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SPEECH DELIVERED BY THE REPRESENTATIVE OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND

DEVELOPMENT

MR. RICHARD H. DEMUTH

STATEMENT TO ECLA

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Mr. Chairman and Members of the Commission:

May I state, on behalf of the International Bank, how glad we are to be able to participate in this Second Session of the Economic Commission for Latin America and how very much we hope for fruitful and effective collaboration between this Commission and the Bank.

The principal task before this Commission and the principal task of the Bank are basically one and the same - economic development. With your permission, therefore, I would like to tell you a little about what the Bank has done in the field of development and about some of its plans and its problems.

The Bank has been in operation now for almost exactly three years - three years which I believe have been marked by solid, gradual growth. During that time we have lent some \$650 million to eight countries to finance projects which we believe will make a substantial contribution to the economies of those countries. We are actively discussing many other projects with

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prospective borrowers and a number of these should result in loans in the very near future. We have assisted several of our member countries to work out and put into effect economic and financial measures and administrative reforms which may well have long-run benefits at least as great as those resulting from the Bank's financial help. We have gained general acceptance of our credit in the public markets to which we must look for the major part of our loanable funds. The Bank's publicly issued bonds, totalling some \$250 million, have had a very satisfactory market record and there is at present a substantial unsatisfied demand for those bonds. Finally, we have established sound, cordial working relationships with the countries to which we have made loans and with which we are currently carrying on negotiations. To us in the Bank, these are satisfying accomplishments. They are not spectacular in any sense but they represent the fruit of much intensive work.

During the past eighteen months the time and attention of the Bank has been devoted primarily to the problems of its less-developed member countries and particularly to its member states in Latin America. The three development loans which we have thus far granted have all been to Latin American countries and several of the additional loans now in a stage of active negotiation are also with Latin American countries. I believe I am correct in saying that members of the Bank's staff have visited each one of our Latin American members -

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many of them several times - and we are becoming more and more conversant with both the problems and the needs of this important region. The excellent survey made by the Executive Secretary of this Commission and his staff will help us greatly in this connection.

Our experience to date indicates that the Bank now has or can readily acquire sufficient resources to finance all the sound, productive projects in its member countries that will be ready for financing in the next few years and that can appropriately be financed through foreign loans. This doesn't mean, of course, that the Bank can satisfy all the capital requirements of the world - far from it. I refer only to the financing of sound, productive projects ready for financing, and appropriate for financing through foreign loans.

There is a wide gap, both in conception and in time, between the point where a development possibility is recognized and the point where its financing can be undertaken. Let me cite an example. One of our smaller member states desires to divert water from a river in one part of the country to irrigate desert land in another part, and to generate some power in the process. But that concept as such cannot be financed. Before it can be brought to the point where money can usefully be employed, a great deal of detailed engineering work must be undertaken, the market possibilities for the power and the products to be grown on the irrigated land must be explored, the availability and cost of the necessary equipment must be ascertained

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and the economic validity of the project in the light of estimated cost and anticipated revenue must be demonstrated. Comparison must also be made between the expected economic benefits of this particular project and of other proposed projects which might have to be abandoned or delayed if this one were undertaken. Finally, an organization must be created to carry out the project and competent management must be obtained.

All these steps take time. But expansion of productive facilities in even the most highly industrialized nations is a pains-taking, time-consuming operation, requiring the most careful and detailed planning. In the underdeveloped areas, the difficulties are compounded both because there is less technical and administrative skill available and because there is less economic and statistical data on which to base judgments.

Perhaps the most striking lesson we have learned in the course of our operations is how limited is the ability of our underdeveloped member countries to absorb capital quickly for really productive purposes. I stress this point because I believe that the mistake most frequently made in discussions of development is to contrast the almost unlimited development needs of the world with the limited amounts of capital available to meet those needs. That contrast is in very large measure irrelevant and in any event is dangerously misleading. For development does not depend upon the amount of money available but upon the amount of productive investment that takes place. And productive investment cannot take  
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place in the absence of sound, practical development projects. Unless and until such projects are adequately worked out, the mere availability of money for development purposes is of little or no use.

The fact that the Bank has not yet been able to invest large sums of money for development purposes is due primarily to the surprisingly few well-conceived and well-planned projects which have been brought to us. We are trying to help our member countries remedy this lack through technical assistance, advice and consultation but it is a time-consuming process. And it is not easy, either, to overcome the other limiting factors which are so frequently present - the lack of education, both general and technical, bad health, unsound finances and poor administration. I think we are making progress, particularly in inducing our member states to appraise their own plans more critically and to take a more realistic approach to their problems, and we certainly intend to press forward vigorously along this line.

But it must be remembered that the Bank's role is at best an auxiliary one - to act as a trail-blazer or catalytic agent. In the long run, development cannot be financed primarily on the basis of debt, much less on the basis of foreign debt. Reliance must obviously be placed in the first instance on local effort and local resources and, so far as foreign financing is concerned, principally upon direct

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investments made by private capital. The Bank's function is essentially one of stimulating the flow of private capital and of supplementing it in cases where the risks are too large for private investors to assume or for projects not appropriate for private financing.

In all of our future activities, we are most anxious for the understanding and support of this Commission, just as we are anxious to give to the Commission any assistance that is within our power. We want your advice if you see practical means by which the Bank can fulfill its responsibilities more adequately. And we want your help, too, in focusing attention on the realities of the development problem and on the practical limitations as well as on the constructive possibilities of international action. The task which we are jointly tackling is not one where spectacular results can be achieved - it would only invite disillusionment if we were to raise hopes of the spectacular - but it is a task which, if tackled vigorously and practically, can yield substantial constructive results.

Just one word in conclusion. Many of you, I believe, have learned to know Mr. McCloy, the retiring President of the Bank, during the meetings of the Bank's Governors or during his two extensive trips to Latin America. Mr. McCloy is now leaving the Bank, but he is leaving it reluctantly and only because of what he considers an impelling call to

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other public service. There will be no interruption in the Bank's work due to his retirement, for, as you know, he is to be succeeded by Mr. Black, who for the last two years, has been the United States Executive Director of the Bank. Mr. Black has asked me to tell you that he shares Mr. McCloy's enthusiasm for and deep interest in the development of Latin America and that, to the extent that it lies within his power, he intends to see that the Bank becomes an increasingly effective instrument in promoting that development.

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