World Bank

1979 Annual Report

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Cover: Bank assistance to Yugoslavia has supported development projects in many different sectors and in each of the country's six republics and two autonomous provinces. The cover photo shows the laying of a natural gas distribution pipeline in Sarajevo (left and back cover), farming in Montenegro (upper right), and the interior of an iron castings plant in Belgrade (lower right).

Frontispiece: Manufacturing handkerchiefs in Kenya. The World Bank is devoting increasing funds to providing job opportunities by helping finance small-scale and medium-sized industries throughout the developing world.

The World Bank

The World Bank is a group of three institutions, the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC).

The common objective of these institutions is to help raise standards of living in developing countries by channeling financial resources from developed countries to the developing world.

The World Bank, established in 1945, is owned by the governments of 134 countries. The Bank, whose capital is subscribed by its member countries, finances its lending operations primarily from its own borrowings in the world capital markets. A substantial contribution to the Bank's resources also comes from its retained earnings and the flow of repayments on its loans. Bank loans generally have a grace period of five years and are repayable over 20 years or less. They are directed toward developing countries at more advanced stages of economic and social growth. The interest rate the Bank charges on its loans is calculated in accordance with a formula related to its cost of borrowing.

The Bank's charter spells out certain basic rules that govern its operations. It must lend only for productive purposes and must stimulate economic growth in the developing countries where it lends. It must pay due regard to the prospects of repayment. Each loan is made to a government or must be guaranteed by the government concerned. The use of loans cannot be restricted to purchases in any particular member country. And the Bank's decisions to lend must be based only on economic considerations.

The International Development Association was established in 1960 to provide assistance for the same purposes as the Bank, but primarily in the poorer developing countries on terms that would bear less heavily on their balance of payments than Bank loans. IDA's assistance is, therefore, concentrated on the very poor countries—mainly those with an annual per capita gross national product of less than \$581 (in 1977 dollars). More than 50 countries are eligible under this criterion.

Membership in IDA is open to all members of the World Bank, and 121 of them have joined to date. The funds used by IDA, called credits to distinguish them from Bank loans, come mostly in the form of subscriptions, general replenishments from its more industrialized and developed members, special contributions by its richer members, and transfers from the net earnings of the World Bank. The terms of IDA credits, which are made to governments only, are 10-year grace periods, 50-year maturities, and no interest, but an annual service fee of 0.75% is charged on the disbursed portion of each credit. Although legally and financially distinct from the Bank, IDA is administered by the same staff.

The IFC was established in 1956. Its function is to assist the economic development of less developed countries by promoting growth in the private sector of their economies and helping to mobilize domestic and foreign capital for this purpose. Membership in the Bank is a prerequisite for membership in the IFC, which totals 109 countries. Legally and financially, the IFC and the Bank are separate entities. The Corporation has its own operating and legal staff, but draws upon the Bank for administrative and other services.

While the World Bank has traditionally financed all kinds of capital infrastructure, such as roads and railways, telecommunications, and ports and power facilities, its present developmental strategy places a greatly increased emphasis on investments that can directly affect the well-being of the masses of poor people of developing countries by making them more productive and by integrating them as active partners in the development process. This strategy is increasingly evident in the agriculture and rural development projects that the Bank and IDA help finance. It is also evident in projects for education and family planning and nutrition, and in the Bank's concern for the urban poor, who benefit from projects designed to develop water and sewerage facilities, as well as "core" low-cost housing, and to increase the productivity of small industries.

At the same time, lending for traditional projects continues, and is being redirected, to be more responsive to the new strategy of deliberately focusing on the poorest segments of society in the developing countries.

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The Executive Directors and Alternates

Executive Directors	**Alternates**
Zain Azraai	Aung Pe
Moncef Belkhodja	Omar Kabbaj
Jacques de Groote	Herbert Sutter
Earl G. Drake	Edward M. Agostini
Said E. El-Naggar	Saleh A. Al-Hegelan
Edward R. Fried	William P. Dixon
R. A. Johnston	Sang-Chul Suh
Eberhard Kurth	Hans-Dieter Hanfland
Anthony IJ. A. Looijen	Miodrag M. Stojiljković
Hans Lundström	Valgeir Arsaelsson
Austin H. Madinga	Y. S. M. Abdulai
Placido L. Mapa, Jr.	Guillermo Constaín
Eduardo Mayobre	Oscar G. Espinosa
Paul Mentré de Loye	Pierre-Henri Cassou
Susumu Murayama	Kimiaki Nakajima
M. Narasimham	M. Syeduz-Zaman
Armand Razafindrabé	Nicéphore Soglo
Giorgio Rota	Antonio S. Labisa
William S. Ryrie	Ronald F. R. Deare
Alberto Sola	David Blanco

The Executive Directors of the International Bank for Reconstruction and Development and the International Development Association have had prepared this *Annual Report* for the fiscal year July 1, 1978 to June 30, 1979 in accordance with the By-Laws of the two organizations. Robert S. McNamara, President of the Bank and the Association and Chairman of the Boards of Executive Directors, has submitted this Report, together with accompanying administrative budgets and audited financial statements, to the Boards of Governors. The Annual Reports of the International Finance Corporation and the International Centre for Settlement of Investment Disputes are published separately.

June 30, 1979

The Record for Ten Years—1970-79

	Fiscal year									
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
World Bank										
	US$ millions									
Loan amounts [1]	1,580	1,921	1,966	2,051	3,218	4,320	4,977	5,759	6,098	6,989
Disbursements[2]	754	915	1,182	1,180	1,533	1,995	2,470	2,636	2,787	3,602
Total income	504	578	646	758	929	1,157	1,330	1,617	1,947	2,425
Net income	213	212	183	186	216	275	220	209	238	407
Total reserves	1,329	1,444	1,597	1,750	1,772	1,902	1,916	2,026	2,245	2,498
Borrowings: total	735	1,368	1,744	1,723	1,853	3,510	3,811	4,721	3,636	5,085
Borrowings: net	299	819	1,136	955	990	2,483	2,530	3,258	2,171	3,235
Subscribed capital	23,159	23,871	26,607	30,397	30,431	30,821	30,861	30,869	33,045	37,429
	number									
Operations approved	69	78	72	73	105	122	141	161	137	142
Countries	39	42	40	42	49	51	51	54	46	44
Member countries	113	116	117	122	124	125	127	129	132	134
Professional staff (number)	1,170	1,348	1,516	1,654	1,752	1,883	2,066	2,203	2,290	2,382
IDA										
	US$ millions									
Credit amounts	606	584	1,000	1,357	1,095	1,576	1,655	1,308	2,313	3,022
Disbursements	143	235	261	493	711	1,026	1,252	1,298	1,062	1,222
Usable resources, cumulative	3,182	3,343	4,204	7,019	7,433	11,608	11,514	11,789	18,062	19,661
	number									
Operations approved[3]	50	51	68	75	69	68	73	67	99	105
Countries	33	34	38	43	41	39	39	36	42	43
Member countries	105	107	108	112	113	114	116	117	120	121

(1) Excludes loans to IFC of $100 million in fiscal year (FY)1970, $60 million in FY1972, $40 million in FY1973, $110 million in FY1974, $50 million in FY1975, $70 million in FY1976, and $20 million in FY1977. Includes amounts in FY1976 and FY1977 lent on Third Window terms.

(2) Excludes disbursements on loans to IFC.

(3) Joint Bank/IDA operations are counted only once as Bank operations.

Summary and Background of the Year's Activities

The Year in Brief

In fiscal 1979, the World Bank, together with its affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC), made lending and investment commitments aggregating $10,435.9 million.(1) The total was $1,686.8 million higher than in fiscal year 1978.(2)

The World Bank committed a total of $6,989.0 million; 142 Bank loans to 44 developing countries were approved during the year. In fiscal 1978, the Bank's commitments amounted to $6,097.7 million.

IDA commitments during the past year were $3,021.5 million. A total of 105 credits to 43 developing countries were approved. In fiscal 1978, IDA commitments totaled $2,313.0 million.

Total Bank and IDA lending in support of those projects whose total costs can be estimated amounted to about 34% of total project costs.

The IFC made 48 investments amounting to $425.4 million. Those investments were for projects in 33 developing countries. The Corporation made 41 investments worth $338.4 million in fiscal 1978.

Other highlights included:

—Disbursements by the Bank and IDA of $4,824 million ($3,602 million by the Bank and $1,222 million by IDA). The disbursement total was some $975 million higher than in fiscal 1978;

—A net transfer of resources (disbursements minus repayments of principal, interest, and other charges) by the Bank and IDA of $2,157 million, up $559 million over fiscal 1978;

—Co-financing of Bank-supported and IDA-supported projects amounting to $3,248 million, up $469 million from fiscal 1978;

—An increase in Bank net income, up $169 million from fiscal 1978 totals, to $407 million; and

—Bank borrowings of $5,085 million, of which $796 million was as an advance for the planned borrowing program for fiscal 1980.

All IDA commitments were to countries that have annual per capita gross national products (GNP) of $580 or less (in 1977 dollars); 79% of the Association's lending was to countries with per capita GNPs of $296 or less. This distribution of IDA credits was virtually identical to that in fiscal 1978.

Twenty-seven percent of the Bank's lending was to countries in which annual per capita incomes are $580 or less. This, too, differed only slightly from the distribution of fiscal 1978 commitments.

Lending in the agriculture and rural development sector dipped from 39% of the total (fiscal 1978) to 25%; lending in support of transportation rose from 13% in fiscal 1978 to 19%; and commitments in support of water supply projects more than doubled those of the year before—from 4% of the total to 10%. Fiscal 1979 figures on the distribution of Bank and IDA commitments reflect only a one-year step in the evolution of the Bank's lending to its borrowing member countries, rather than a change in the institution's lending program. For a better appreciation of recent trends—as opposed to a one-year project "mix"—in lending by sector, readers are advised to consult the table on page 30 of this *Annual Report*. The drop in agriculture and rural development, for instance, reflects a drop in lending only, and not a significant decrease in the number of projects approved in the sector (84 in fiscal 1979, as against 88 in the previous year). In fiscal 1978, there were eight projects in the sector for which either the Bank or IDA made commitments of $100 million or more; in fiscal 1979, there were but three.

The IFC—the World Bank affiliate responsible for assisting the economic development of its developing member countries by promoting the growth of their private sectors and by providing and bringing together financing,

(1)The fiscal year of the World Bank, as well as of its two affiliates, runs from July 1 to June 30.

(2)Since the real value of loan commitments by the Bank and IDA is eroded to the extent that cost inflation occurs over the period of disbursements, it is the practice of the Bank to make allowance for inflation at the time of commitment. The deflator now used to express lending in real terms is a weighted average of the price levels assumed to be prevailing over the period of the execution of a project. If fiscal 1979 Bank and IDA commitments were to be expressed in terms of 1978 dollars, they would be $9,440 million, or 12.2% higher in real terms.

Note on Dollar Amounts

Dollar amounts used in the text of the *Annual Report* refer to current United States dollars. Where special drawing rights (SDR) amounts are used for the capital of the Bank, one SDR equals 1.29110 current United States dollars at June 30, 1979 (one SDR equaled 1.23953 current United States dollars at June 30, 1978).

For a detailed discussion and the basis for SDR amounts used for IDA subscriptions and contributions, see Notes to Financial Statements, Appendix F.

technical assistance, and management needed to develop productive investment opportunities —publishes its own Annual Report. In brief, the IFC's fiscal year was highlighted by several developments.

Fiscal 1979 was the Corporation's first year of operations following the approval of a five-year program to expand and reorient significantly IFC's activities.

With the additional resources provided it by its recent capital increase, the Corporation continued to expand its investment activities, making 48 investments amounting to $425 million in 33 countries. This was a 26% increase in dollar volume and a 17% increase in the number of projects over the previous year.

With its increased activity and promotional efforts, the Corporation has been able to expand its investment program in its least developed member countries. About half of its projects were in countries with an annual per capita income of $580 or less.

The total cost of the ventures in which the Corporation participated is estimated to be $1,714 million.

In addition to its own funds, the Corporation was able to mobilize $198.6 million through syndications of its loans with other financial institutions, particularly commercial banks.

About 54% of its investments were in manufacturing ventures, 19% in agrobusinesses, and 8% in mining and energy development. The balance was investments in financial institutions and services.

The IFC's capital increase, approved by its Board of Governors in November 1977, is currently being subscribed to by member countries. Of the $480 million allocated for subscription, $306 million had been subscribed to by the end of the fiscal year.

During fiscal 1979, Botswana joined the Corporation, raising its membership to 109.

General Capital Increase

Late in fiscal 1979, the Executive Directors of the Bank agreed to recommend to the institution's Board of Governors that the Bank's authorized capital stock be increased by an amount equivalent to $40,000 million.

The increase—roughly a doubling of the Bank's current authorized capital stock—will enable Bank lending to continue to grow, in real terms, through the middle of the next decade.

The proposed increase will also approximately double the number of shares outstanding. It will not, however, result in a proportionate increase in the number of votes held by member countries, because membership votes are fixed by the Articles of Agreement at 250 votes per country. Because membership votes cannot be increased without an amendment of the Articles, a simple proportionate increase in each member's subscription would result in an unintended and unfortunate reduction in the voting power of the smaller member countries who benefit most from the existence of membership votes. Since the overwhelming majority of small countries are developing countries, this would have the effect of reducing the aggregate voting power of the developing countries.

To overcome this unintended effect of the General Capital Increase, the Directors recommended that a special allocation of 250 shares be made to each member country. These 250 shares would be separated from the General Capital Increase in two ways: first, no part of the subscription price would be paid in. The purpose of this provision is to avoid imposing a financial burden on those member countries who are intended to benefit most from the extra 250 shares. These countries need the membership votes precisely because their small size and relatively poor economies prevent them from taking up large subscriptions in the Bank. Second, in view of the purpose of authorizing these shares, the Directors agreed they should not be counted as part of the capital base of the Bank for purposes of determining lending authority.

This will enable the 250 shares to be outside the \$40,000 million equivalent limit to the General Capital Increase and yet not create additional lending capacity.

The Executive Directors also recommended that 7.5% of the \$40,000 million equivalent increase in authorized capital stock be paid in. The remaining 92.5% would represent, therefore, capital that is subject to call only if required by the Bank to meet its obligations on borrowings.

The agreement on the size of the increase in the Bank's authorized capital was reached two years after the subject was initially brought up for discussion within the Bank. Before discussion began, however, support for an increase in capital sufficient to permit the Bank to increase its future lending in real terms was forthcoming from both developing and developed countries. At the Annual Meetings of the Bank and the International Monetary Fund, held in Washington in October 1978, there was unanimous support among the Governors present for proceeding promptly to bring the negotiations to an early conclusion. Against this backdrop, the pace of the discussions quickened during the year, leading to the consensus reached in the Board in June of 1979.

Economic Developments: Fiscal 1979

In fiscal 1979, the World Bank continued to monitor world economic trends for their impact on developing countries. Analysis suggests that although the world economy had begun to settle down after the shocks of the mid-1970s, the economic atmosphere remains uncertain. Preliminary figures for calendar 1978 indicate that growth in industrialized countries continued to be less than 4% for the second year running.[3] Even this growth rate was threatened early in 1979 by an expected slowdown of the US economy, but because investment levels in the other industrialized countries had been low since 1975, the time seemed ripe for a modest expansion, providing inflation could be kept at bay. By mid-1979, however, petroleum uncertainties began to cloud the future.

Until the oil price increases of 1979, global patterns of current account balances began to look much as they did before 1973. The industrialized countries had begun to return to a surplus position, the petroleum-exporting developing countries were spending most of their oil revenues on development programs, and the other developing countries (together with the centrally planned economies and the more developed primary producing countries) remained in deficit. The current account deficit on the balance of payments of the petroleum-importing developing countries has been high in current prices, rising from \$21,000 million in 1977 to about \$32,000 million in 1978; a further substantial worsening, on the order of \$10,000 million, is expected to materialize through 1979. In real terms, however, the size of the petroleum-importing developing countries' deficit has shrunk markedly, declining from about \$43,000 million in 1973 (as measured in 1978 prices).

The aggregate rate of growth in 1978 for all developing countries, at 5.2% (4.9% excluding capital surplus oil-exporting countries), exceeded that of the industrialized countries as it has for every year in this decade. In the nine-year period, 1966-74, that preceded the turbulence of the mid-70s, this rate was much higher —6.2%. Since 1974, aggregate rates of growth for developing countries have followed no consistent pattern. From a low of 4.9% in 1975, they recovered to 5.7% in 1976. In 1977, growth declined to 5.5%. Figures for 1978, even though higher than for the industrialized world, provide no cause for rejoicing; they reflect more the slow growth in the industrialized world than developing world advances. Nor do the figures for the entire decade provide any hope that the so-called "gap" between the developing and industrialized worlds might be narrowing; even if the developing countries were to manage to double their per capita growth rate, while the industrialized world but maintained its, it would take almost a century to close the absolute income gap between them, so great are the differences in the capital and technological base of the two groups.

As in the recent past, figures of aggregate growth mask wide differences among regions. Growth rates continued to be smallest for sub-Saharan Africa (2.9%). Nor did the more advanced developing countries of the Mediterranean, with growth averaging 3.3%, fare well in 1978. However, the countries of South Asia maintained a growth rate well above 5% for the second year running, and Latin America and the Caribbean recovered somewhat to 4.7%. The East Asian countries developed rapidly, with growth rates rising to almost 9% in 1978. These trends are discussed in more detail in the various regional chapters of this *Annual Report*.

(3) See Statistical Annex, Table 1, page 130 for growth and other economic indicators by region.

Levels of development already achieved, as well as domestic policies pursued, were clearly instrumental in the developing countries' growth. For the least developed countries, highly dependent as they are on one or two primary products, trends in prices and volume of trade were determinants of export growth, and played an important role in overall economic performance. For countries with more advanced and diversified economies, sound domestic policies and economic management led to high domestic investment, and generally, to a healthy export performance. This latter group of countries was able to build up reserves and borrow from private financial markets, thus adding to the external resources made available by high trade growth. If major economic and political upheavals can be avoided in the future, such conditions might be able to be created among a wider grouping of developing countries.

Final figures for 1978, together with preliminary indications observed through mid-1979, do not alter the conclusions reached in the World Bank's *World Development Report* for 1978: that

—progress made by developing countries has not been sufficient to reduce the numbers of people living in poverty; that

—the economic difficulties of the industrialized countries, the instability of exchange rates, and the prevailing atmosphere of uncertainty about the growth of international trade and the future movements of capital suggest that it will be more difficult for the developing countries to expand their economies in the coming decade than it has been in the past 25 years; and that

—even to maintain their present rate of progress, developing countries will need larger inflows of foreign capital, while undertaking vigorous efforts to withstand protectionist pressures and to stimulate the productivity of their agriculture sector.

Developments in International Trade

According to the General Agreement on Tariffs and Trade (GATT) staff estimates, the volume of international trade increased by about 5% in 1978, up slightly from the 4% average annual rate for the period, 1973-77. The unit value of world trade, as measured in US dollars, was estimated to have risen by 9% for the second straight year in 1978.

A substantial part of 1978 increases in export prices reflects, however, the strong effective depreciation of the US dollar. The GATT staff estimates that this effect contributed to roughly one-half of the increase in dollar unit value of world trade; effective price trends (both for primary and manufactured commodities) were thus far weaker in 1978 than in 1977.

World export prices of primary products (including petroleum) rose by roughly 3% worldwide, compared with the 10% rise in 1977 that mainly reflected the boom in tropical beverage prices. When the decline in beverage prices from mid-1978 is discounted, primary product prices (particularly minerals) grew quite strongly in terms of US dollars. World export prices of manufactures are estimated to have increased by 14% in 1978, compared with 9% in 1977.

The barter terms of trade for those developing countries that are still net importers of manufactures and net exporters of primary commodities deteriorated in 1978, but the effects were diverse within this group. Countries exporting tropical beverage products, particularly coffee, were the hardest hit, although it should be noted that their prices remained above 1976 levels in real terms. Countries exporting some food products (oil and oilseeds, beef, wheat, maize), agricultural raw materials (including cotton, rubber, and timber), and metals (particularly copper, lead, zinc, and the minor metals) have benefited from an upturn in prices that began in 1978 and continued strongly into 1979.

The experience of countries exporting manufactures has also been diverse, reflecting the product composition of their imports and exports. In general, they probably benefited from improved terms of trade during 1978; more recently, however, their terms of trade have begun to decline.

Against most expectations, developing countries' export earnings increased in the 1950s and 1960s, with the rise in the exports of manufactures being particularly marked. Export earnings fell in 1975, but again, against most expectations, they recovered sharply beginning in 1976. Total export earnings continued growing in the period, 1977-79, reaching about $310,000 million in 1977 and about $320,000 million in 1978. Fuels accounted for about 30% of developing country export earnings, other primary products 25%, and manufactures 20%. Nonfactor services (i.e., tourism, contractual services, shipping, and insurance) accounted for more than 20% of total export earnings. In addition, workers' remittances (from Europe, North America, and the Middle East) contributed roughly $10,000 million to the developing countries' balance of payments in 1977 and 1978.

The export growth of developing countries was facilitated by the industrialized countries' trade liberalization policies. By the completion, in the early 1970s, of the tariff reductions mandated by the Kennedy Round of multilateral trade negotiations, the trade regimes of the industrialized countries had become less restrictive than at any time since before 1914. Some restrictions survived, however, both in the form of relatively high tariffs and as nontariff barriers against the import of agricultural products, some primary processed products, textiles, clothing, and footwear. On the other hand, many developing countries, particularly the least developed, were given privileged access to industrialized country markets under the General Preference Scheme.

With the onset of the recession in 1975, however, protectionism, in several nontariff guises, has been on the increase. These measures have taken the form of "voluntary" export restraints, countervailing duties, subsidies and other assistance to domestic industries to sustain production above levels of demand, and government procurement procedures that favor domestic sources of supply. So far, these restrictions have been limited. Industrialized countries have made a serious effort to hold the line against protectionist attacks on developing country exports. Most of the restrictions that have been raised against the exports of developing countries—textiles, clothing, footwear, and electronic products—have been mainly directed against strong East Asian exports, whose total exports, nonetheless, have continued to increase. But these limited restrictions have had the effect of hurting small, new exporters and have discouraged planning for exports in the future. If continued and extended, they would lead to serious obstacles to developing countries' efforts at achieving economic growth through export increases.

The recent conclusion, after five years of negotiation, of the Tokyo Round of multilateral trade negotiations under GATT auspices could—despite its imperfections—have the effect of reducing, further, barriers against developing country exports. The agreement is expected to result in average tariff cuts of 35% to 38% over an eight-year period, although tariffs on imports from developing countries are expected to decline by only 25%, or some 10 to 13 points less than the average tariff reduction. But the most encouraging results of the Tokyo Round are to be found in the area of nontariff barriers to trade. This achievement has been accomplished by a strengthening of GATT codes, including important changes with respect to codes covering customs valuation, government procurement practices, export subsidies, countervailing duties, and product standards. In addition, the agreement broadens the code regulating safeguard actions to attempt to bring them within the ambit of GATT. This issue has been left somewhat open, and it has been pointed out that without an active interest by developing and industrialized countries, the codes could provide legal cover for restrictive action. But, as the President of the World Bank pointed out in Manila, in May 1979, the most important point about the trade agreements could well lie in the environment and the spirit in which those agreements are implemented. If implemented in a positive way, the agreements could be an important step against the rise of protectionism, and the code revisions could well help stimulate developing country exports.

The developing countries' own restrictions on trade, in the form of exchange controls and tariff and nontariff barriers, are considerably tighter than those of the industrialized countries. It was for this reason that the expansion of developing country exports, particularly of manufactures, was directed to industrialized countries in the 1960s and early 1970s. The rate of growth of trade among developing countries began to rise only after 1973, when the markets of the petroleum-exporting countries opened up. This trade still makes up only about 20% of total developing country exports, with petroleum exports accounting for a major share. About 30% of developing country exports of manufactures and services are to other developing countries, with the oil-exporting countries providing major markets. As the centrally planned economies take only about 6% of these exports, the largest markets remain in industrialized countries. The developing countries, because of their relatively strong economic performance in the 1970s, have become more important markets for the industrialized countries, accounting for more than 25% of their total exports.

At the beginning of the industrialization process, the arguments for the protection of infant industries were strong. Recent actions on the part of developing countries suggest that the protectionism of the past is easing. Countries with relatively advanced industry sectors are weighing the costs of such protection against the benefits of a more liberal approach. Many have more confidence in their competitiveness, and they recognize that if they wish to export more to industrialized countries and to benefit from an increased international specialization of production, the industrialized countries must also be able to increase their exports.

Trade liberalization in developing countries is, therefore, progressing. Recent actions by several developing country governments are indicative of this trend. Measures have included: (a) the Indian government's continuation of a liberalized import policy for capital goods, and the reduction of import duties on a number of consumer items; (b) a decision by Brazil to reduce the 100% *ad valorem* deposits on imports and the 100% tax rebates on exports by 5% each quarter until they are phased out altogether; (c) the customs tariff reductions by Argentina that are also intended to stabilize internal prices; (d) an easing of regulations for foreign banks by the Republic of China; and (e) a three-year import liberalization program in the Republic of Korea, designed to bring 90% of import items under automatic approval.

If general economic conditions do not deteriorate so that the industrialized countries can not only continue to hold the line against protectionist pressures, but also liberalize trade further in the wake of the Tokyo Round, and if the developing countries continue to move along the path toward trade liberalization, the outlook for increased trade would be promising.

External Debt

The external public debt of 96 developing countries[4] increased by an estimated $51,000 million, or about 25% in 1978, to a total of $253,000 million. Private debt is estimated to have increased by no more than about $7,000 million. In the 87 nonoil-producing countries, increased borrowing in 1978 was accompanied by a small increase in their current account deficit[5] and a large increase in international reserves—about $17,000 million. The nine oil-exporting developing countries increased their borrowing as their current account position changed from a small surplus to a deficit; they also drew on their foreign exchange reserves. Borrowing from multilateral institutions and from international capital markets both increased appreciably. Funds were readily available in these markets, although interest rates rose during the year (see the chapter, "Borrowings and Finance," pages 116 to 126 in this *Annual Report*).

Full details are now available for all of the public debt and considerable detail for private debt owed by these same countries in 1977. External public debt of 96 developing countries during 1977 rose at about the same rate as in 1976. At the end of 1977, the total debt outstanding and disbursed was $201,083 million. This total was $37,515 million—or 23%—over 1976, compared with an increase of $30,640 million—or 22%—in 1976 over 1975. The total, including undisbursed balances, increased in 1977 by $50,250 million to $285,187 million, an increase of some 21% over 1976. These undisbursed balances, representing firm agreements to lend not yet made effective by disbursements, stood at $84,104 million, or about 30% of total debt outstanding, about the same percentage as at the end of 1976. As in 1976, these balances provided for the continuity of financing for projects under construction, as well as for some borrowing in anticipation of needs.

On the basis of reports to the Bank and of estimates, total private debt for 42 countries amounted to about $48,500 million at the end of 1977, an increase of about 15% over the end of 1976, compared with the 21% increase in public debt for these same countries. These 42 countries are believed to have owed about 90% of total private long-term debt outstanding at the end of 1977. Private debt is owed very largely by the more advanced countries in the Mediterranean region and by developing countries in Latin America and the Caribbean and in East Asia and Pacific. Amounts owed by countries in the other regions are relatively small.

Net public borrowing in 1977 was $32,965 million, higher by $3,322 million than in 1976; this was an increase of 11% compared with 15% in 1976. Net private borrowing was approximately $6,000 million in 1977, about the same as in 1976.

Net public borrowing by the oil-exporting developing countries[6] expanded in 1977 quite sharply compared with 1976 ($7,650 million as against $4,690 million). A large part of the total increase was accounted for by the resumption of, or increase in, net borrowing, both in 1976 and 1977, by a number of these countries which, in 1974 and 1975, had made net repayments of external public debt. Overall, the nine oil-exporting countries had a current account surplus of only about $900 million in 1977, or $4,000 million less than in 1976; all but Iran, Iraq, Gabon, and Trinidad and Tobago were in current account deficit.

The balance of payments deficit on current account of the 87 developing countries that are

[4] For a list of the 96 countries and a full definition of public and private debt, as well as the other terms used, see the General Notes to Annex Tables, page 128.

[5] The current account balance is defined as the balance of goods, services, and private transfers.

[6] Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Nigeria, Trinidad and Tobago, and Venezuela.

External Public Debt Outstanding, Disbursed, of 87 Nonoil-exporting Developing Countries, by Region, 1974-1977
(US$ millions.)

Region	Years 1974	1975	1976	1977
Africa South of the Sahara	9,877	11,965	14,461	17,411
East Asia and Pacific	8,673	11,268	14,502	18,588
Latin America and the Caribbean	32,917	41,018	52,211	62,558
North Africa and Middle East	6,310	9,256	11,649	16,946
South Asia	18,779	20,675	23,190	26,010
More advanced Mediterranean countries	15,804	18,231	21,497	25,022
Total—87 nonoil-exporting countries	92,358	112,412	137,509	166,535

External Public Debt of 96 Developing Countries
(US$ millions.)

Developing countries	Debt outstanding (including undisbursed)	Debt outstanding (disbursed only)	Commitments	Net disbursements
87 Nonoil-exporting countries				
1974	133,207	92,358	35,336	16,110
1975	157,678	112,412	36,307	22,454
1976	193,825	137,509	45,723	24,953
1977	233,517	166,535	48,289	25,315
9 Oil-exporting countries				
1974	26,834	17,792	4,905	721
1975	32,702	20,515	9,009	3,251
1976	41,113	26,058	10,301	4,690
1977	51,670	34,548	12,139	7,650
96 Developing countries—Total				
1974	160,040	110,150	40,241	16,831
1975	190,380	132,928	45,316	25,705
1976	234,937	163,567	56,024	29,643
1977	285,187	201,083	60,427	32,965

Creditor Composition of External Debt of 87 Nonoil-exporting Developing Countries, by Amount and Percentage

	1976 US$ millions	1976 %	1977 US$ millions	1977 %
Debt Outstanding (disbursed only)				
Governments	55,338	40.2	63,197	37.9
International organizations	21,583	15.7	27,047	16.2
Financial markets	48,988	35.6	62,670	37.6
Suppliers and other private	11,599	8.4	13,622	8.2
Total	137,509	100.0	166,535	100.0
Commitments				
Governments	14,747	32.3	11,230	23.3
International organizations	7,896	17.3	11,255	23.3
Financial markets	19,541	42.7	20,719	42.9
Suppliers and other private	3,539	7.7	5,085	10.5
Total	45,723	100.0	48,289	100.0
Net Disbursements				
Governments	6,839	27.4	5,761	22.8
International organizations	3,652	14.6	5,229	20.7
Financial markets	13,385	53.6	12,796	50.5
Suppliers and other private	1,078	4.3	1,529	6.0
Total	24,953	100.0	25,315	100.0

Note: Details may not add to totals because of rounding.

not major oil exporters (the 96 countries listed in the General Notes to Annex Tables excluding those countries listed in footnote 6) narrowed in 1977 to about $30,300 million, down from about $33,700 million in 1976 and $45,900 million in 1975. As indicated in the Bank's *Annual Report* for fiscal 1978, this development reflected the adjustments made, in many of these countries, to the difficulties of 1974 and 1975. Net borrowing increased by only about $400 million in 1977 to $25,300 million. This was a far smaller increase than in the previous years; in conjunction with the reduction in the current account deficit of about $3,400 million, their borrowing facilitated an addition to official reserves of about $10,300 million (following an increase of about $6,700 million in 1976).

Because these 87 countries are so diverse, general statements about their combined external borrowing and balance of payments position are of limited value. In particular, statistics on external public debt measure a much smaller element of the external finance of the larger and more complex economies than of the poorer countries, which continue to rely mostly on official assistance. Other forms of external finance, including private direct investment, borrowing by the private sector without public guarantee in the borrowing country, and short-term transactions are important in countries with a relatively high per capita income. Generalizations about regional groupings are somewhat more useful, though they are still subject to limitations.

The more advanced developing countries of the **Mediterranean**(7) rely least on external public borrowing as a source of external finance. These countries' per capita incomes are a good deal higher than most developing countries'; their combined current account deficit in 1977 was $11,760 million, about $1,100 million greater than in 1976. Net public borrowing was $2,748 million, a decrease of about 13% from 1976, and equivalent to only 23% of the current account deficit. Net private borrowing was estimated to be approximately $2,800 million. Other sources, including short-term borrowing and the use of reserves of about $300 million, provided the remaining finance. At the end of 1977, total disbursed public debt was $25,022 million, an increase of 16% over 1976. Private debt was estimated at about $16,000 million, an increase of 22% over 1976. About 70% of the total was owed by Spain and Yugoslavia. Private debt in Yugoslavia is the debt of the enterprise sector of the economy.

Like the countries in the Mediterranean region, the developing countries in the **Middle East and North Africa**(8)—other than major oil-exporting countries—experienced a widening (albeit a small one) current account deficit in 1977 to $5,400 million, up from $5,000 million in 1976. Net public borrowing increased sharply, from $2,546 million to $4,948 million. The increase was largely on account of increased borrowing by Egypt and Morocco. Borrowing was approximately equal to the current account deficit for the region as a whole. At the end of 1977, the external public debt of the countries of the region was $16,946 million, up more than 45% from 1976. Most of this debt and borrowing was from official sources; 74% of the debt outstanding at the end of 1977 and 69% of net borrowing during that year were from such sources.

With few exceptions, the countries of **Africa South of the Sahara**(9) have very low per capita incomes and have borrowed relatively little from private lenders. In 1977, the combined current account deficit of these countries remained at about $4,100 million, almost unchanged from 1976. Net public borrowing was $2,722 million, very slightly more ($147 million) than in 1976. Of this borrowing, almost two-thirds was from official sources. The total public debt outstanding at the end of 1977 of sub-Saharan countries was $17,411 million, of which just less than two-thirds was owed to official creditors. Most of this debt was on highly concessional terms. Several countries, nevertheless, have servicing difficulties. Public debt outstanding to private creditors at the end of 1977 was only $5,984 million, an increase of 24% over 1976. Of this amount, 90% was owed by four countries—Ivory Coast, Sudan, Zaire, and Zambia.

South Asia(10) resembles sub-Saharan Africa in that a large proportion of external public debt is owed to official creditors and that a high proportion of new borrowing was from official lenders. The countries of the region owed a

(7) Cyprus, Greece, Israel, Malta, Portugal, Spain, Turkey, and Yugoslavia.

(8) Bahrain, Egypt, Jordan, Lebanon, Morocco, Oman, Syria, Tunisia, Yemen Arab Republic, and People's Democratic Republic of Yemen.

(9) Benin, Botswana, Burundi, Cameroon, Central African Empire, Chad, Comoros, Congo, Ethiopia, The Gambia, Guinea, Ivory Coast, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Upper Volta, Zaire, and Zambia.

(10) Afghanistan, Bangladesh, Burma, India, Nepal, Pakistan, and Sri Lanka.