ADDRESS TO THE
BOARD OF GOVERNORS

by

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I. INTRODUCTION

We meet this year as one turbulent decade draws to a close, and what promises to be an even more critical one is about to begin.

We need not be reminded that the economic strains of the 1970s have been more severe than any since the disruption of World War II and the global depression that preceded it. But the truth is that the problems that will confront us all in the 1980s are almost certain to be more difficult. More difficult because with the loss of irrecoverable time the easier solutions to these problems have begun to disappear.

What we will be left with in the decade ahead are increasingly painful dilemmas that can no longer be ignored or postponed. We are going to have to decide—and decide soon—if we can really afford to continue temporizing with severe development problems that are getting worse rather than better.

Various elements in the international community are now at work preparing their proposals for an overall strategy for the Third Development Decade (DDIII).a

The time is right to take a realistic look at the development lessons of the Seventies, and decide how we can best apply that experience to the Eighties and beyond.

What I would like to do, then, briefly this morning is:

- Comment on the record of the 1970s, and the implementation of the strategy adopted for the Second Development Decade;

- Identify key problems that the rich and poor countries together are going to have to come to grips with in the 1980s;

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aWork is currently underway in the UN Preparatory Committee for the New International Development Strategy on the principal ideas that should be included in that strategy when it is presented to the Eleventh Special Session of the UN, currently scheduled for May of 1980.
• Suggest what can be done to meet those problems through a new international development strategy based on the realities of interdependence; and

• Indicate how the Bank itself can most effectively assist in that task.

Let me begin with the performance record of the Seventies.

II. LESSONS OF THE SECOND DEVELOPMENT DECADE


The chief target of the overall strategy was that the developing countries as a whole should achieve, during the decade, an average annual rate of growth in their Gross Domestic Product (GDP) of at least 6%.

Six subsidiary targets were derived from this main goal. They were: an overall average annual increase in the developing countries of 3.5% in GDP per capita; annual growth rates of 8% in manufacturing, 4% in agricultural production, and 7% in export volume; a domestic savings rate that would reach 20% of GDP by 1980; and annual Official Development Assistance (ODA) from the developed countries reaching .7% of their Gross National Products (GNP) by 1975.

Now, what in fact has happened to these goals?

The performance figures through 1978 are now in and one can project, with reasonable accuracy, the results for the remaining two years of the decade.

The chief target—the 6% growth rate in the combined GDP of all the developing countries—will not be achieved. At best, their growth will not exceed 5.2% per year. This reflects the gradual slowdown in growth throughout the world in the second half of the Seventies.

Further, there were major shortfalls in each of four subsidiary goals. Of particular importance were the deficiencies in
agricultural production, with a growth rate of only 2.8%, rather than the targeted 4%; and Official Development Assistance from the developed countries, which averaged less than half the target.

Moreover, these overall average performance statistics obscure as much as they reveal.

For example, the average 5.2% growth rate—although achieved by the developing countries as a whole—obscures the fact that the growth was very uneven among these countries; and that income grew the least where it was needed the most—in the poorest countries with the largest aggregate population.

- The major oil-exporting countries, with less than 10% of the population of all developing nations, enjoyed a GDP growth rate not of 6%, but of 9.5%.
- The middle-income countries that do not export oil, with only 29% of the population, had a growth rate of 6.2%.
- And the poorest countries, with an overwhelming 61% of the population, had a growth rate of only 4%.

The differences are even more pronounced in the case of GDP per capita growth.

- In the middle-income countries that export oil the growth rate was not merely the targeted 3.5%, but nearly twice that: 6.6%.
- Even in the middle-income countries without oil earnings, the growth rate exceeded the goal at 3.6%.
- But in the poorest countries, per capita income grew at only 1.7% a year—in Africa at only .2%. This is virtual stagnation. It means that for hundreds of millions of individuals—already trapped at the bare margin of survival—“growth” in income was two or three dollars a year.

There is little point in establishing overall targets which the poorest countries, with over half the population, have no hope whatever of achieving. These countries, as shown in Table 1, have been able to produce only 16% of the developing nations'
combined GDP, and less than 10% of their exports. Their average per capita income is only one-seventh that of the middle-income countries.

Table I—Profile of the Developing World

<table>
<thead>
<tr>
<th>Poorest Countries</th>
<th>Population (millions)</th>
<th>GDP Per Capita $</th>
<th>Growth Rate 1970-80</th>
<th>Literacy 1975</th>
<th>Life Expectancy 1977</th>
<th>As a % of Developing Countries Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>656</td>
<td>175</td>
<td>1.4</td>
<td>36</td>
<td>51</td>
<td>28.7 7.9 2.7</td>
</tr>
<tr>
<td>Other Asia</td>
<td>455</td>
<td>200</td>
<td>2.7</td>
<td>48</td>
<td>51</td>
<td>19.9 6.1 5.2</td>
</tr>
<tr>
<td>Africa</td>
<td>168</td>
<td>175</td>
<td>2.2</td>
<td>30</td>
<td>46</td>
<td>7.3 2.1 1.7</td>
</tr>
<tr>
<td>Total</td>
<td>1,279</td>
<td>185</td>
<td>1.7</td>
<td>36</td>
<td>50</td>
<td>55.9 16.1 9.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Middle-Income Countries</th>
<th>Population (millions)</th>
<th>GDP Per Capita $</th>
<th>Growth Rate 1970-80</th>
<th>Literacy 1975</th>
<th>Life Expectancy 1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>346</td>
<td>1,390</td>
<td>2.6</td>
<td>77</td>
<td>63</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>206</td>
<td>670</td>
<td>1.4</td>
<td>27</td>
<td>48</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>174</td>
<td>850</td>
<td>6.2</td>
<td>83</td>
<td>63</td>
</tr>
<tr>
<td>Others</td>
<td>283</td>
<td>1,660</td>
<td>2.9</td>
<td>63</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>1,099</td>
<td>2,125</td>
<td>2.9</td>
<td>69</td>
<td>60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>All Developing Countries</th>
<th>Population (millions)</th>
<th>GDP Per Capita $</th>
<th>Growth Rate 1970-80</th>
<th>Literacy 1975</th>
<th>Life Expectancy 1977</th>
<th>As a % of World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2,288</td>
<td>2,645</td>
<td>2.8</td>
<td>50</td>
<td>54</td>
<td>76.9 21.0 23.0</td>
</tr>
</tbody>
</table>

These poorest countries have, of course, very severe disadvantages: their populations are less literate, suffer more from malnutrition and illness, and have shorter life expectancies. Their societies have limited domestic resources and desperately need concessional assistance to supplement their own efforts.

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*aExcluding Centrally Planned Economies.

*bIn 1978 prices, preliminary estimates.

*cIn 1975 prices.

*dMerchandise only.
The middle-income nations, on the other hand, have been able to take advantage of their more favorable endowment in resources, of better market opportunities, and of higher capital inflows. Their prospects are promising provided they can combine sound domestic economic management with continuing expansion of their exports and access to development capital.

The first lesson, then, that one can draw from the experience of the DDII strategy in action is that strategic development planning in the future ought to give greater attention to this diversity, and disaggregate its goals into action proposals that are more specifically tailored to particular conditions. Aggregated goals can serve a useful purpose, but only to the extent that they provide an agreed-upon framework within which detailed national programs for action can be developed.

The second lesson we can learn from DDII is a corollary of the first.

Though the strategic plan spoke of the desirability of “special measures in favor of the least developed among the developing countries,” it did not include any time-specific goal of reducing absolute poverty.

The 6% GDP growth target, as desirable as it was, was not identified as a means to a long-term, fundamental social transformation of the developing nations.

There was a great deal of discussion at the time of narrowing the relative income gap between the industrialized nations and the developing countries. That, however, is not only an elusive goal, but one that might bring little relief to the hundreds of millions of absolute poor in the developing world, even if attained.

What is far more important and urgent as a development-strategy objective is to seek to narrow the relative gap between the rich and poor countries in terms of the quality of life: in nutrition, literacy, life expectancy, and the physical and social environment.

Those quality-of-life gaps did narrow during the Seventies, as Table II indicates, and for the poorest countries they narrowed
even while their per-capita-income gap with the developed nations widened.

Table II—Indices of Relative Social Progress\(^a\)

<table>
<thead>
<tr>
<th></th>
<th>Low-Income</th>
<th></th>
<th></th>
<th>Middle-Income</th>
<th></th>
<th></th>
<th>All Developing Countries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Calories as % of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Requirements</td>
<td>71</td>
<td>73</td>
<td>73(^b)</td>
<td>78</td>
<td>82</td>
<td>83(^b)</td>
<td>74</td>
<td>77</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td>61</td>
<td>63</td>
<td>68(^c)</td>
<td>76</td>
<td>80</td>
<td>81(^c)</td>
<td>68</td>
<td>71</td>
</tr>
<tr>
<td>Adult Literacy</td>
<td>30</td>
<td>32</td>
<td>36(^c)</td>
<td>52</td>
<td>67</td>
<td>70(^c)</td>
<td>39</td>
<td>47</td>
</tr>
<tr>
<td>Primary School</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enrollment</td>
<td>45</td>
<td>62</td>
<td>72</td>
<td>69</td>
<td>84</td>
<td>90</td>
<td>55</td>
<td>71</td>
</tr>
<tr>
<td>Income Per</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capita</td>
<td>4.7</td>
<td>3.2</td>
<td>2.5(^d)</td>
<td>17.2</td>
<td>14.5</td>
<td>16.0(^d)</td>
<td>10.2</td>
<td>8.2</td>
</tr>
</tbody>
</table>

Had the DDII strategy given more direct emphasis to reducing absolute poverty, these and other quality-of-life factors could have improved substantially more than they did.

It is not that income gaps are unimportant. In a struggle for scarce world resources they are immensely relevant. And they illustrate the clear capacity that the rich and powerful have to assist the poor and weak. But this gap is largely irrelevant for determining the long-term objectives of the developing countries themselves.

This is all related to another major problem.

The international development community really has no adequate means to implement agreed-upon development policy.

When, for example, the strategy specifies a production target, such as an agricultural growth rate of 4%, or a financial target, such as Official Development Assistance rising to .7% of the GNP of the Organisation for Economic Co-operation and Development (OECD) nations, these targets are really little more than hopes or aspirations.

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\(^a\)The value of the indicator is expressed as a percent of the value for the average developed country.
\(^b\)For 1974.
\(^c\)For 1975.
\(^d\)For 1977.
The truth is that there is no united international determination or force behind these targets.

If, then, the formulation of the development strategy is to become genuinely effective, it must do more than just set undifferentiated global targets. It ought to incorporate policy alternatives, and be backed up by sufficient international understanding and agreement among both the advanced and the developing countries to ensure that its broad direction is carried out.

Some of the most important aspects, for example, of the current North-South Dialogue could take concrete shape within the framework of such a development strategy, rather than outside it.

Now that a new strategy for another development decade is being formulated, all of us have the opportunity—and the responsibility—to learn what we can from the record of the past ten years, and to ask ourselves how we can best proceed.

One starting point is to consider some of the critical development problems we are certain to face in the 1980s—problems that carry enormous penalties for procrastination and delay.

III. CRITICAL DEVELOPMENT PROBLEMS IN THE 1980s AND BEYOND

We can begin with the most critical problem of all: population growth.

Population

As I have pointed out elsewhere, short of nuclear war itself it is the gravest issue that the world faces over the decades immediately ahead.

The population growth of the planet is ultimately in the hands not of governments, or institutions, or organizations. It is in the hands of literally hundreds of millions of individual parents who will determine its outcome. That is what makes the population problem so diffuse and intractable. And that is why it must be faced for what it inevitably is: a central determinant of human-
ity's future, and one requiring far more effective attention than it is currently receiving.

Ironically, one reason the urgency of the problem is underestimated today is that crude birth rates in the developing world—outside of Sub-Saharan Africa—are in fact declining. That in itself is an extremely welcome trend. And it may very well mean that the period of rapid acceleration in the rate of growth of the world's population has finally reached its peak, and is now moving downward towards stabilization.

Table III—Crude Birth Rate Trends in Selected Developing (LDC) and Developed Countries (DC)

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of Countries</th>
<th>1979 Pop. (Millions)</th>
<th>Crude Birth Rates (per thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>50</td>
<td>454</td>
<td>48.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>24</td>
<td>318</td>
<td>42.9</td>
</tr>
<tr>
<td>Asia</td>
<td>36</td>
<td>1,399</td>
<td>43.1</td>
</tr>
<tr>
<td>Total of Above</td>
<td>110</td>
<td>2,171</td>
<td>44.1</td>
</tr>
<tr>
<td>LDCs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total DCs</td>
<td>36</td>
<td>1,172</td>
<td>22.8</td>
</tr>
</tbody>
</table>

What is misleading about this otherwise encouraging development is that it seems to suggest that the problem of rampant population growth has at last been contained, and that happily it has now become a less urgent matter.

That is a very dangerous misunderstanding.

The current rate of decline in fertility in the developing countries is neither large enough, nor rapid enough, to avoid their ultimately arriving at stabilized populations far in excess of more desirable—and attainable—levels.

If current trends continue, the world as a whole will not reach replacement-level fertility—in effect, an average of two children per family—until about the year 2020. That means that some 70 years later the world's population would finally stabilize at about 10 billion individuals compared to today's 4.3 billion.

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*aExcludes People's Republic of China, and certain countries in Southern Europe.*
We must try to comprehend what such a world would really be.

We call it stabilized, but what kind of stability would be possible?

Can we assume that the levels of poverty, hunger, stress, crowding, and frustration that such a situation could cause in the developing nations—which by then would contain 9 out of every 10 human beings on earth—would be likely to assure social stability? Or political stability? Or, for that matter, military stability?

It is not a world that any of us would want to live in.

Is such a world inevitable?

It is not, but there are only two possible ways in which a world of 10 billion people can be averted. Either the current birth rates must come down more quickly. Or the current death rates must go up.

There is no other way.

There are, of course, many ways in which the death rates can go up. In a thermonuclear age, war can accomplish it very quickly and decisively. Famine and disease are nature’s ancient checks on population growth, and neither one has disappeared from the scene. The United Nations Children’s Fund (UNICEF) estimates that more than 30 million children under the age of five died of starvation just last year.

But if our choice is for lower birth rates rather than higher death rates—as it must be, for any other choice is inconceivable —then we simply cannot continue the leisurely approach to the population problem that has characterized the past quarter century.

What we must grasp is the time factor involved.

It is a point of immense importance, and yet one that is frequently misunderstood, even by the highest officials in governments.

For every decade of delay in achieving a net reproduction rate (NRR) of 1.0—that is, replacement-level fertility—the
world's ultimate stabilized population will be about 11% greater. If, then, the date at which replacement-level fertility will be reached could be advanced from 2020 to 2000, the ultimate global population would be approximately 2 billion less—a number equivalent to nearly half of today's world total.

That demographic fact reveals in startling terms the hidden penalties of failing to act, and act immediately, to reduce fertility. The time lost in temporizing with population problems is simply irrecoverable. It can never be made up.

As it is, if global replacement levels of fertility were to be reached around the year 2000, with the world ultimately stabilizing at about 8 billion, fully 90% of the increase over today's levels would be in the developing countries.

As shown in Table IV, it would mean—if each country followed the same general pattern—an India, for example, of 1.4 billion; an Indonesia of 305 million; a Bangladesh of 215 million; a Nigeria of 225 million; and a Mexico of 170 million. Compared to the current populations of these countries those figures are awesome.

Table IV—The Ultimate Size of Stationary Population in Selected Developing Countries
(In millions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Pop. 1979</th>
<th>Ultimate Stationary Populationa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>NRR of 1.0 Achieved in Yr. 2000</td>
</tr>
<tr>
<td>India</td>
<td>656</td>
<td>1,375</td>
</tr>
<tr>
<td>Indonesia</td>
<td>139</td>
<td>305</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>86</td>
<td>215</td>
</tr>
<tr>
<td>Nigeria</td>
<td>83</td>
<td>225</td>
</tr>
<tr>
<td>Mexico</td>
<td>68</td>
<td>170</td>
</tr>
</tbody>
</table>

And I am not singling out these particular countries for comment, for most developing countries have comparable problems.

The point is that as large as those figures may seem, they will be 25 to 40% larger if the achievement of replacement-level

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*The stationary population level will be reached about 70 years after the date on which a net reproduction rate of 1.0 is realized.*
fertility is delayed for 20 years, and takes place in 2020 rather than 2000.

Governments, then, must avoid the severe penalties of procrastination, and try to hasten the reduction of fertility forward. But how?

There are two broad categories of interventions that governments can undertake: those designed to encourage couples to desire smaller families; and those designed to provide parents with the means to implement that desire.

The first set of interventions sets out to alter the social and economic environment that tends to promote fertility, and by altering it to create a demand among parents for a new and smaller family norm. And the second set of interventions—effective family-planning services—supplies the requisite means that will make that new norm attainable.

The debate over which efforts in fertility reduction are of the most consequence—socio-economic progress, or family planning programs—is largely irrelevant. Research demonstrates that both are important.

Certainly recent studies confirm that developing countries which rank well in advancing the socio-economic environment and also have a strong family-planning program have, on average, much greater declines in fertility than do countries that have one or the other, and far more than those countries with neither.

The truth is, of course, that the population problem is an inseparable part of the larger, overall problem of development. But it is more than just that. To put it simply: excessive population growth is the greatest single obstacle to the economic and social advancement of most of the societies in the developing world.

There are other obstacles, of course. Many obstacles. But none is more pervasive, none is more intractable, and none is more punitive in the penalties it exacts for procrastination. For the population problem complicates, and makes more difficult, virtually every other task of development.
Let me illustrate that briefly, now, by turning to three other major development problems that loom before us in the decade of the 1980s and beyond: the problem of jobs, the problem of food, and the issue of absolute poverty.

**Employment**

As of this final year in the decade of the Seventies there are some 4.3 billion human beings on earth. Next year at this time there will be 74 million more. Tomorrow morning there will be nearly 200,000 more than there are today.

What are the implications of these numbers on the world’s employment problem?

The International Labour Organisation (ILO) estimates that over the next two decades the global labor pool will grow by about 750 million people.

Two-thirds of that increase will be in the developing countries, and most of the individuals who will be seeking work in that period have already been born.

They are the legacy of the population growth rates of the recent past, and whatever may be done to moderate those rates over the next 20 years, the developing countries will be faced with an employment problem during the 1980s and beyond that has no parallel in history.

Each year millions of young people will enter a job market that has been able to absorb only a fraction of those who have preceded them.

But open unemployment—as immense as it is in the developing world—is only the visible surface of the job problem. Far more pervasive, and equally serious, is underemployment, with rates averaging an estimated 35% of the total labor force.

Over the past quarter century millions have left the countryside for the city in the search for jobs. The result has been that, while the populations in the developing countries have been doubling every 25 to 30 years, their large cities are doubling every 10 to 15 years, and the urban slums and shantytowns in these cities every 5 to 7 years.
In a single generation these cities have absorbed over 550 million people, roughly half through natural increase, and half through migration. Today a total of some 760 million persons live in these sprawling urban centers.

Over 250 million of them live in slums or squatter settlements, without adequate access to minimal nutrition, clean water, health facilities, primary education, public transport, and other fundamental services. These are the urban absolute poor, and their numbers are growing by 15 million a year.

The pressures on the municipal administrations and the national governments are already enormous. What will the strains become as the cities explode in size over the next two decades? By then, three out of every four Latin Americans will live in a city, and one out of every three Africans and Asians.

Thirty years ago only one city in the developing world had 5 million people living in it. By the year 2000 there will be 40. Eighteen of these cities will have 10 million or more inhabitants. One may well have three times that number.

From a practical point of view, governments in the developing world today have little capacity to control urbanization. It proceeds inexorably, and at present it is happening more rapidly than almost any major city can possibly cope with in an orderly way.

It is clear that the development of greater economic opportunities in the rural areas can slow the process. Here the opportunities are promising, though the task is immense in scope.

It has been demonstrated that when small-scale farmers have equal access to irrigation, improved-seeds, fertilizer, credit, and technical advice, they have equal—or greater—productivity per hectare than large-scale farmers. And almost everywhere the small farmer uses more labor per hectare than the large farmer does. Small farms in Colombia, for example, use labor five times as intensively as large farms, and thirteen times as intensively as cattle ranches do.

Land reform, too—as difficult as it is to implement—is a powerful force for greater productivity and employment. Most
developing countries that have substantially reduced rural poverty and underemployment have had effective land distribution programs.

But on-farm improvements alone cannot be expected to stem urban migration. The off-farm rural sector is important as well.

Off-farm activities in rural areas are a primary source of employment and earnings for approximately a quarter of the rural labor force in most developing countries, and a significant source of secondary earnings in the slack seasons for both small-scale farmers and landless farm workers. It is this group who supply the bulk of the migrants to the cities. And there are a number of ways in which their employment prospects could be improved in the countryside.

These include:

- Vocational training programs to upgrade skills;
- Banking and credit schemes to provide small amounts of capital to rural entrepreneurs;
- Research and technical assistance services;
- Investment in trading infrastructure to widen markets and improve access to materials and equipment; and
- Selected public works programs in depressed areas to provide short-term employment in the agricultural slack season.

But whatever can be done to increase employment in the countryside both on and off the farm—and a great deal can be done—migration to the city is going to continue, and the massive underemployment problem there must be faced and dealt with directly.

How?

The honest answer is that no one really knows yet.

The usual policy prescriptions—expansion of small enterprises, more appropriate pricing systems, training programs—all have merit, but none of them is going to be adequate in the next decade or two in the face of the stark demographic realities.
We know what must be done in the cities. We do not know the most effective way to do it.

What must be done is clear enough:

- Productive employment opportunities must be created at much lower capital costs; and
- Programs must be developed to deliver basic public services to the masses of the urban poor on a gigantic scale, and at standards which the economy can afford.

The emphasis on low capital investment per job, and low-cost standard services affordable by poor households is the key to the solution.

The basic concept is to provide the poor with access to productive assets and improved technology by removing the distortions that favor capital-intensive production: very low interest rates, for example, and excessively high wage rates.

The emphasis on affordability of essential services is to ensure that these programs are financially replicable on the large scale that is needed.

And that scale is not merely large. It is massive.

Consider the item of housing alone.

Of the 40 million families among the absolute poverty group in the urban areas, only about half have adequate shelter. At the present pace of urbanization, another 30 million units will be required if decent shelter is to be available to all poor families by the end of the century.

The investment and operating costs for such a goal are enormous: some $215 billion (in current prices) over the next twenty years, even if the standards are kept quite modest.

No government in a developing country can undertake an immense program of public housing lightly. The experience thus far is not very reassuring. Too often such programs are costly and inefficient; too often they turn into a perpetual subsidy; too often they are not adequately maintained and degenerate into slums; and what is most depressing of all, too often so-
called low-income public housing is too expensive for the poor and ends up being middle-income housing.

Surveys indicate that up to 70% of the poor cannot afford even the cheapest housing produced by public agencies. Experience suggests that a more effective approach is to upgrade and improve existing slums, and provide basic sites and services for new settlements.

But the problem of housing, and the problem of urban migration, and the overall problem of employment itself do not begin to exhaust the development agenda that lies ahead in the Eighties and beyond.

Let us look for a moment at a related problem—the issue of food.

**Food Enough for Everyone**

As millions of people in the developing world move from the countryside to the cities, the food production system in these countries will have to undergo a quantum change. It will have to make the transition from a largely subsistence system to a high-productivity system that can yield a significant surplus for the burgeoning cities.

It is, after all, agriculture that makes cities possible in the first place. Cities do not grow food. Countrysides do. And unless countrysides—somewhere—grew a surplus of food, cities would have none.

The countrysides that are growing most of the surplus grain today are not in the developing countries at all. They are in North America, which has recently become the granary of the world.

North America provides fully 80% of all grain exports. But most of this grain is grown under rainfed conditions. A series of poor harvests in North America—always possible given the vagaries of weather—could mean that much of the world might suddenly be in jeopardy.

A major structural change has taken place in the pattern of the world grain trade. It may well result in the poorest develop-
ing countries simply being priced out of the market by other grain-deficient nations that are relatively better off financially.

Middle-income developing countries, the Organization of Petroleum Exporting Countries (OPEC), the Soviet Union, and other nations are now the principal customers in the international grain market, and are likely to become even more so in the years to come.

According to detailed analyses currently under way, we estimate that, with a continuation of present trends in agricultural production, the developing countries will not be able to meet their caloric requirements at the end of the century without a tripling of cereal imports to a level of 90-100 million tons per year.

It is problematical whether the food-surplus nations in North America and Oceania could generate exportable surpluses of these magnitudes at suitable prices. And it is questionable whether many of the developing countries could finance a high level of imports.

What do these projections imply?

They imply that developing countries must produce their own food to a much larger extent in the future. There is no other way that they can be sure of adequate supplies.

To achieve that goal, they will have to make more efficient use of resources already available to them. Future increases in food production in the developing world are going to have to come largely from increased yields per acre, rather than from any rapid expansion of land, and this means a significant increase in the supply of agricultural inputs.

Water is by far the most critical resource for agriculture. It has contributed decisively to the increase in agricultural output in the developing countries in the last two decades. But this resource is clearly not available in an unlimited supply. In many areas it is becoming scarce as agriculture becomes more intensive. It must be husbanded carefully, and used efficiently.

By reducing the waste that occurs, the quantum of water available for irrigation could be substantially increased. The vast
Indus River System, for example, loses some 60 billion cubic meters of water every year at the village level through seepage and evaporation. This is more than two-thirds of the entire annual flow of the Nile.

This kind of waste-reduction program would require improved on-farm management of water, and would involve millions of cultivators scattered over thousands of square miles. No new technology is needed for the efficient use of this resource. But what is required are local organizations and capital, a sensible pricing system, and a number of complementary inputs.

According to Bank, and Food and Agriculture Organization (FAO) studies, a program for increasing agricultural output by 3.5% per annum in developing countries would involve:

- An increase of 10% per year in the use of fertilizer;
- Expanding the area under the high-yielding seed varieties from the current 25% of the total cultivated area to at least 50%;
- Increasing the supply of irrigation water by a careful exploitation of available groundwater and the untapped potential of the large river systems;
- Expanding the arable land by no more than 1% a year—as compared to 2% in the past;
- Better research on multiple cropping and rainfed agriculture; and
- A greater effort to bring practical extension service to the small farmer.

Given these efforts, the developing countries could double their agricultural output over the next two decades. In combination with foreign sources of food (annual imports of 90-100 million tons by the end of the century), this could provide a minimally acceptable food supply.

But it must be recognized that such an agricultural production program would also cost a great deal—about $30 to $40 billion per year over the next two decades.
And so while it is true the developing countries will have to take the major initiative in improving their own agriculture, the financial resources required are clearly too large for them to manage alone.

They are going to need help from the international community.

Let me turn now to the issue of poverty.

**Absolute Poverty**

If we focus on the ultimate objectives of development, it is obvious that an essential one must be the liberation of the 800 million individuals in the developing world who are trapped in absolute poverty—a condition of life so limited by malnutrition, illiteracy, disease, high infant-mortality, and low life-expectancy as to be below any rational definition of human decency.

As I have argued before, this requires that the traditional growth approach be supplemented by a direct concern with the basic needs of the poor.

This is not a prescription for global philanthropy. Nor should it confuse means and ends, and rule out means that may be necessary to achieve the objective—industrialization, for example, or investment for economic infrastructure. Nor should it treat merely the symptoms rather than the causes of poverty.

Such gross oversimplifications can bring the very concept of an attack on poverty into disrepute. And they often have.

To begin with, a poverty-oriented approach must be country-specific; it cannot be global. The areas of intervention will differ country by country. Basic needs may not be met in one society because it is not allocating sufficient resources for their production or importation. They may not be met in another society because it has done little to improve the efficiency of a delivery system.

The relative importance of the areas of policy intervention can be determined only after a careful analysis of specific country situations.
What a poverty-oriented approach offers is not a substitute for economic growth, but an alternative way of achieving that growth through raising the productivity of the poor. The main point is this: a targeted, poverty-oriented approach can eradicate or reduce absolute poverty in a shorter period of time, and with fewer resources, than the more conventional growth-oriented approach.

Very few of the low-income developing countries have the resources, even with external assistance, to meet all the basic needs of the absolute poor in their societies simultaneously. Priorities obviously must be established, and target groups must be identified.

If choices are to be made—as they must be in many poor countries—education, nutrition, and water programs emerge as the high-priority elements in most country studies. And females, and children under five, appear to be the most important target groups in this effort.

But, as always, circumstances do differ in various societies.

What is important is that our collective response to the task of substantially meeting the basic needs of the absolute poor by the turn of this century should be translated into two practical results:

- The attack on absolute poverty should be integrated as a key element into national development plans, with the specified priorities and institutional changes that this requires.
- And the international community should give sustained financial and technical support to these specific efforts.

* * *

These, then, are some of the major development challenges that are going to confront us all in the Eighties and beyond.

In the final analysis, all of them are linked. And it is clear that to make progress in solving these problems is going to require an environment of economic growth.
It is precisely the relationship between economic growth and these development issues that constitutes the real rationale for establishing economic growth targets, and for examining the factors that affect those targets—particularly capital flows and expansion of international trade.

Let me turn now to a discussion of the outlook for economic growth in the Eighties, and the external support required to achieve that growth.

IV. APPROACHES TO A NEW INTERNATIONAL DEVELOPMENT STRATEGY

What are the growth prospects for the developing countries in the 1980s?

We have examined a number of alternative growth scenarios in the Bank. The point of such projections, of course, is not to attempt to predict statistically what will actually happen, but rather to illustrate the range of policy choices that need to be considered in the effort to accelerate the current pace of development.

Realism dictates that we should begin with the rate of growth that has in fact been achieved over the past decade—roughly 5.2% for the developing countries as a whole—take into account current trends and recent economic events, and in the light of reasonable assumptions, try to determine what an achievable set of goals for the 1980s might be.

The Base Case in Table V exemplifies that. It illustrates a set of projections that appear attainable, but only if a very determined effort is made by the developing and developed countries alike.

If that effort were made—and it is a very considerable one—the annual GDP growth of the developing countries as a group would average 5.6% in the 1980s, up from 5.2% in the 1970s.

5.6% may appear to be an overly modest—even timid—growth projection. It is not. It depends, in fact, on some very bold assumptions: a major economic recovery of the OECD nations; a vigorous mobilization of domestic resources throughout the developing world; a substantial increase in the growth
of manufactured exports from developing countries; and rising capital flows from the industrialized nations.

Table V—Development Prospects of the Developing Countries
(Growth rates: percent per annum)

<table>
<thead>
<tr>
<th></th>
<th>1970-80 (Estimated Actual)</th>
<th>Projection for 1980-90 (Base Case)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Growth Prospects of Developing Countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-Income—Africa</td>
<td>3.0</td>
<td>3.8</td>
</tr>
<tr>
<td>—Asia</td>
<td>4.2</td>
<td>5.0</td>
</tr>
<tr>
<td>—All Low-Income</td>
<td>4.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Middle-Income</td>
<td>5.5</td>
<td>5.8</td>
</tr>
<tr>
<td>All Developing Countries</td>
<td>5.2</td>
<td>5.6</td>
</tr>
<tr>
<td>b) Per Capita GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-Income—Africa</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td>—Asia</td>
<td>2.0</td>
<td>2.8</td>
</tr>
<tr>
<td>—All Low-Income</td>
<td>1.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Middle-Income</td>
<td>2.9</td>
<td>3.4</td>
</tr>
<tr>
<td>All Developing Countries</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>c) Sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Industry</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Services</td>
<td>5.6</td>
<td>6.0</td>
</tr>
<tr>
<td>II. Assumptions about External Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) GDP of Industrialized Countries</td>
<td>3.4</td>
<td>4.2</td>
</tr>
<tr>
<td>b) World Merchandise Trade</td>
<td>5.9</td>
<td>6.0</td>
</tr>
<tr>
<td>c) ODA</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>d) Private Capital Flows</td>
<td>7.3</td>
<td>3.9</td>
</tr>
<tr>
<td>III. Assumptions about Domestic Action in LDCs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Gross Domestic Investment</td>
<td>6.2</td>
<td>6.5</td>
</tr>
<tr>
<td>b) Gross Domestic Saving</td>
<td>5.0</td>
<td>6.7</td>
</tr>
<tr>
<td>c) LDC Merchandise Exports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufactures</td>
<td>5.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Primary products</td>
<td>10.0</td>
<td>11.1</td>
</tr>
</tbody>
</table>

To put the matter in sharper perspective, the attainment of 5.6% GDP growth over the next decade would require:

- That the poorest developing countries grow at nearly 5% a year compared to 4% in the previous decade;
- That agricultural production in the developing world increase by at least 3% a year;
• That roughly 27% of the incremental income in the developing countries be saved and reinvested;

• That Official Development Assistance—despite growing restraints on government expenditures in OECD countries—increase, in real terms, at rates higher than in the last decade;

• That recovery in the OECD nations provide an average growth of 4.2% a year over the next decade, as compared with 3.4% in the Seventies, and 2.2% forecast for 1980;

• And that manufactured exports from the developing countries grow at 11.1% a year, despite the short-term adjustment problems and the rising tide of protectionism in many OECD countries.

Now, to achieve all that would obviously require some very major changes in current policies and economic trends, and a return to the more favorable conditions of the 1960s.

Some observers might well argue that such changes are at the outer limits of what is realistically attainable over the next ten years. Clearly, changes of this magnitude raise a number of serious policy questions that the developed and developing countries alike must face candidly if any meaningful international development strategy is to be agreed upon and supported. Policy questions such as these:

• Will the developing countries take the necessary policy actions to accelerate their agricultural growth rate in the 1980s to 3% when it has never averaged higher than 2.7% in the previous two decades, despite both national and international efforts to raise it?

• Will they be able to save and reinvest more than a quarter of their additional output during the 1980s?

• Can the poorest developing countries, containing most of the world's absolute poor, achieve GDP growth rates nearly 25% higher than in the last decade? Can they generate the institutions, mobilize the managerial skill, and motivate the
entrepreneurial drive required for such rapid economic growth and the associated structural change?

- Will the OECD nations act to increase Official Development Assistance—in real terms—at a faster pace in the 1980s than they did in the 1970s?

- Will the private capital flows from the developed nations increase in the future at an adequate rate as in the 1970s, despite the growing concern about rising debt service?

- Will world trade, in the face of the continuing threats of recession and trade protectionism, expand in the 1980s at a more rapid rate than in the 1970s, thereby making it possible for the manufactured exports of developing countries to secure a more reasonable share of the market?

- And, finally, can the growth rates of the OECD nations in the 1980s be raised substantially from their present depressed state and thus provide the basis for the necessary expansion of trade and financial assistance?

Simply posing such questions points up the need for serious policy analysis of these issues if the deliberations for a new development strategy are to succeed.

It is clear that the policy assumptions underlying the Base Case—if they can in fact be turned from assumptions into realities in the course of the 1980s—would significantly benefit many of the developing countries.

That is particularly true of those middle-income countries which are well on the way to an efficient and export-oriented industrial sector; which are making serious efforts to limit their population growth; and which have undertaken effective land reform measures.

And yet the fact remains that an overall 5.6% growth target—as arduous an effort as it would require—would still fall far short of what is desirable in terms of results in the developing world: not enough food would be grown; not enough new jobs would be created; and not enough personal income would be generated.
Further, the 5.6% growth target has discouraging implications with respect to reducing poverty significantly by the end of the century.

The projections suggest that some 600 million individuals would remain trapped at the very margin of life in the year 2000.

Now, that is simply not acceptable. And yet, it confronts us all with a serious dilemma. If we were to propose a substantially higher overall growth target for the 1980s—say 6.6%—and if we were to postulate all the necessary assumptions in the international economy that would make that level of growth possible, then we could in fact project a much more acceptable decline in absolute poverty by the end of the century.

Under such a High Growth Case, the projections suggest that the current total of about 800 million absolute poor could decline to some 470 million by the year 2000.

But the dilemma consists in this. It does no good whatever to propose international growth targets—and all their underlying assumptions—that have virtually no possibility at all of being achieved. That merely erodes the credibility of such strategies, and guarantees disillusionment and frustration within the international community, and skepticism and weariness in national legislatures and their constituencies.

Let us be candid. Given current global economic conditions, and the impact of recent events, it is going to be very difficult to achieve even the much more moderate growth assumptions implicit in the so-called Base Case.

Indeed it is entirely possible to visualize a less satisfactory case for the 1980s—with the developing countries as a whole achieving perhaps only 4.8% growth. The impact of such a set of projections, which unhappily are not at all wholly improbable, would yield even less acceptable results in reducing absolute poverty.

As is indicated in Table VI, such projections suggest that as many as 710 million individuals would still be trapped in those deplorable conditions.
Table VI—Levels of Absolute Poverty Under Alternative Growth Rates, Year 2000

<table>
<thead>
<tr>
<th></th>
<th>Base Case (5.6% Growth)</th>
<th>High Case (6.6% Growth)</th>
<th>Low Case (4.6% Growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of Absolute Poor</td>
<td>Percentage of Population</td>
<td>Millions of Absolute Poor</td>
</tr>
<tr>
<td>Low-Income Countries</td>
<td>440</td>
<td>22</td>
<td>340</td>
</tr>
<tr>
<td>Middle-Income Countries</td>
<td>160</td>
<td>10</td>
<td>130</td>
</tr>
<tr>
<td>All Developing Countries</td>
<td>600</td>
<td>17</td>
<td>470</td>
</tr>
</tbody>
</table>

Now, what are we to do in the face of this dilemma?

The first thing we must do is be realistic.

Absolute poverty is not going to be significantly reduced in an acceptable time frame by the growth rate alone—whatever that rate may turn out to be.

Growth is absolutely essential, and every effort must be made to increase it in the developing societies. But while a necessary condition for reducing poverty, growth is not in itself a sufficient condition. It is naive to assume in any society that absolute poverty will automatically melt away simply because the gross national product is rising.

What is important to understand is that the growth rates by themselves—even the most ambitious ones—cannot possibly reduce absolute poverty as rapidly as it should be.

That requires, in addition to growth, specific and targeted programs. Throughout the Seventies, in a series of UN sponsored world conferences, the international community committed itself politically to improving the quality of life in the developing societies by providing to every individual primary education, basic health care, clean water, sanitation, and adequate nutrition.

The development efforts of the Eighties must turn these now agreed-upon political commitments into practical programs of action.
Within the international framework of a development strategy for the Eighties, individual developing countries must develop their own plans of action to provide specific improvements in the standard of life of the absolute poor in their societies in a stated planning period of 5, 10, or 15 years.

It is only such concrete programs on the national level that can translate international intent into actual improvements in the lives of individuals, and that can provide the realistic basis for assessing the type and volume of external assistance required.

Most of this effort will, of course, have to come from the developing countries themselves. In dealing with the critical development problems, it is clear that no amount of outside assistance from the international community can substitute for determined internal efforts by individual developing societies.

Those efforts are absolutely essential. Nothing can be achieved without them.

But it is also true that these internal efforts must be matched by greater assistance from the international community if the development task is to succeed.

That assistance will be required in a number of interconnected actions. Let me consider briefly some of the principal ones.

**Official Development Assistance**

To achieve GDP growth rates in the poorest developing countries in the 1980s higher than those in the Base Case, ODA must increase at a rate faster than GNP growth in the OECD nations. The High Case assumes ODA growth at 6.7% per year, which is double the present growth rate. At that rate, by 1990 ODA would amount to .39% of OECD GNP, as compared with .33% at present. But this, of course, cannot be realized—and hence the accelerated economic growth in these countries cannot be achieved—unless the major donors substantially increase their contributions: especially the United States (presently at .22% of GNP), Japan (at .25%), and Germany (at .32%).
As shown in Annex I, the current indications are that in relation to GNP, the United States will not increase its contributions at all during the period covered by the projection (1979-85), and that Japan and Germany will increase theirs by only three one-hundredths of a percentage point.

**Private Capital Flows**

It is equally essential to the development prospects of the middle-income countries that private capital flows increase in the 1980s at rates close to those of the 1970s. But it is far from certain that this will happen.

There will be increased competition for private funds from the OECD countries as their economic recovery gains momentum. And even more important, the private banks, already heavily committed in a number of developing countries, may be reluctant to expand further at the rate required to support the growth which these countries are capable of achieving.

What may be needed are new institutional arrangements for dealing with unexpected liquidity crises; a broader role for the International Monetary Fund in dealing with short-term balance of payments emergencies; and greater flexibility for the World Bank in providing long-term finance. These were the subjects of yesterday's Development Committee meeting, and they must continue to receive our attention.

**World Trade Expansion**

Further, as I have noted earlier, any improved growth pattern is going to require a continued healthy expansion both in world trade at large and especially in the manufactured exports of developing countries.

This clearly cannot happen unless the OECD countries succeed in reestablishing patterns of steady growth and high levels of employment, and unless the current surge of protectionism is effectively opposed.

I addressed this issue in detail at the United Nations Conference on Trade and Development (UNCTAD) in Manila earlier this year, and pointed out the heavy economic penalties that trade protectionism imposes on the developed and developing coun-
tries alike. But as I emphasized then—and want to reiterate here—the task of improving the world’s trade environment will not end with the signing of the Tokyo Round treaty. It will only begin.

There is an unfinished agenda that needs serious attention. The developing countries still have a number of legitimate and urgent concerns.

These include:

• Rolling back and dismantling the non-tariff barriers already in force, especially the existing quotas on textiles and footwear;

• Further tariff cuts for LDC exports that are being exempted from average cuts in the current round; and

• The coverage of items excluded from the Tokyo Round discussions, such as intra-firm trading of multinational corporations, trading between state-owned enterprises, and trade in services.

The point is that the liberalization of the world trade environment must be a continuous process.

We must consider how we can move more quickly and systematically towards a more equitable international trading system, and a more open charter for world trade.

**Growth in OECD Nations**

The Base Case assumes a major recovery of the momentum of growth in the OECD nations. Without it the prospects of the developing countries themselves are severely limited.

The truth of the matter is that the economic fortunes of the developed and developing countries are more and more intertwined in our increasingly interdependent world.

The growth of the developed countries will be restrained if the incomes—and hence the markets—of the developing countries fail to expand.

And if economic growth and employment levels continue to be depressed in the industrialized nations, these societies will be reluctant to open up their markets, and to offer greater assistance to the developing countries.
During the coming decade the industrialized nations may face much the same choices as they did during the depression era of the 1930s: either to turn fearfully inward in self-defeating efforts to preserve narrow privilege, or to look courageously outward and assist both themselves and the less advantaged to become productive partners in an expanding international system.

As I have pointed out, the realities of interdependence are inevitably forging a new world order, but the institutional arrangements and policy actions to deal with it lag far behind.

Finally, we must remind ourselves that there is no special magic connected with any aggregated economic growth target for the developing countries, be it 5.6%, or any other number.

International consideration of such targets is valuable only to the extent that it leads to a policy dialogue on the issues and assumptions that underlie it.

That is the sort of dialogue that we need, and at a minimum that analysis ought to deal with the development tasks for the 1980s that are clearly fundamental: population growth, employment creation, food production, reduction in absolute poverty, the energy issue, and the necessary structural changes both within the developing countries, and between them and the industrialized nations.

Every one of these problems is urgent, and every one of them currently suffers from various degrees of postponement, temporizing, or delay.

This does not make their solution easier. It only makes it more difficult. Options close. Complications mount. Costs rise. And the penalties of procrastination multiply.

We must, then, get on with these tasks.

If an international strategy is to be at all operationally useful, it must provide a framework within which national programs for action can be developed. No matter how specific the strategy is—and at the international level it can never be very detailed—its ultimate success or failure depends entirely on the extent to
which it provides useful guidance for feasible national action-oriented programs.

* * * *

To summarize this section, then, the formulation of a development strategy for the Eighties offers the international community a valuable opportunity to reconsider the fundamental objectives of development itself.

One of the principal frustrations of the North-South Dialogue thus far has been that it has become so bogged down in arguments over means that it has tended to lose sight of ends.

As I have pointed out before, what is needed most of all is a basic understanding among the parties as to:

- The nature and magnitude of the current development problems;
- The action required to address them;
- The relative responsibilities of the parties for taking such actions;
- And the costs and benefits to each of doing so.

The preparations for the new international development strategy—which will benefit from the Report of the Brandt Commission scheduled for the end of this year—provide a context to pursue that basic understanding.

Such an understanding is all the more necessary because we simply do not yet possess the same instruments of implementation at the international level which are available—and taken for granted—at the national level.

There is obviously no global planning system, no world treasury based on international taxation, and no central budgeting machinery to allocate governmental financial resources.

It is possible—even likely—that some of these institutions will eventually evolve. Certainly the realities of our increasing interdependence ought to move us all towards less arbitrary and hopefully more rational management of global resources.
In the interim we must shape and improve the institutions and the system we have as wisely as we can.

Let me, then, turn to a consideration of how the Bank itself can best assist the international community in coping with the development problems of the 1980s.

V. THE WORLD BANK IN THE 1980s

The Bank enters the 1980s with a solid financial base for planning its operations in the years ahead. During the current fiscal year over 300 operations are expected to be approved involving total Bank Group commitments of about $11.5 billion. Disbursements should reach nearly $6 billion. Although the scale of operations in subsequent years remains tentative, and is subject to possible revision as circumstances change, the following figures indicate the dimensions of our current work plans for the five-year period FY79-83, as compared to actual results for previous five-year intervals.

Table VII—World Bank: New Financial Commitments and Net Disbursements by Five-Year Period
(Billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>FY64-68</th>
<th>FY69-73</th>
<th>FY74-78</th>
<th>Working Plan FY79-83</th>
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<tbody>
<tr>
<td>New Commitments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>4.3</td>
<td>8.9</td>
<td>24.4</td>
<td>42.5</td>
</tr>
<tr>
<td>IDA</td>
<td>1.3</td>
<td>3.9</td>
<td>7.9</td>
<td>19.0</td>
</tr>
<tr>
<td>IFC</td>
<td>0.2</td>
<td>0.6</td>
<td>1.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Total—Current $</td>
<td>5.8</td>
<td>13.4</td>
<td>33.5</td>
<td>64.1</td>
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<tr>
<td>—Constant FY79$</td>
<td>21.0</td>
<td>28.2</td>
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</tr>
<tr>
<td>Net Disbursements</td>
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<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>1.7</td>
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</tr>
<tr>
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<td>1.3</td>
<td>1.4</td>
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</tr>
<tr>
<td>IFC</td>
<td>0.1</td>
<td>0.3</td>
<td>0.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Total—Current $</td>
<td>3.1</td>
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Insert for Page 32—Prepared After the Text Was Printed

When I drafted my address for today, and released the text to the printers, I stated at the outset of Section V—the section that deals with the work of the World Bank itself—that the Bank is entering the 1980s with a solid financial base.

And I want to emphasize that a great deal of progress has been made in this matter recently. On June 28 the Executive Directors approved the $40 billion General Capital Increase and recommended it to the Governors, and the negotiations for the Sixth Replenishment of the International Development Association have been going very well.

But after the text of my address was printed, the U.S. House of Representatives passed an amendment to the legislation appropriating funds for the Fifth Replenishment of IDA that precludes the use of U.S. funds for certain purposes—specifically, for loans to Vietnam, and a number of other countries.

Under these circumstances, our Articles of Agreement would prohibit the Bank from accepting the funds. And in the absence of the U.S. contribution the Bank is specifically prohibited by the terms of the IDA agreement from using funds of any other donor. In such a situation the Bank would be forced to stop IDA operations immediately.

The blunt truth is that if this amendment is finally enacted into law, the Congress literally will have destroyed the largest single source of economic assistance to the one and one quarter billion people living in the poorest developing nations.

I cannot believe that the United States—itself the principal founder of the International Development Association—wants to do that.

But the fact is that it is on the way to being done.

And the only relevant question now is: how do we deal with this crisis?

It is clear that we must have the support of all our donor countries in this issue. I am grateful to President Carter for his assurances that the U.S. Administration will do all that it can to assist in the solution of the problem. And I will be giving my priority attention to this matter until it is solved.

Certainly for the sake of those who suffer the greatest deprivations of all, the problem must be solved. I repeat: I cannot believe—I do not believe—that the United States wants to turn its back on the more than one billion people in the poorest countries of the developing world.
These plans reflect the fact that in late June the Executive Directors agreed to recommend to the Governors a $40 billion general increase in the International Bank for Reconstruction and Development’s (IBRD) capital, thus providing an assured basis for continued real growth in lending over the next several years.

Further, I am optimistic that during our meeting here in Belgrade there will be agreement on the Sixth Replenishment of the International Development Association (IDA) sufficient in size to ensure a substantial real increase in commitment authority over the next three years.

There is, of course, an important agenda still to be completed in these two matters. But as an institution we are moving into the difficult decade of the Eighties, confident that we can build on our experience and the progress achieved in the Seventies, and that we can continue to innovate and adapt our policies to the tasks that lie ahead.

Before I discuss those tasks in more detail, let me stress a general point. Increasingly the developing countries are looking to the Bank as their main source of external assistance. I believe, therefore, that over the next two years we ought thoroughly to reexamine our role in the development process in order to ensure that the Bank is meeting the evolving needs of our members, and to see if we can better provide the full range of services implicit in our mandate. In such a reexamination, none of our programs or policies ought to be regarded as carved in stone. It is our mandate to promote development which is permanent, not the tools we use to implement it.

Now let me turn to what the Bank is doing—and plans to do—to help solve some of the problems that I have been describing.

Let me begin with the issue of population.

**Population**

The World Bank has been responding to the population issue in the developing member countries in three broad ways: by fostering an awareness of the critical importance of realistic
population planning; by financing activities that directly and indirectly lower fertility; and by supporting research to better understand the determinants of fertility.

Population sector studies providing general guidance for country programs have now been completed for 15 countries, containing one-third of the population of the developing world. Over the next five years an additional 11 countries, with 20% of the population, will be covered.

The population projects financed by the Bank provide a broad range of support for national population programs. They include such components as organizational and administrative assistance to strengthen institutions; population education; motivational programs promoting smaller family size; integrated health and family-planning systems; and many others. Over the next five years we plan to finance at least twice as many population projects as in the past five-year period.

We recognize, of course, that family-planning efforts need to be supplemented by actions which promote socio-economic progress. The Bank has long been committed to the support of projects which directly improve the productivity, and hence the welfare, of the poor. Such investments have been concentrated in the agricultural sector and are, of course, also of critical importance in meeting the food requirements of member countries.

**Food**

The Bank now is by far the largest single source of external funding for agriculture in the developing world, particularly for food production. We currently make available over 40% of all official external assistance to the sector.

Over the past five years the Bank has directly provided about $12 billion for agricultural development, financing projects with a total cost of about $30 billion, and representing 15 to 20% of the total public investment in agriculture.

Over 75% of this investment has been directed towards increasing food production.
We expect that in the early 1980s Bank-financed projects will contribute up to a fifth of the annual increase in food production in our developing member countries.

In accord with this emphasis on agriculture and expanded food output, the Bank over the past five years has:

- Provided about $1.5 billion of technical and financial support for fertilizer manufacturing projects—projects which will account for a third of all incremental fertilizer production in developing countries in the 1980-85 period;
- Invested approximately $6 billion in irrigation systems, which represents one-fourth of the total worldwide public investment in irrigation in developing countries;
- Financed nearly a fifth of the total investment in rural road networks—in effect, building a rural road network larger than the entire interstate highway system of the United States; and
- Chairied and given financial support to the Consultative Group for International Agricultural Research, which provides the funding for the international agricultural research system; and in addition invested $160 million in the development of 13 national research programs.

The next decade will require a continued strengthening of these programs.

We estimate that the Bank will provide $20 to $25 billion for agricultural investment during FY79-83, and that this will support a total of over $50 billion worth of projects and programs.

Thus, the Bank’s projects will continue to provide at least 15 to 20% of total public agricultural investment in the developing countries during the 1980s.

The Bank will also be prepared to provide technical and financial support to governments that seek to develop specific national plans to overcome their food problems.

In addition to this direct assistance for increasing food production in the developing countries, the Bank is considering how food security programs, based on decentralized storage
systems, can be designed to assure adequate prices to farmers, to reduce the substantial amounts of post-harvest losses, and to strengthen the internal distribution systems against the threat of adverse weather conditions.

Reducing Absolute Poverty

The investments the Bank has helped to finance in the rural sector over the past five years are expected to raise the incomes of some 60 million of the poorest individuals in the developing world. That has been the central thrust of the Bank’s effort to help reduce absolute poverty—and will continue to be so.

Today, however, I want to emphasize the important complementary activities undertaken by the Bank which reinforce our direct efforts to increase productivity. And I want to cite two important sectors in particular: water supply, and health.

The Bank began to lend for water supply and waste disposal in the early 1960s, but prior to 1970 such projects were directed almost exclusively toward meeting the water supply requirements of major cities—often the capitals—in the developing countries. In the early 1970s, in accord with the strategic considerations spelled out in my address at our meeting in Nairobi, this lending began to be shaped not only as an important contribution to infrastructure, but as a vital public service which if directed toward the absolute poor could have a major impact on their lives. In the past four years, therefore, over half of the water-supply loans have included funds for such purposes.

The linkages to productivity and better standards of living are immediate. In the past the productive potential of poor households, and particularly of the women in these families, has been severely reduced by the time and energy spent in obtaining sufficient quantities of water to meet essential needs. In many rural areas, drawers of water—mostly women—have to walk one to five miles to reach the nearest source. And unclean water and inadequate waste disposal are among the chief causes of illness and death, particularly among infants.

Strategies to assist the poor to improve their health are critical both to their quality of life and to their enhanced productivity.
Over the past four years, the Bank has experimented with the financing of health components in projects in other sectors.

On the basis of that experience, it has now been agreed the Bank should initiate a full program of technical assistance and lending in the health sector itself.

While dealing with these fundamental development problems—population, food production, and the alleviation of absolute poverty—the Bank must, of course, take account of those changes in the world economic environment that can have a major impact on the ability of the developing countries to sustain reasonable rates of economic growth. In the decade of the Seventies, no single issue has loomed larger than the sharp increase in the relative price of energy.

Meeting Energy Needs

The oil import bill of developing countries rose from $4 billion in 1972 to $26 billion in 1978, and we estimate it will be about $42 billion in 1980. This has dramatically affected the economics of energy supply, increasing the incentives for exploiting known energy resources in developing countries and for intensifying resource exploration and pre-investment activity.

In view of this situation we examined the prospects of 78 non-OPEC developing countries with a potential for oil and gas production. Only 23 of these are now in production and in most cases the output is small. Provided that sufficient resources can be made available—on the order of $12 billion per year—these 78 countries should be able to increase their oil production by some 3 million barrels per day, and their gas production by some 1.2 million barrels per day oil equivalent by the end of the 1980s, thereby saving some $30 billion in import costs.

This, in addition to the planned trebling of their hydroelectric generation and a doubling of their coal production during the same period, would constitute an important contribution to the expansion of global energy supplies.

The question is: will the necessary financing be available?
To help ensure that it will be, the Bank has recently launched a five-year energy program.

Our tentative plans are to:

- Gradually expand our petroleum lending to $1.2 billion per year by FY1983—financing, annually, oil and gas exploration and production projects with a total cost of over $4 billion, and representing roughly a third of the total investment requirements of our developing member countries in this sector;

- 60% of this lending program for oil and gas will be in the poorer countries;

- 40% of this lending program for oil and gas will be for such activities as surveys, exploratory drilling, and project preparation;

- Assist up to 40 countries during FY78-83 in evaluating and updating data from earlier geological surveys, or in commissioning new surveys; and

- Undertake sector work in about 15 developing countries each year to help establish their energy requirements and production potential, and to assist in preparing national energy plans.

Of course, our role in this field is to be a catalyst: the bulk of external funding must come from other sources. But the response of the Bank in this difficult area illustrates the kind of flexibility that we must ensure in our policies if we are to help meet the changing needs of the developing world.

**Financing Structural Change and the Adjustment Process**

The increase in energy prices is only one example of the changes in world economic conditions that affect the external financing prospects of the developing countries. As I emphasized earlier, the deteriorating outlook for growth in the industrial nations threatens to compound the problems facing the developing societies. It puts an additional premium on the rapid adjustment of each country’s pattern of production to its evolving comparative advantage.
As a group, the developing countries need to increase their manufactured exports by 11 to 13% a year in the 1980s in order to be able to finance reasonable GDP growth rates. This will call for difficult structural adjustment internally, especially given the prospects of slower growth and the threat of rising protectionism in the developed nations.

These difficulties are going to be compounded by the recent increases in oil prices which will add about $14 billion to the current account deficits of the oil-importing developing countries in 1980.a The necessary adjustments will take time and countries willing to take hard decisions will need external help to support the adjustment process.

In my address to UNCTAD this year, I urged the international community to consider sympathetically additional assistance to developing countries that undertake the necessary structural adjustments. I indicated that I was prepared to recommend to the Executive Directors that the Bank consider such requests for assistance, and that it make available additional program lending in appropriate cases. Particular attention needs to be given to the possibility of providing assistance to countries before they get into acute balance of payments difficulties.

Supporting Private Capital Flows

As in the case of energy financing—where the Bank’s role is essentially catalytic—the direct assistance we can make available from our own resources to member countries which face mounting external capital requirements is, of course, limited. The bulk of the external finance, especially for the rapidly industrializing middle-income countries, must continue to come from commercial banks and private direct investors.

Over the next few years the financing requirements of the developing countries can be met—in a manner consistent with reasonable rates of growth—only if the private markets succeed in recycling funds to these countries on a scale even larger than in the past. These needs simply cannot be met by Official Flows

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aThe current account deficits of the oil-importing developing countries are estimated to total approximately $50 billion in 1980, compared to $23 billion in 1978 and $5 billion in 1972.
alone. And there is considerable uncertainty about the ability of the commercial banks to supply the necessary funds. Their very success in the recycling job of the past few years has greatly increased their holdings of developing country debt, and it is unclear whether those holdings can be further increased sufficiently to meet the new requirements.

The Bank has sought to support flows of private capital on reasonable terms through its own direct lending, through co-financing operations with commercial banks and—perhaps most importantly—through its efforts to promote in individual countries strategies of development which are realistic and sustainable. And because major uncertainties cloud the outlook for the future volume of commercial bank lending to the developing countries, we will monitor closely the level of total financial flows and, if they appear inadequate, we will work with the International Monetary Fund and other agencies to devise new approaches.

**Contribution to the North-South Dialogue**

Let me touch, finally, on the Bank's expanding role in preparing analyses of international issues affecting the developing countries.

Because of the more than 30 years of experience that the Bank has acquired in economic work in developing countries, and the resources of its international staff, it has a unique capacity to analyze in an objective fashion the implications of the growing interdependence between developed and developing countries. In Manila earlier this year, I addressed certain aspects of interdependence in trade in manufactured goods. The type of analysis presented there can be, and will be, extended and deepened in the period ahead. But—and this is the point I want to stress—there are many other aspects of interdependence that require careful, professional analysis.

As you know, we have already undertaken the preparation of the World Development Report on an annual basis. The first two Reports have analyzed the development prospects and problems of low-income and middle-income countries on the
basis of alternative assumptions of their own domestic efforts, and of the international environment.

In addition to continuing to assess the growth prospects of the developing countries, each Report will concentrate on an analysis of one or two priority policy issues on the international agenda.

We hope through these means to make a useful contribution to the understanding of global development issues, and to the ongoing North-South Dialogue.

The World Bank is a major financial institution charged with the task of financial intermediation. But we are also a development agency with a vital role to play in assuring that adequate consideration be given to alternative policies for accelerating economic and social advance in the developing world.

This institution came to birth in a burst of innovation in 1944—at a time of unparalleled global disruption—with a bold belief in the creative principle of international collaboration.

The demands that the 1980s make on us may turn out to be even greater than those of the critical mid-1940s.

We need to be ready. I am confident that we will be.

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

VI. SUMMARY AND CONCLUSIONS

As the Seventies draw to a close it is important to try to learn what lessons we can from a period that has been so unexpectedly turbulent.

The principal goal adopted nine years ago by the international community in its official strategy for the Second Development Decade—the average 6% rate of growth target for the developing countries as a group—will not be achieved. At best, growth will not exceed 5.2% a year.

Further, there will be serious shortfalls in the subsidiary targets, particularly in LDC agricultural production, and in the level of Official Development Assistance from the OECD nations.
Moreover, the overall performance statistics obscure very significant differences between various groups of countries.

Income grew the least where it was needed the most: in the poorest countries, containing over half the population of the developing world. The economies of most of these nations, with hundreds of millions of their people already trapped in absolute poverty, scarcely advanced at all.

Now the international community is considering what sort of proposals it ought to adopt in its official strategy for the Third Development Decade.

Should it once again draw up a series of specific statistical targets for overall average performance by the developing countries, or should it approach the whole question of goals in some other way?

In the end, effective development strategies revolve essentially around policy choices. Quantitative targets may be useful to monitor progress once fundamental policy decisions have been taken, but targets themselves do not guarantee that the policies are appropriate.

It seems to me, therefore, that a more practical approach for DDIII planning would be to consider in detail the hard policy choices that the developing and developed countries alike are going to have to confront in the Eighties and beyond if fundamental development objectives are to be realized.

These policy choices will inevitably revolve around such immense and complicated problems as population growth, food production, employment creation, urbanization, reducing absolute poverty, and expanding international trade and financial flows.

All these problems are interconnected.

But our experience with them is beginning to reveal that the measures of the past are simply not going to be adequate in the decades that lie immediately ahead.
The truth is that structural changes of immense magnitude are going to be necessary if we are to make any significant headway against such problems.

In a way that is what the dialogue between the North and the South is fundamentally about, and I believe that the dialogue ought to involve itself fully with the formulation of any new agreed-upon strategy.

For its own part, the Bank is, of course, deeply engaged in all these fundamental development issues, but there is a great deal more it can and should do to assist its member countries to deal effectively with them.

Our recent initiative in the energy field—a sector we will give high-priority attention to in the coming decade—is an example of the flexibility we need in order to respond quickly and effectively to the changing needs of our developing member countries.

The Bank, together with all of the international development community, should look to the new interdependent world order that will inevitably evolve in the Eighties and beyond with the vision and courage and boldness that history is clearly asking of us all.

The options are closing, the easy answers are disappearing, the hard choices are becoming more insistent.

Procrastination and delay and inadequate effort in the face of these momentous issues can only bring the most severe penalties to those in the next century who will have to live with the consequences of the decisions we must take—and take soon.

It is an era in which we are learning that our natural resources must not be prodigally wasted.

But our most irrecoverable resource of all is time.

We must use the time we have. And we must use it now.

It will never return.
## ANNEX I

### Flow of Official Development Assistance from Development Assistance Committee Members Measured as a Percentage of Gross National Product\(^a\)

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**GRAND TOTAL**

- **ODA ($b-Nominal Prices)**
  - 5.9  6.8  13.6  13.7  14.7  18.3  20.7  23.0  25.7  29.0  32.7  36.7  41.3
- **ODA ($b-Constant 1979 Prices)**
  - 16.7  15.9  19.2  18.8  18.6  20.0  20.7  21.5  22.4  23.7  25.0  26.1  27.5
- **GNP ($t-Nominal Prices)**
  - 1.3  2.0  3.8  4.2  4.7  5.6  6.3  7.0  7.7  8.6  9.5  10.6  11.9
- **ODA as % of GNP**
  - .44  .34  .35  .33  .31  .32  .33  .33  .33  .34  .34  .34  .35
- **Price Deflator\(^e\)**
  - .36  .43  .71  .73  .79  .91  1.00  1.07  1.15  1.23  1.31  1.40  1.50

\(^a\)Historical figures through 1977 and preliminary estimates for 1978 are from OECD. Those for 1979-85 are based on OECD and World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements by governments. They are projections, not predictions, of what will occur unless action not now planned takes place.

\(^b\)Finland became a member of DAC in January 1975.

\(^c\)New Zealand became a member of DAC in 1973, ODA figures for New Zealand are not available for 1965.

\(^d\)In 1949, at the beginning of the Marshall Plan, U.S. Official Development Assistance amounted to 2.79% of GNP.

\(^e\)The deflator is the US$ GNP deflator which includes the effects of changes in exchange rates.
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