favourable terms and of more assured supplies and markets. The small industrialist is squeezed out, even though he may actually be more efficient. It seems clearly desirable, from the standpoint of economic and social considerations alike, to encourage a system by which the big, complex, capital-intensive equipment industries will contract out an important share of their components to smaller suppliers. This would require, no doubt, increasingly more refined analysis of industrial processes, cost breakdowns and possibilities for advantageous division of labor, more sophisticated specifications and quality control, more consistent methods of subcontracting and procurement, than are now prevalent. And that, as I said earlier, is a job for management expertise.

The need for skill and imagination in the application of management techniques is not, of course, confined to industry. I have already touched on some areas of Government activity which need attention, and many others could be cited. Take the Indus Basin irrigation system. It has a history of something like 5,000 years, but its character has been drastically changed just within the past decade, through the introduction of two new factors: the provision of enormous storage capacity by the Mangla Dam, and later Tarbela and its subsidiary reservoirs; and the development of tubewells, serving in varying degrees to provide supplementary irrigation water and to combat salinity.

Previous irrigation depended on the natural seasonal flow, its utility progressively enhanced by an expanding barrage/canal system. The two innovations mentioned, however, make the seasonal factor much less significant, and permit efficient and rational use of the total water availability the current flow plus the annual accumulation, plus the underground perennial stock. But its effective use requires a very highly integrated system of management as well. It was sufficient, a decade or two ago, to have an agreement by which Punjab would assure a minimum flow of X cusecs into the Sind between the dates A and B. Each province could then allocate and administer the water to which it was entitled in relatively simple fashion. Now, however, optimum use of this crucial, scarce resource requires that the water balance--releases from the reservoirs, the allocation to various canal systems and pumping from public tubewells--be adjusted continuously, throughout the system; in effect, it has become a computer operation.

With the breakup of One Unit, the availability and use of water comes, even more than before, a matter for political pressures and negotiation. But the essence of modern management is ability to reconcile the requirements of human relations (Which is another name for politics) with those of technology.

Let me touch briefly on one other aspect of management needs in the rural sector. In East Pakistan, given the tiny fragmented plots that are typical of most of the province, it is very difficult to bring essential agricultural facilities and services to individual farmers through the medium of the conventional Government organization. It is simply not feasible to employ enough extension agents, of a standard of competence which the canny farmers would accept and respect, to reach every village, to say nothing of every cultivator. Similarly, for the operation and maintenance of tubewells and low lift pumps for irrigation--tens of thousands of them, widely scattered the deployment of pump drivers and mechanics in sufficient numbers, from a single central organization, seems unworkable. The chain of command would be too long and loose, supervision too difficult, and motivation for good performance likely to be lacking or even perverse. For example, a pump driver assigned out from Dacca or District headquarters to a remote village is unlikely to feel much responsibility toward the villagers; indeed, when he feels homesick on occasion, it may be all too easy for him to arrange the breakdown of the pump, and get a few days off until the repairman comes, with relative impunity. Similarly again, the government machinery for allocating, supervising and recovering agricultural credit, and also for organizing the distribution of fertilizer or pesticides, cannot deal effectively with one lakh villages and a crore of individual farmers.

Ten years of careful study and demonstration at the Pakistan Academy for Rural Development in Comilla evolved an ingenious alternative system of organization that bids fair to solve this dilemma. It involves the concentration of Government services supporting agriculture at the level of the thana, a unit of roughly 200,000 population, large enough to permit and justify the assignment of really competent technical and supervisory staff, yet not out of reach of the surrounding villages. The governmental structure is complemented by a grass roots network of village cooperatives, grouped in thana federations that can provide financial reinforcement and supervision and organize supplementary services -- such as rice and oil mills, cold storage plants, mechnical workshops, etc. All the promotional and operational work at the village level -- administration of credits, distribution of agricultural supplies, demonstration of new techniques, operation of irrigation pumps and mechnical cultivators -- is carried out within the cooperative framework, by members of the village chosen by their peers and them given intensive training in the relatively simple specialities involved; and this training is continuously reinforced by weekly sessions at the thana development center and by occasional visits from the Government technicians stationed there. Their performance is constantly checked and subject to criticism by the members of the village community, who have a keen sense of their interests and a pretty good knowledge of the qualities and weaknesses of the men they choose as their agents. If the pump breaks down too often, or the demonstration plot is not properly weeded, or fertilizer is not available on time, disciplinary action does not depend on whether someone way off in Dacca gets wind of the defect; the villagers themselves demand performance, or get rid of the offending worker in simple and direct fashion. And if there is corruption in the collection of credit dues or in the sale of agricultural supplies, it is not the remote Government, which is fair game for everyone, that is cheated, but rather the cooperative managers' own neighbors, who are likely to react vigorously.

Introduction of this "Comilla approach" province-wide was delayed or resisted for several years by politicians who were understandably wary of grass roots farmers' organizations, independent of control by party or Basic Democracies, and by some elements of the provincial bureaucracy who feared the loss of part of their function and authority.

But the logic of this approach, its relevance to the unique problems of East Pakistan, is now generally recognized. Its application throughout the Province, on an accelerated basis, was finally approved toward the end of last year, but of course was interrupted by more recent events. Both a test and a necessity for full return to normalcy, and to the possibility of economic progress in East Pakistan, is the extension of this integrated rural development program as rapidly as possible.

In all these various fields -- industry, commerce, the public service, rural development, and so on--the importance and need for truly professional management is increasingly recognized, very much more so than at the time of my first contact with this country over a decade ago. The availability of managerial experience has expanded even more greatly. The junior members of the founding twenty families, or whatever the number is, get advanced training at Harvard of Manchester, and come back to Pakistan with a greatly enhanced sense of what their industries can accomplish and how they need to be adapted. Despite the continued strength of the family feelings, moreover, there is increasing recruitment of professional managers from outside, and reliance on independent management consultancy.

The latter seems to me especially important. For it is the independent consultant who can bring to bear a fresh, disinterested analysis of the problems of a management that may have become set in its ways, and can transfer this insight-- which if it were obtained through a strictly in-house analysis, would be jealously guarded against contingencies or competition-- and apply it to analogous situations elsewhere.

In his message to the Seminar on Management Consultancy earlier this month, President Yahya Khan emphasized the important role that consultants can play in the promotion of economic growth in Pakistan. He also stressed the need for the country to develop consultant serviees of its own, well acquainted with the production conditions, social attitudes to work, available skills and concepts of management that prevail and are suitable in Pakistan.

This is a view with which I am in enthusiastic accord. It applies particularly to an aspect of counsultancy work in which the World Bank Group is especially interested-- the evaluation of development priorities and projects and preparation of feasibility studies. In this work knowledge of local resources, markets, administrative practices and labor conditions is vital. Foreigners can acquire it, of course, but sometimes inadequately and always at considerable cost. Moreover, insofar as feasibility studies are done ad hoc, by separate foreign consultants brought in for each individual project, there is little continuity. The information and understanding expensively acquired in the course of one investigation is not available for the next. Possibilities of alternative patterns of resource utilization, of external economies, of backward and forward linkages, which might result in substantially better projects and a better integrated overall program, may fail to be identified. So I am greatly pleased at the evident progress of local consulting firms, in getting established and recognized and acquiring experience.

They are not, of course, omni-competent, any more than the foreign firms. And often the respective capabilities of local and foreign consulting groups may complement each other admirably. Collaboration and joint ventures will often make a lot of sense.

External aid givers frequently offer, or insist on, the services of consultants of their own nationality (or in the case of the World Bank, from a wide selection of nationalities) in connection with projects for which they provide financing. Sometimes these services are necessary or highly desirable; all the know-how required may not be available locally, or the foreign consultant may know better how to explain and justify the project to the aid-giving agency. However, there is often I belive, an excessive reliance on international consultants--partly, no doubt, due to their widespread lobbying efforts. At any rate it would make sense, as a general rule, to require that any international firm employed on such jobs have a local associate, for the reasons cited earlier.

When I agreed to the title for this talk "The Role of Management in Developing Countries", I didn't have the faintest idea what I would say. I thought I might touch briefly, perhaps, on some institutional problems of the East African Community, with which I was closely acquainted a couple of years ago, or on issues of industrial policy in a Latin American country. But I found that Pakistan's problems are quite numerous and varied enough for this occasion, so I trust you'll forgive this more limited focus.

This is a period when the strains of economic and institutional development in Pakistan are especially severe. I pray and trust they will be resolved successfully and soon. And I believe, as I said earlier, that the management profession can make an important contribution to the effectiveness and smooth working of whatever pattern emerges. I wish the Pakistan Management Group all success in its efforts to this end.

filed in speech BK Gordon

UNIVERSITAS INDONESIA

INTRODUCTORY SPEECH TO SEMINAR ON EDUCATION, EMPLOYMENT AND EQUITY

David L. Gordon

SEMINAR
PENDIDIKAN, KESEMPATAN KERJA SERTA USAHA-USAHA
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INTRODUCTORY SPEECH TO SEMINAR ON EDUCATION, EMPLOYMENT AND EQUITY

Distinguished Participants:

This seminar is of interest to the World Bank from several standpoints. In the first place, it stems in part from a visit to Indonesia early last year by Mr. Fred Nossal, who maintains contact with this region on behalf of the Bank's Information Department. He met a number of journalists, Government information officials and members of the administration and faculties of the University of Indonesia. In some of his conversations -- I am not sure where he dropped the first seed -- he described a seminar on educational strategy that the Bank had helped to organize in Nigeria in 1973, and there was a quick response from several sources: why not do something similar here?

For education is a major concern of the World Bank -- as it is of the Government -- in Indonesia. We have provided financing for three educational projects so far -- in technical and agricultural fields, respectively, and for an ambitious program of teacher training and text book preparation for the primary school system in general. Last year we mounted, in cooperation with UNESCO, a comprehensive survey of the educational sector which, after review and discussion with the Government, defined a series of further projects covering a wide spectrum of education and training activities. A Bank mission is here at present to appraise the first group of future projects.

But education is not an end in itself -- at least not for most Indonesians, and certainly not for the Government or the World Bank. It is a means of enhancing the people's social and scientific understanding, their productive and administrative capabilities, their contribution to the national

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progress and welfare -- and their personal progress and welfare as well.

Hence were introduced, as the idea of a seminar on educational strategy took shape, the two other elements that comprise our present theme. In English, as it happens, Education, Employment and Equity are nicely euphonious. But, more important, there is an essential inter-relation among the three concepts in the pursuit of Indonesia's development purposes.

Over the next quarter century, according to recent estimates put forward by Professor Sumitro, the Indonesian population is likely to increase from about 130 million now to about 250 million, of whom 146 million would be living in Java/Madura. This assumes determined efforts and a considerable degree of success in family planning and transmigration programs; other estimates suggest still higher population growth rates to the year 2000 and beyond. And the proportionate increase in the labor force in any case would be greater still. The country's natural resources already known, and technologies already proven, should be adequate, if properly developed and applied, to provide for the necessities of life to this larger population, and to allow a tripling or more of income per head.

But this modestly optimistic scenario will not be accomplished simply by continuing to do the same things, or more of the same things, as heretofore. Professor Sumitro points out that the anticipated average population density in all of Java would rise to over 1100/km^2, higher than in urban zones of Europe at present; in effect the entire island would be urbanized -- while still having to obtain much of its food supply from highly intensive, garden-type agriculture. The problems of regulating land use, protection of soils and water supply, disposal of wastes and so on will increase in geometric proportion. Social relationships and attitudes will be fundamentally affected.

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The still greater rate of growth in the labor force, together with changes in the structure of the economy, highlight the problems of employment creation and distribution. Much of the resource development that is taking place, and should continue to expand rapidly in future -- in oil, hard minerals and timber, for example -- creates directly only a limited number of jobs; and increases in productivity -- in agricultural yields or through a shift from traditional crafts to modern industrial processes -- expand employment only at rather high capital cost, and in some cases may even reduce employment by putting activities with very high labor content but low value added out of business. This is not a plea for preserving extremely labor intensive but economically marginal traditional systems of rice harvesting or hand-pounding — less and less will they yield enough for decent subsistence -- but for a technological mix that can expand productive employment opportunities, and for incentive policies designed to encourage its use.

Some of the resultant educational needs are reasonably self-evident; others have been analyzed and discussed at length in educational literature and at international forums. But the extent and pace of the impending changes, and the scope of the social adjustments that will be necessary to absorb them and give them constructive direction, seem to demand new channels and methods as well. Great masses of people are going to have to adapt within a very short time. Hence the increasing interest in non-formal education, that can bring and demonstrate techniques for higher productivity and better use of land directly to working farmers, or bring training in skills into closer touch with actual requirements and conditions on the shop floor. Often the educational process will need to work through unofficial institutions -- farmers' cooperatives, labor unions and the like. Radio and TV programs, taking full advantage of the forthcoming communications satellite, should be developed on a massive scale -- and will

.. /4

require vast amounts of time and talent.

It has frequently been noted that economic development, particularly in the early transitional stages, is not generally conducive to economic equality. While incomes may increase on the average, and also at the lower levels in absolute terms, the relative gap between richer and poorer groups, their respective proportions of the total national output, tend to diverge farther. This is hardly surprising. The shift to a more monetized economy, the changes in traditional value relationships, give an advantage to those who have money and experience in using it. Compound interest compounds and capital gains become new capital. That helps to fuel the engine of development.

But that is not its entire working. For sound, self-sustaining economic growth depends on the cooperation, hard work, expanding skills, often the practical inventiveness of a wide stratum of the population. It requires a level of health among the general public that permits them to be increasingly productive. It depends on their growing ability to buy the products of industry and commerce. Above all, it depends on reasonable maintenance of political stability.

So a striving for equity in distribution of the benefits of development is important to the development process itself. More fundamentally, it is a moral imperative, an obligation of a society founded on moral principles. I do not mean to suggest complete equality of incomes, or anything like it, as a practical, or even desirable, objective. I suggest merely that sound public policy will diligently seek and pursue means to alleviate the most abject, "absolute" poverty, to open wider opportunities for advancement to the mass of the people (and thereby take greater advantage of their potential); and to protect them

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against gross exploitation. Specifically, it will mitigate the convent:onal discrimination, prevalent in most countries, against the poorer groups and in favor of the richer in the allocation of tax burdens and of subsidized public services. One of the most important of the latter, certainly, is education.

Repelita II embodies these policy aims, and they are reflected in a number of governmental decisions and actions, especially in the past year -- sharp expansion of the Kabupaten works program, its extension for the building of thousands of schools and health centers, the increase in teachers' and medical workers' salaries, price policies for rice and fertilizer, and others. The World Bank is giving support to these and similar efforts through its projects -- ongoing or well-advanced in preparation -- for education, urban development and water supply, transmigration, smallholder agriculture, irrigation, population and nutritional improvement. It is cooperating with Government agencies in several relevant research projects.

I should perhaps make clear that, while we offered a small grant of funds against the expenses of this Seminar, the Government decided to finance all these costs itself, as part of its contribution to the 25th Anniversary of the University of Indonesia. Our contribution to the Seminar of some background material and experience around the world was accepted. We are very glad to participate here; to pursue with you in more specific terms the intertwined threads of Education, Employment and Equity; to join in congratulations to the University on its first quarter century and its challenges and prospects for the future.

Thank you.

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Monique

Correct file in
random speeches
(taken from a speech)

Mr. Gordon's speech.

INDUSTRIALIZATION THROUGH SUITABLE STRATEGIES AND POLICY FRAMEWORK

IN MOST of the countries in Asia, at their present stage of economic development, a vigorous, sustained industrial gorwth is virtually a condition for their economic viability, for productively employing the great mass of their populations, and for substantial improvement of standards of living and welfare.

To be sure, in most of the Asian countries there remain considerable primary resources — mineral potential still inadequately explored, agricultural possibilities far from being realized — and these should certainly continue to be developed. But in almost all these countries, also, the principal resource is the growing labor force and the under-utilized manpower that is being displaced from marginal agricultural production; and the major opportunity for expanding export revenues lies in the rising demand, in both developed and developing countries, for industrial goods.

Indeed, the primary production sectors as well depend increasingly, for their efficient development, on the emergence of specialized domestic industries to supply the necessary inputs, repair and maintenance facilities and logistic support for which foreign sources are becoming less and less advantageous.

At the recent UNCTAD Conference in Nairobi the the bargaining power of the Group of 77 (or 112) was focused mainly on the proposals for Commodity Stabilization backed by a Common Fund. This concentration is understandable but, perhaps somewhat misdirected. There is no doubt whatever that the existing system by which the prices of the major primary commodities are determined needs to be fundamentally reformed, in the interest not only of equity as between producers and consumers but also of investment and trading efficiency. A similarly disruptive pricing system has been considered unacceptable and has been corrected in substantial measure) for major industrial categories for the past generation or more.

There are, however, serious doubts that commodity stabilization — when it is achieved, and it will be within a very few years — will greatly improve the Asian countries' share of the world's wealth. Massive fluctuations can, to be sure, be mitigated — to the benefit of everyone — but commodity prices in real terms, over time, will average much the same as would have prevailed in the absence of the stabilization arrangements. The recent experience even of OPEC, in a situation uniquely favorable to producer interests, is instructive.

But the potential for securing a greater share of the benefits of international trade looks much better in the industrial sector, in various ways: first, through more advanced processing of primary materials; second, through intra-regional trade; and third, through the development of industries oriented toward exports, whether resource-based or not, especially to the richer industrial countries.

A justified plaint of the raw material producing countries is that they are paid only a fraction of the value of the ultimate product — the rest being skimmed off outside the country in trading profits or processing margins (often both accruing to the same international companies). The case for developing more advanced processing facilities within the primary producing countries seems overwhelming. It saves on transportation costs for the secondary products.

It permits more efficient use of by-products, and stimulates ancillary productive activities. It provides employment and work experience for both unskilled and (especially) skilled manpower. It helps to diffuse the polluting effects of certain industries (e.g. metallurgical and chemical plants) away from population centers in developed countries to primary producing regions that are often less crowded. Above all it gives the producers access to a broader and more varied range of customers, to real competition, and hence almost certainly to more remunerative markets.

Among such markets, of course, are the domestic and regional ones. The higher export price margins for products processed to an advanced stage — forest resources sold as plywood, hardboard, furniture, pulp and paper, rather than merely as selected raw logs; or oil and gas resources transformed into petrochemicals — are associated with lower prices for these same processed materials in the domestic market. After all, the transport and handling costs, to send the raw material abroad and get the finished or intermediate product back, are not negligible. And this consideration is highly relevant to the subject of regional integration; for secure access to a market more ample than a single national economy may help to ensure the economies of scale needed by a high-technology industry to be fully efficient, and enable it to survive in times of intense international competition.

Industrial Production Integration. The potential for integration of industrial production and markets in various regions of the developing world has been the subject of much discussion and analysis but, unfortunately, insufficient practical action. The desirability of regional integration, it seems, is clear and unchallengeable. To be sure, it is sometimes argued that the economies of the ASEAN countries, or of the Sub-continent, are so similar in their structure that regional exchanges would amount to little more than taking in each other's washing.

But in reality there exist important complementarities, clear-cut comparative advantages, as between the different countries in these regions. The nitrogenous fertilizers which Indonesia could produce in abundance could be exchanged with the Philippines for phosphatic fertilizer, production of which would make use of the sulphuric acid efflux from the Philippine

The potential for integration of industrial production and markets in various regions of the developing world has been the subject of much discussion and analysis but, unfortunately, insufficient practical action has been done. The desirability of regional integration is clear and unchallengeable. Industrialization can be, indeed it must be, the principal engine of economic growth for most of the developing countries. Given suitable strategies and policy framework, several more countries may take off industrially.

Population (mid-1973), GNP at Market Prices (1973), GNP Per Capita (1973), and Average Annual Growth Rates (1960-73 and 1965-73)

GNP at market prices rounded to US$ tens of millions. GNP per capita rounded to nearest US$10.

			GNP at market prices		Growth rates (%)			
					Population		GNP per capita	
No.	Country	Population (000)	Amount (US$ millions)	Per capita (US$)	1960-73	1965-73	1960-73	1965-73
	China, People's Rep. of[1]	811,350	216,750	270	1.7	1.7	3.8	4.6
	India	581,911	71,590	120	2.3	2.3	1.3	1.5
	Japan	108,350	393,000	3,630	1.1	1.2	9.4	9.6
	Bangladesh	74,000	5,910	80	2.6	2.4	−0.2	−1.6
	Pakistan	66,230	7,740	120	2.9	2.9	3.4	2.5
	Philippines	40,219	11,170	280	3.0	3.0	2.3	2.6
	Thailand	39,400	10,600	270	3.1	3.0	4.8	4.5
	Korea, Rep. of	32,905	13,250	400	2.2	1.9	7.1	8.7
	Iran	32,136	27,830	870	3.2	3.2	6.4	7.4
	Burma	29,509	2,360	80	2.2	2.2	0.7	0.7
	Viet-Nam, Dem. Rep. of[1]	23,220	2,600	110	2.8	2.5	0.3	−0.5
	South Viet-Nam	19,870	3,200	160	2.6	2.6	0.6	−0.7
	Afghanistan	16,634	1,420	90	2.2	2.2	0.3	0.9
	China, Rep. of	15,424	10,250	660	3.0	2.8	6.9	7.3
	Korea, Dem. Rep. of[1]	15,040	5,160	340	2.8	2.8	4.6	2.7
	Sri Lanka	13,180	1,560	120	2.3	2.1	2.0	2.0
	Nepal	12,020	1,100	90	1.9	2.1	0.4	−0.1
	Malaysia	11,302	6,490	570	2.6	2.5	3.9	3.7
	Iraq	10,410	8,880	850	3.2	3.3	2.9	2.9
	Saudi Arabia	7,745	12,470	1,610	1.7	1.7	8.7	10.1
	Cambodia[1]	7,566	550	70	2.5	2.6	−1.8	−5.2
	Syrian Arab Rep.	6,948	2,800	400	3.3	3.3	3.8	3.6
	Yemen Arab Rep.[1]	6,217	620	100	2.4	2.4	n.a.	n.a.
	Hong Kong	4,160	5,950	1,430	2.3	1.9	7.0	5.8
	Israel	3,210	9,660	3,010	3.1	2.8	5.6	6.7
	Laos[1]	3,180	200	60	2.4	2.4	1.9	2.5
	Lebanon	2,977	2,790	940	2.6	2.7	3.0	3.5
	Jordan	2,540	870	340	3.3	3.4	1.3	−2.6
	Singapore	2,185	3,990	1,830	2.1	1.8	7.1	9.4
	Yemen, People's Dem. Rep. of[1]	1,560	170	110	3.1	2.9	n.a.	n.a.
	Mongolia[1]	1,357	740	550	2.7	2.8	0.6	1.6
	Bhutan[1]	1,124	70	60	2.3	2.3	−0.3	−0.2
	Kuwait	880	10,610	12,050	9.4	8.2	−2.1	−2.9
	Oman	720	610	840	3.0	3.1	13.5	19.4
	United Arab Emirates	320	3,720	11,630	9.9	11.0	19.3	16.1
	Macao[1]	260	70	270	3.7	3.4	−3.5	−4.6
	Bahrain[2]	232	210	900	3.3	2.9	n.a.	−7.8
	Sikkim[1]	216	20	90	2.4	2.4	−0.3	0.1
	Qatar	180	1,090	6,040	8.5	8.9	5.1	7.9
	Brunei[1]	145	240	1,640	4.2	3.8	1.0	3.7
	Maldive Islands[1]	114	10	90	1.7	1.9	0.9	0.5

[1] Estimates of GNP per capita and its growth rate are tentative.
[2] GNP per capita growth rate relates to 1971-73.

copper refining industry. Bangladesh desperately needs coal, cement, construction aggregates from India, and might sell its natural gas more advantageously to Calcutta than in the form of urea or LNG in world competition.

The case for regional integration does not depend, however, primarily on such obvious complementarities. The resources and industrial patterns of the EEC countries are superficially rather similar. And in Central America the several national economies also are much alike, although at a more dudimentary level. One might think the potential for exchanges would be limited. But in both cases there was a dramatic increase in intra-regional trade following the establishment of a common market. The customs statistics are often misleading. They put glassware into a single classification, whether Coca-Cola bottles or goblets for the dinner table; they do not distinguish among different types of garments, machine tools, agricultural equipment or processed foods. But the producers and traders of these articles well appreciate the benefits of wider markets and the application in practice of the principle of comparative advantage among, as well as within, national economies.

In view of such evident potential benefits from regional economic integration, why has there not been more progress toward its achievement in Asia? Several reasons are suggested.

First, political controversies between governments often override considerations of economic advantage.

Second, governments may fear that they will lose control over the national economy (especially its foreign exchange resources) if they open it up to freer trade.

Third, the civil servants who generally make policy and conduct negotiations on economic integration are often ill-informed – and sometimes suspicious or actively hostile – with regard to the practical workings of industrial and trading enterprise.

Fourth, many businessmen (in both private and public sector enterprises) also prefer the security of a protected market to the risks of competition, and favor relaxation of trade restrictions only for those categories in which they have a proven competitive edge. Not surprisingly, the businessmen in the other country – the prospective partner state – who are engaged in the same line of activity and are quite aware of their competitive disadvantage, oppose their government's making any concession in this area The result is stolemate.

There is need, undoubtedly, for a more sophisticated examination of intra-regional industrial trade potentials and possibilities for integration, both in the Sub-continent and (especially) in South East Asia. But so long as regional integration policy is conceived essentially in terms of the several national governments negotiating trade-offs of access to, or monopoly of, specific industrial sectors – especially as these sectors tend to be defined by the categories already mentioned, which are largely meaningless and misleading for this purpose – progress is likely to be limited.

A more promising approach would be to establish a genuine, widely inclusive common market – a framework of preferences generally available to enterprises established within the region. This would encourage thousands of entrepreneurs to seek niches of comparative advantage, within the clumsy statistical categories, for intra-regional exchange. To calm the opposition that may be expected from timid (and sometimes legitimately fearful) vested interests in the several countries, transitory arrangements extending over several years could facilitate their gradual adjustment to competitive pressures. But from the standpoint of the general interest such competitive pressures, in the long run, could not fail to be salutory.

Despite the great potential of increased intra-regional trade opportunities it remains true, certainly for the next couple of decades, that Asia as a whole needs to develop and maintain a trade surplus to be able to finance its essential imports of of capital goods.

And while, again, the potential for expanding exports to other regions of the developing world is considerable – especially to the South American market, to which Asian producers, apart from the Japanese, have paid far too little attention – it is the industrial countries which offer better prospects. There has been a great deal of discussion and writing about the difficulty of penetrating their markets, about the barriers that have been, and are being, imposed to exports from the developing countries.

A recent study shows, however, that imports of manufactures from LDCs into 14 industrial countries increased nearly five-fold (in terms of current US dollars) from 1967 to 1973 – an average annual growth rate of 30 per cent. The LDC share of manufactured imports to these 14 countries rose from 4.2 to 6.8 per cent in the same period – still a small proportion, to be sure, but suggesting very considerable future potential. Global figures are not yet available for the years since 1973, but for the US alone the growth continued apace through 1974 (34% in nominal terms and a 15% increase in percentage share) and levelled off in 1975; a resumption of the trend, after the recent recession, is predictable. Granted that serious obstacles and annoyances exist, the potential for expanding sales is enormous.

The U.S. and Japan are much the most important markets, in terms both of absolute volume of manufactured imports from the LDCs and of the growth of such imports. And the Asian countries are overwhelmingly preponderant, in comparison to other less-developed regions, in manufactured exports to these two major markets.

There is notable difference, however, in export performance between the East and the South Asian groups of countries. In 1974-75 U.S. imports of manufactures from the LDCs in East Asia totalled more than twelve times those from South Asia – although the latter sub-region has a population something like 2 1/2 times as great. In part, of course, the lower level of exports from the countries of the Sub-continent reflects their larger populations and internal markets. These factors undoubtedly influenced their governments in formulating industrialization policeis that put primary stress on import substitution rather than exports. But this policy orientation also apparently stemmed in part from political and bureaucratic traditions which favor more government intervention in the management of the industrial system than exists in most of the East Asian countries.

In addition to posing severe balance of payments problems for India, Pakistan, Bangladesh and Sri Lanka – as the demand for important traditional exports (e.g. jute, cotton textiles, tea) has been relatively stagnant while the costs of debt service and essential food and petroleum requirements have risen – the laggard pace of their manufactured exports appears now to be adversely affecting industrial progress in general.

Domestic demand for manufactures is not expanding fast enough to make full use of industrial capacity in numerous categories, or to exploit economies of scale; and pressures for quality improvement and innovation are weak in the absence of exposure to international competition. In any event, the more export oriented East Asian countries have enjoyed very much faster rates of growth, in the industrial sector and in the economy generally, over the past decade.

An industrialization strategy stressing import substitution, whatever its other benefits, certainly tends to discourage exports by requiring manufacturers of export goods to pay higher prices for domestically produced inputs than their cost in the international market. In India, for example, "raw cotton has usually tended to be more expensive. . . . than in world markets, which penalizes textile exports. Synthetic filament yarn is also expensive in India, which makes export of the fabrics that use it almost impossible. The problems of the textile industry in turn affect the garment industry, which is restricted to Indian mill-made cotton fabrics. Garment exports are currently successful only thanks to a strong, but somewhat unpredictable, international fashion for handloom materials, which account for 75% of India's garment exports. The leather finishing industry is also penalized by high input costs – in this case of dyes and of machinery, on which a high protective duty is imposed. Other industries where import substitution policy had led to high output prices, consequent penalization of their users, and direct uncompetitiveness, are chemicals, certain automobile ancillaries, and electronic components."

Import restrictions also have the effect of putting the "price cycles for major commodities in India out of rhythm with those in the world. Steel is a major case, but cotton fabrics are another. At present, cotton is available at international prices, but it would, on past performance, be very risky for an industrialist to make investments for exports that assume that this relationship will be maintained."

Attempts have been made to offset some of these inhibitions to export through a variety of special incentives or administrative measures. But the regulations are frequently clumsy and inflexible, unfavorable to entrepreneurial initiative. And the difficulty of predicting over the life of an investment the value of the incentives, which are subject to change, makes export-oriented investment particularly risky. The recent World Bank report, from which some of the foregoing is quoted, sums up that "In general, an increasingly export-oriented development does not appear to be considered worthwhile by Indian firms within the present policy framework."

It specifies the major problems as: "(1) inadequate profitability, which is largely the result of the strategy of import substitution; (2) lack of access to imported inputs, which is a consequence of the use of import controls as the main weapon of trade policy; (3) the poor quality of much that is produced, which is largely a result of lack of competition; (4) instability of the policy environment and vulnerability to ad hoc decisions. These problems all affect the industrial sector in varying degrees."

And in substantial degree they are endemic to other countries of the Subcontinent as well.

These countries do seem now, however, to recognize a need to give much greater emphasis to exports. Some regulations are being liberalized and applied more flexibly, export incentives increased and ensured for longer periods. It is probably not to be expected that these countries will swing over to a degree of export orientation comparable to some of those in East Asia; but a substantial move in that direction seems both possible and necessary. And given the right kinds of economic policy environment their entrepreneurship, technology and labor skills would undoubtedly be able to compete vigorously in world markets.

One area of competition (and also of cooperation) with other regions, in which the Asian countries may have particular advantages, is in the development and application of simpler, less capital-intensive industrial processes and machinery than those in conventional use in the most developed countries. This is often called "intermediate" or "appropriate" technology – appropriate in the sense of being well-suited to the factor proportions, the scarcity of capital and the abundance and relative cheapness of labor that characterize many LDCs.

A number of Asian institutions have done valuable work in adapting or developing industrial processes and equipment that are suitable for smaller production units that require less capital and employ relatively more workers than those designed to fit European or American conditions. Much more numerous still are the individual manufacturers and machine shops who have devised innovations of this kind to solve particular production or supply problems or to improve their competitive position. These efforts deserve increased encouragement and support. In particular, there is need for improvement in the dissemination of, or access to, information about investigations and discoveries in various areas of intermediate technology. The World Bank is exploring the possibility of setting up a central clearing house – drawing upon the various technical data and research resources available – that could systematize, economize and speed up the international exchange of such information: a cheap and quick technological referral service. Such services do exist but on a rather fragmented basis, accessible only to limited clienteles. I would welcome the views of those present here regarding the usefulness and practicality of such a system.

Again, the primary sources of information, and eventually the principal sellers as well as users of knowhow in the area of appropriate technology, are bound to be the Asian countries – given their populations, the character of their economies and their technical experience and ingenuity.

It seems despite the very real problems facing many Asian countries in promoting the development of their industrial sectors, that there exists a great potential.

Industrialization can be, indeed it must be, the principal engine of economic growth for most of them. Given suitable strategies and policy framework, several more countries may take off industrially, following the impressive examples of Taiwan, Korea, and Singapore. – **David L. Gordon**

(Mr. Gordon is director of the Development Financial Companies Department of the World Bank. This view was presented during the Asian Journalists seminar held this month in Manila.)