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(August - December)

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Hollis B. Cheney papers - McNamara discussions 1977 (Aug-Dec)

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Hollis B. Cheney Papers - McNamara discussions / notebooks / memoranda - 1977
(August - December)

OFFICE MEMORANDUM

TO: Files

FROM: Hollis B. Chenery *HBC*

SUBJECT: Discussion with Mr. McNamara of the Bank's Analytical Work

DATE: December 22, 1977

We discussed today the items raised in the attached agenda.

Research and Dissemination

On research, I said that we could anticipate a recommendation from the Research Advisory Panel on Income Distribution to greatly expand our support for basic statistics in this area. Mr. McNamara said that he agreed with that recommendation in principle, but we did not discuss ways of implementing it.

On internal dissemination of research findings, Mr. McNamara said that he was not convinced that the regions could not undertake the dissemination function by reallocating staff. I suggested that it would be necessary to look at this issue for each region in connection with the rest of its country analysis.

Country Analysis

In order to reach some conclusions on the issues raised in my memorandum, I suggested two steps. First that the DPS Annual Review of Economic Work be devoted to an evaluation of the longer-term (basic) economic work that has been done in the past several years, based on statements from the regions as to their judgment as to priorities between short-term and long-term analysis. Secondly, I suggested that the section of the Gabriel working group on Programming, Planning and Budgeting that is concerned with economic work be reviewed with the President's Council to see whether there were differences of views as to relevant priorities. Mr. McNamara accepted these suggestions and said that he would discuss them with Messrs. Stern and Knapp.

Policy Analysis

My proposal to reorient policy work around the World Development Report (assuming that it is successful) was accepted in principle. Further discussion will await the outcome of the present report.

Publication

Mr. McNamara welcomed William Clark's Committee on Publication, which will probably propose a more active publications program rather than waiting for unrelated manuscripts to be submitted from various quarters. His dissatisfaction with

the Bank's present program seems to be based primarily on a comparison to Brookings, where the published output per staff member is considerably higher. I pointed out that there were several differences between the Bank and Brookings: much of our country work is designed mainly for internal use, the Research Program is just now coming to maturity, and the type of research that we do requires considerably more basic statistical analysis, covering a number of countries, than does Brookings'. However, I agree that it would be useful to develop standards of comparison for the relation between research and publication.

HBChenery:nf

Attachment

cc: Messrs. Knapp
E. Stern
Karaosmanoglu
E. Wright
W. Clark
Koch-Weser
DPS Directors

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Scope of the Bank's Analytical Work:
Agenda for Discussion December 22, 1977

DATE: December 21, 1977

Work is under way in the DPS to examine the future scope and objectives of the Bank's development analysis for which we have some responsibility. I would like to discuss with you some tentative conclusions and try to clarify our main objectives for the next four or five years. We will then submit a set of recommendations to you over the next several months.

The analysis of development in the Bank can be broken down into several phases: (i) research; (ii) internal dissemination; (iii) country analysis; (iv) policy analysis; (v) external publication. The scope of work in these areas should be considered together, since they are mutually supporting; significant changes in one aspect tend to create bottlenecks and imbalances in another. The magnitude of Bank resources currently allocated to these activities is indicated in the attached table.

1. Research. The Research Committee has recently completed a survey of the principal areas of Bank research. I have also received the preliminary findings of the Fishlow panel, which is reviewing our work on income distribution and employment. I think that over a 3-5 year period a significant expansion of Bank research clearly is desirable. However, little expansion can take place with the present allocation of staff time to research, which has been roughly constant in the DPS, declining in the CPS and almost non-existent in the regions. Secondly, research oriented toward internal use can only be increased in relation to the ability of the regional economists to make use of it. The latter aspect is considered below.

2. Internal Dissemination. Over the past five years the research departments have developed (or adapted from external sources) a number of analytical techniques in fields such as multi-sector analysis, employment, income distribution, population and project evaluation of which greater use might be made by the operating branches of the Bank. Dissemination of these ideas and techniques within the Bank is now a major bottleneck to both better economic work and more productive research.

3. Country Analysis. The regions supply 80% of the resources for country and sector analysis (see attached table) and are responsible for their allocation. The principal change in this area in recent years has been the attempt (mainly from DPS and CPS) to shift more resources to longer-term ("basic" or "structural") analysis and away from the traditional short-term analysis and updating of current information. Much remains to be done in this direction. The current DPS review of economic work will try to evaluate the success of this effort against the needs of the Bank and its member governments.

In my view the proportion of regional resources devoted to basic economic work (including special studies, basic reports and some sector studies) is still too small. So long as economists' time is governed so largely by immediate operational considerations and allocated mainly by the Division Chiefs in the Regions, demands for routine updating are likely to receive priority unless Regional Vice Presidents indicate that understanding of basic development processes should receive a higher priority. Where this has been done, the Bank has produced a number of valuable and innovative studies. However, unless basic economic work is given higher priority, and some provision is made within the Regions to adapt newer analytical techniques, we will increasingly be trying to carry out new-style projects with old-style analysis.

4. Policy Analysis. If the World Development Report proves successful, I think that a good deal of the Bank's projections and policy analysis should be reoriented to support it. With this in mind, we have focussed our efforts this year on the implications of poverty focussed (or basic needs) policies. We have also started designing the projections techniques for the 1979 report, since any significant innovation requires considerable lead time.

In order to prepare next year's budget, it will be necessary to make some decision on how the preparation of the WDR is to be carried on next year. It is hard to comment in detail before we see the results of the present effort.

5. Publication. The bulk of the Bank's publications are produced as a product (or by-product) of the above activities. I have suggested to William Clark that we look at these publications as a whole in relation to the activities from which they derive, as well as their uses. He has set up a group to do this (in addition to looking at distribution and other aspects) and will be reporting to you separately.

After some initial bottlenecks, publication of the output of the Bank's research program is moving fairly smoothly. Some 50 books and monographs plus a number of articles based largely on Bank research have been published or are in process. These are starting to appear on academic reading lists and will affect the next generation of economists.

Publication of material derived from the Bank's country, sector, and policy analysis is equally important but has encountered more difficulties. Of the 38 basic economic reports that the Editorial Subcommittee thought eligible for publication, only half will actually be published. The main obstacles have been country objections (which can usually be reconciled when identified in time) and the lack of time or motivation of the regional economists. As our basic economic work becomes more specialized, the appropriate form of publication is likely to shift from comprehensive country volumes to comparative studies, monographs and the like.

Attachment

cc: Mr. William Clark
Mr. Karaosmanoglu

HBChenery:di

COMPOSITION OF ANALYTICAL WORK IN THE BANK - FY78*
(\$000)

	I Research		II Policy				III Country Analysis						Total	Unit Share
	a/ %	%	Operational Review	%	Policy Work b/	%	Economic Work	%	Sector Work	%	Other	%		
Regions RPO Res.	281 (4)	3.1	-	-	135	1.9	12717	84.5	5253	69.3	7308	89.0	25694 (4)	49.4%
CPS RPO Res.	2266 (560)	24.8	2912	61.3	4178	57.2	235	1.5	765	10.1	261	3.2	10617 (560)	20.4%
DPS RPO Res.	6472 (1726)	70.7	1836	38.7	2942	40.3	1711	11.4	275	3.6	512	6.2	13748 (1726)	26.4%
Other: YP Coop. Prog.	135	1.4	-	-	44	0.6	391	2.6	68	0.9	114	1.4	752	1.4%
									1218	16.1	13	0.2	1231	2.4%
TOTAL	9154	100%	4748	100%	7299	100%	15054	100%	7579	100%	8208	100%	52042	100%
RPO Res.	(2290)												(2290)	
%	17.6%		9.1%		14.0%		28.9%		14.6%		15.8%		100%	
				23.1%					59.3%					

SUMMARY

Activity	(\$000)	Unit Share to Each Activity %				Activity Share %
		DPS	CPS	Regions	YP-Coop. Prog.	
I. Research	9.2	71%	25%	3%	1%	18%
II. Policy	12.0	40%	59%	1%	-	23%
- Op. Rev.	(4.7)	(39%)	(61%)	-	-	(9.1%)
- Policy Work	(7.3)	(40%)	(57%)	(2%)	(1%)	(14.0%)
III. Country Analysis	30.8	8%	4%	82%	6%	59%
- Economic work	(15.0)	(11%)	(2%)	(84%)	(3%)	(29%)
- Sector work	(7.6)	(4%)	(10%)	(69%)	(17%)	(15%)
- Other	(8.2)	(6%)	(3%)	(89%)	(2%)	(16%)
TOTAL	52.0	27%	20%	49%	4%	100%

* Source: FY78 Budget Document - Table 3

a/ External Research (RPO) distributed according to 1977 Research Report.

b/ Composed of: Policy Papers, Guidelines, Analytical Tools, Data & Monitoring Systems.

c/ Includes technical assistance, aid coordination and all operational work not included elsewhere. P.20 Budget Document

McN Natchez

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Nomination of Director, Development Economics Department

DATE: December 19, 1977 *12/19**approved*
enw

1. Since Avramovic is leaving early in January, I would like to reach agreement on his successor as soon as possible. After extensive consultation over the past four days, I propose that Ben King be appointed as Director, Development Economics Department, for reasons outlined below.

12/19

2. The Development Economics Department has two main functions: (i) research in fields of economic development of particular interest to the Bank; (ii) dissemination of research findings and policy judgments to the operating departments, largely through participation in missions. The Department is the focal point of research and analysis in several areas of major concern to the Bank, notably industrial development, manufactured exports, urbanization, employment, rural development and population policy. Since these and other topics must be covered by five divisions with an average of eight professionals each, assessment of priorities among topics and countries requires broad knowledge of these professional fields as well as the Bank's needs.

3. Departmental Management. To ensure the relevance of the Department's work to operational needs, we selected the last three directors (Stevenson, Gulhati and Avramovic) from economists whose primary qualification was their performance on the operating side of the Bank. This resulted in some weakness in leadership on the research side. This problem was effectively remedied by the appointment of Ardy Stoutjesdijk, who has 12 years of research experience in the OECD and the DRC, as Senior Advisor in 1976. In the future, the combination in the departmental management of understanding of the Bank's analytical needs and experience in managing applied research should be maintained.

4. Candidates. There is general agreement among those consulted, representing the regions, CPS, DPS and Personnel, that there are three leading possibilities for director:

Ben King, Research Advisor (age 61)

Ardy Stoutjesdijk, Senior Advisor (age 39)

Bevan Waide, Chief Economist, South Asia (age 41)

Of those who gave a ranking, virtually all listed King as their first choice. Opinions are fairly evenly divided between the other two as an alternative. Others considered included Holsen and Baneth.

Ben King has been known for more than twenty years as one of the best and most versatile economists in the Bank. He served over 10 years in several operating departments, 10 years in the central economic staff, and 5 years in the EDI. Although in earlier years he was sometimes regarded as too outspoken, he was quite effective as Chief Economist, South Asia, and very successful in managing the Bank's research program since he took over from Ernie Stern in 1973. He would bring to the Economics Department a broad background in development economics and a unique knowledge of the analytical needs of the operating departments. I think he would also work effectively with Stoutjesdijk.

Ardy Stoutjesdijk has shown himself to be an effective manager in his 1-1/2 years as Senior Advisor in the Economics Department, and is widely respected. His only drawback is his limited experience with the operating departments of the Bank. If King is appointed, I would expect Ardy to be the leading candidate to take over the directorship when King retires.

Bevan Waide is probably the best of the Chief Economists and is a good manager. His professional background is not so broad as the other two candidates, and I have some reservations as to his ability to provide leadership on the research side. Since he has been in his present job for only a year, it would be too bad to move him unless there was a clear need to do so.

I have discussed this recommendation with Peter Cargill, for whom King used to work, and he supports it.

HBChenery:nf/di

cc: Messrs. Knapp
Cargill
R. A. Clarke

ROUTING SLIP		DATE: 12/2/77	
NAME		ROOM NO.	
Mr. Robert S. McNamara			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
<p>I think you will be interested in the last paragraph of the attached.</p>			
FROM:		ROOM NO.:	EXTENSION:
Hollis B. Chenery			

Institut für Weltwirtschaft
an der Universität Kiel

Az.: Prof. Dr. G. Fels
(Bitte im Antwortschreiben anzugeben)

Institut für Weltwirtschaft, Postfach 4309, 2300 Kiel 1

Dr. Helen Hughes
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Kiel, den
Düsternbrooker Weg 120-122

Dear Helen,

Many thanks for your letter of November 4. Let me first of all apologize for not having answered it earlier. Since the very beginning of November I was continuously in Wiesbaden, where we had to complete our Annual Report to the Government.

I was quite enthused about your invitation to work with the Bank on adjusting to increased trade with developing countries. As you surely suspect, we are maintaining a continuing interest in this field here. I think cooperation with you would be quite naturally advantageous.

After discussing your proposal with Jürgen Donges we arrived at the following suggested procedure: He and Dr. Hans-Hinrich Glismann as well as myself stand ready to take part in the project and to collaborate with you and the Bank. The specific form of cooperation depends, of course, on your own plans. I would propose that you and Jürgen Donges should discuss this point next week when he attends a conference in Washington at the American Enterprise Institute. He will ring you up. I could imagine that one form of cooperation may be carried out on a consultancy basis. As for myself, due to my obligations at the Expert Council and due to the circumstance that I have been invited to the Committee for Development Planning at the United Nations, I shall not be in a position to devote too

much time to the project, but would very much like to work along with the others.

By the way, I wanted to let you know that Ottmar Emminger was really impressed by McNamara's speech regarding adjustment processes to LDC export expansion. I think It's very important and useful that such people's attention is drawn to this field.

With best regards,

filed

Mr. Robert S. McNamara

November 30, 1977

Hollis B. Chenery

Drag Avramovic

1. Mr. Avramovic asked me today whether the Bank would be willing to accept Mr. Brandt's request that he be released to be Goran Ohlin's deputy. I told him that it would not be possible for me to hold open his position as director of the Economics Department for that period. Beyond that I said that he should discuss with Mr. Chadenet the question of secondment and what his prospects for placement in the Bank might be on his return. He said he was anxious to take this job if possible and would discuss it with Chadenet.

2. My own view is that we should treat this request according to whatever precedents have been established for releasing people for worthwhile advisory assignments. Avramovic says he has only been away from the Bank (for his UNCTAD assignment) for less than 1-1/2 years in his 22 years of service. Presumably secondment would be without cost to the Bank except for retaining him on the roster of senior staff available for future assignment. However, I think it is clear that the competition for senior economic assignments will get more intense and that he would certainly not have any guarantee of reassignment at his present level.

cc: Mr. Chadenet
Mr. W. Clark

HBChenery:di

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: November 30, 1977

FROM: Hollis B. Chenery, VPD *HB*SUBJECT: Maragoli

I recently saw an excellent documentary film on population, "Maragoli", which I think you would enjoy. It was made by an American filmmaker, Sandy Nichols, in a densely populated rural area of Western Kenya. This was one of the communities being studied in a comparative anthropological research project on population issues, carried out by the Institute of Development Studies (Sussex) and partially financed by the Bank. The project looks at both the determinants of fertility levels in these villages and at the impact of population growth on the local economy and institutions. The main researchers are doctoral students from the countries concerned.

Although main finance for the film came from the Pathfinder Foundation, three departments of the Bank - Information and Public Affairs, Population Projects and Development Economics - collaborated to provide a small grant (\$5,000) as seed money, viewing this as an innovative way of disseminating some research results.

The Information and Public Affairs Department possesses copies of the film, so it can be seen at any time.

cc: Messrs. W. Clark
Baum
Merriam
Avramovic

HBChenery:am

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
THROUGH: Hollis B. Chenery, Vice President, DP
FROM: Mahbub ul Haq, Director, PPR
SUBJECT: Sample Country Studies of Basic Needs Issues

DATE: November 29, 1977

1. As a follow-up to the discussion of the Basic Needs Work Program in the President's Council on October 25, 1977, we have met separately with all the Regional Vice Presidents and exchanged views on the selection of countries, the scope of the studies and the manpower support required from the DPS and, in some cases, the CPS. 1/ The Regional Offices expressed a good deal of interest in undertaking country studies to explore the operational content of the basic needs approach though they cautioned that such studies should be regarded only as exploratory at this stage: they can be used to initiate a concrete policy dialogue on poverty alleviation with the country though they may not lead to an identification of concrete projects and programs.
2. It emerged from our discussions that the original list of sample countries proposed in the Basic Needs Work Program (Mr. Chenery's memorandum of October 7, 1977) still represented the "best" selection for first-round exploratory studies. They are "best" in the sense that they fit in well with the existing regional work program, provide a good range for comparative study, and are likely to be well received by the Governments. We also identified a number of other countries which might be suitable for second-round study.
3. Two different procedures are being employed for these studies. In the case of Somalia and Mali, the studies are being designed from scratch with the ultimate aim of producing basic needs reports. Reconnaissance missions are being scheduled to identify the main areas of concentration and provide terms of reference for comprehensive missions that will go to the field later next year. For the remaining four countries, the task is to redefine and supplement the ongoing economic work program so as to reflect more fully some of the basic issues. However, each case study will attempt to: (i) assess the extent of shortfall in meeting one or more basic needs and identify the affected groups in the population; (ii) suggest a strategy for overcoming any shortfalls; and (iii) estimate resource costs, economic impact and the political implications for pursuing the proposed strategy.
4. The salient features of our discussions with the Regional Offices are described below. A tentative work schedule and DPS staff assignments are shown in Annex I

1/ In addition to myself, the DPS team comprised Messrs. Karaosmanoglu, Chernick, Streeten and Burki. It met with the Regional Vice Presidents along with one or more of his Programs Directors, the Regional Chief Economist and other staff.

EASTERN AFRICA

5. It was agreed that Somalia, despite the fact that it was engaged in border hostilities with Ethiopia, represented a good case study. However, the original idea of mounting a "basic needs mission" has been revised. The proposal now is to combine a basic needs study (focussing especially on Somalia's efforts to increase food output, and to provide educational opportunities and health facilities to the whole population) with an evaluation of domestic resource mobilization problems. A reconnaissance mission is scheduled for February and the main mission is tentatively programmed for mid-1978.

WESTERN AFRICA

6. It was agreed to focus on the improvement of health standards as an important objective for Mali and design a development strategy around it. A reconnaissance mission is scheduled to visit Mali in December and the main mission in April or May 1978. The possibility of a broad basic needs study in The Gambia is also being studied.

LATIN AMERICA AND CARIBBEAN

7. It was agreed that Brazil still represents the best case for study. Indeed, the fairly frank and open debate on development strategy, which is now going on in Brazil, enhances the timeliness of our basic needs study. The economic mission has returned and is preparing its back-to-office report. Although the mission's terms of reference covered many of the elements of a basic needs approach, it was agreed that a follow-up mission in the fall of 1978 will almost certainly be required, if only to exploit the results of a new household budget survey.

8. The possibility of including Mexico as a case study was considered but rejected on the grounds that it would involve a large diversion of staff and also that it would not be well received by the Mexican authorities at this time. However, Bolivia, Jamaica and Guyana were considered good potential candidates for a second-round series of studies.

EMENA

9. After considering a number of alternatives, it was agreed that Afghanistan still represents the best sample case study among the countries of the region. It poses the challenging question of how to design effective delivery systems for basic goods and services in a least developed country with minimal administrative capacity. The starting point for this study is

a good basic economic report available in green cover which has compiled the relevant data and evaluated some basic needs sectors. The proposal is to send a follow-up mission to study and report on the requirements of appropriate delivery systems.

SOUTH ASIA

10. The economic mission to Sri Lanka, presently in the field, is focussed on designing a more balanced development strategy for that country. However, the effectiveness of past basic needs policies will be given some attention and this will enable us to include Sri Lanka in the overview report comparing basic needs approaches in the various sample countries. In addition, however, it was agreed that a special study of the administrative/delivery aspects of Sri Lanka's basic needs program in health would be quite useful. This mission, for which a special request to the Sri Lankan authorities might be addressed, could be scheduled for mid-1978.

EAST ASIA AND PACIFIC

11. It was accepted that Indonesia is a good case for study; in any case, it is already the subject of a number of basic needs related studies. A key aspect of the work program for Indonesia is to coordinate ongoing or planned work within the framework of a basic needs approach. In this regard, it was agreed to establish an informal steering group comprising the Regional Offices, DPS and CPS to advise on mission scheduling and terms of references and to review draft reports. This steering group can harmonize planned studies of foodgrain supply, population, labor markets and employment and organize a special study on delivering basic education and health (including water and sanitation) services to the poor in both rural and urban areas. The DPS is already involved in the population, labor markets and employment studies and (perhaps together with the CPS) will provide direct support for the study of appropriate delivery systems.

12. The country basic needs program will provide the CPS departments working on various basic needs sector papers with opportunities for testing hypotheses. Accordingly, arrangements are being worked out with these departments to associate them with the country studies.

13. We estimate that the Policy Planning and Program Review Department (PPR) will provide the bulk of the support for the country work to be supplied by the DPS. In addition, the PPR staff will provide guidance in preparing

November 29, 1977

terms of references for the country studies, review of drafts and helping to draw the relevant policy conclusions from the studies. With some substitution and stretching, the basic needs sample country studies program for FY78 could be covered by the existing manpower budget. However, there will be a need for supplementary funds to cover unforeseen travel and some specialist consultant services. The amount involved is roughly estimated at about \$50,000. The FY79 budget will need to make due allowance for the basic needs country studies as well as all the other elements in the overall basic needs work program.

Attachment

cc and cleared with: Mr. Karaosmanoglu

cc: Regional Vice Presidents
Messrs. Knapp, o/r
Cargill, o/r
Baum

SChernick/SJBurki/bmp

COUNTRY WORK PROGRAM ON BASIC NEEDS

<u>COUNTRY STUDY</u>	<u>TYPE OF MISSION</u>	<u>TENTATIVE SCHEDULE</u>	<u>POSSIBLE DPS STAFF SUPPORT</u>	<u>TIME</u>	
				<u>Time</u>	<u>Of Which in Field (manweeks)</u>
1. Somalia	Reconnaissance	Feb. 1978	Burki	3	1-1/2
	Basic Needs and Domestic Resource Mobilization Mission	April- May 1978	Hicks	16	4
2.(a) Mali	Reconnaissance	December 1977	Nankani	4	2
	Health and Basic Needs	April/May- July/August 1978	Nankani	16	4
(b) The Gambia	Basic Needs Mission	Fall 1978	Vandendries	12	4
3. Sri Lanka	Economic	Nov./Dec. 1977	Isenman	12	4
	Evaluation of Health Sector Performance	Fall 1978	Isenman	10	3
4. Afghanistan	Basic Economic Report-Follow Up	March 1978	Durdag	10	3
5. Indonesia	Reconnaissance	March 1978	Streeten & Landell-Mills	16	6
	Education and Health	Fall 1978	Streeten & Landell-Mills	32	8
6. Brazil	Human Resources Report				
	Discussions with Gov't. Follow-up Mission	May 1978 Fall 1978	Chernick PRD	2 12	1 4

Policy Planning & Program Review Dept.
November 29, 1977

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE November 18, 1977

FROM: Hollis B. Chenery *ls*SUBJECT: "Basic Needs" -- Pakistan and Turkey Studies

1. Attached is a Note on Meeting Basic Needs--Turkey, prepared at your request by Mr. Karaosmanoglu. This study and the one already sent to you on Pakistan reach some important conclusions that help to clarify the operational significance of the concept of basic needs. Read back-to-back, the two country papers suggest the following:

- first, a program of basic needs can be designed and implemented without hampering growth, provided impetus is given at the same time to increasing the productivity of those sectors that employ the bulk of the poor people (Cf. Pakistan);
- second, such a strategy is only feasible in a context of fairly rapid growth. Here Turkey's increased expenditures for the poor are quite notable.
- third, political commitment and institutional capacities are important prerequisites for implementing strategies aimed at meeting basic needs; and
- fourth, such strategies, if not properly implemented, can cause serious economic and social disruptions (Cf. Turkey).

2. With these two studies, we have attempted to develop frameworks that may be of use in analyzing other country situations. Since they were prepared in the DPS without any significant input from the regions, I think it would now be useful to discuss the results and possible approaches more widely.

cc: Messrs. Karaosmanoglu
Haq

SJBurki/HBChenery:ls/am

Mr. Robert S. McNamara

Nov. 15, 1977

Hollis B. Chenery

Notes on Basic Needs

1. As requested by you, Mr. Haq has prepared the attached two draft notes with the assistance of his staff:

- (i) Pakistan: Operational Implications of Adopting Basic Needs Targets
- (ii) International Implications for Donor Countries and Agencies of Meeting Basic Human Needs

Both these notes were prepared under considerable time pressure but I believe that they offer some useful ideas in understanding the operational implications of analyzing basic needs. Further work on these lines can be attempted after we have discussed these notes with you.

2. Another note, by Mr. Karaosmanoglu, on Basic Needs in Turkey is currently in draft and will be sent to you by the end of the week.

3. Following the President's Council discussion on the poverty work program, we have held discussions with all of the regional vice presidents and are revising the program of country work. It will be sent to you on completion.

Attachments

cc: Mr. Karaosmanoglu
Mr. Haq

MHaq:HBChenery:dl

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: Nov. 1, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: Ivory Coast Income Distribution

1. This responds to your follow-up question about the extremely low inequality reported in the Social Indicators Data Sheet.

2. The "most recent estimate" for the Ivory Coast reported an income share of 9% for the bottom 20 percent of the population. This can be compared with figures for a selection of LDCs, DCs and Socialist countries contained in Table 8 of the attached article (pages 340 and 341). According to these data, no LDC or DC has as high a share for the lowest 20 percent. Only 4 East European countries (Bulgaria, Poland, Czechoslovakia and East Germany) have income shares for the lowest quintile of about 9% or higher, and even for these countries it is widely believed that the figures exaggerate the degree of equality.

3. Furthermore, comparing the most recent estimate with the 1960 estimate in the Social Indicators Data Sheet almost certainly yields an exaggerated picture of improvement over time. This can be seen by comparing these estimates with the 1970 estimate reported in the attached article.

	<u>1960</u>	<u>1970</u>	<u>Most Recent</u>
Share of Lowest 20%	6.6	3.9	9.0
Share of Lowest 40%	16.5	10.1	20.0
Share of Top 20%	51.8	57.2	50.0

The 1960 and 1970 estimates are from separate studies by the same author and show a decline in income share of the poor (although since per capita GDP income then doubled, absolute income levels of the poor probably increased). Even if we accept the economic report's suggestion that "there has been an improvement in income distribution between 1970 and 1973-74", it is unlikely that the improvement could have been of the order implied in the most recent estimate.

4. Independent of these comparisons there are reasons to believe that the most recent estimate exaggerates the degree of equality. This estimate is based on the assumption that variations in average agricultural income across regions (departments) are the only source of rural inequality. This simplification (introduced because of lack of data) necessarily understates inequality.

5. These problems illustrate the extreme difficulty in making judgments about income distribution in many of our member countries, and especially in evaluating changes over time.

Attachments

cc: Mr. Chaufournier

MAhluwalia:HBChenery:di

OFFICE MEMORANDUM

TO: Mr. M. Ahluwalia

DATE October 27, 1977

FROM: Hollis B. Chenery *HB*

SUBJECT: Reply to Mr. McNamara

Could you have someone draft an answer to McNamara's
last question?

cc: Mr. Cheetham

HBChenery:am

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
 FROM: Hollis B. Chenery *HBC*
 SUBJECT: Social Indicators Data Sheet - Ivory Coast Income Distribution Data

DATE: October 25, 1977

1. This note responds to your inquiry about the income distribution data in the attached Social Indicators Data Sheet for Ivory Coast.

2. For "1960", the data sheet showed that the highest 20 percent of the population received 51.8 percent of income and the lowest 20 percent of the population received 6.6 percent of income. These data were taken from Shail Jain, Size Distribution of Income (IBRD, 1975). "Most recent estimates" of 50.0 percent and 9.0 percent of income received by the highest 20 percent and the lowest 20 percent of the population respectively were taken from IBRD, Ivory Coast: A Basic Economic Report, Vol. I (No. 1147-IVC, April 1976).

3. Both sources are quite approximate and incomplete. Jain's data (for 1959) were derived from various sources ^{1/} that were not directly comparable. She adjusted these data to obtain estimates of income shares accruing to each decile of the population. The data in the Basic Economic Report refer to 1973-74. They were derived from information about incomes of farmers and wage-earners in the absence of more complete data about income distribution for the entire population. The Report indicated that these estimates of income distribution for Ivory Coast "provide a valid picture of the existing situation", and that it is generally accepted that "there has been an improvement in the income distribution between 1970 and 1973-74."

4. In general, very few countries have comparable sources from year to year, and comparisons over time are very difficult without much added work. I suspect that the improvement shown here is quite exaggerated.

1/ Christian Morrisson, La Repartition des Revenus dans les Pays du Tiers Monde (Paris: Editions Cujas, 1969), p.206; and Christian Morrisson, "Ivory Coast" (unpublished memorandum of the Income Distribution Division, DRC of the World Bank), pp. 17-18.

cc: Mrs. Hughes, Mr. Cheetham
 SELee/MHee/HBChenery:am

10/18 To D. L. Chedoke
Are these figures
correct. ANNEX I (a)
R. S. W.

TABLE 3A SOCIAL INDICATORS DATA SHEET						
LAND AREA (THOU KM ²)	IVORY COAST			REFERENCE COUNTRIES (1970)		
	1960	1970	1980 ESTIMATE	TUNISIA	MALAYSIA	CHINA, REP OF **
TOTAL 332.0	170.0*	350.0*	610.0 /a	370.0	440.0	510.0
AGRIC. 171.0						
GNP PER CAPITA (US\$)						
POPULATION AND VITAL STATISTICS						
POPULATION (MID-YR, MILLION)	3.9	5.4	7.0 /a	5.0	10.8	14.5
POPULATION DENSITY						
PER SQUARE KM.	12.0	16.0	21.0 /a	30.0	33.0	403.0
PER SQ. KM. AGRICULTURAL LAND	23.0	32.0	41.0 /a	67.0	185.0	..
VITAL STATISTICS						
CRUDE BIRTH RATE (/THOU, AV)	46.0	46.1	45.6	44.7	42.2	28.0
CRUDE DEATH RATE (/THOU, AV)	26.0	23.3	20.6	16.9	12.9	6.0
INFANT MORTALITY RATE (/THOU)	138.0/a	..	..	125.0	40.8/a	18.0
LIFE EXPECTANCY AT BIRTH (YRS)	35.9	41.0	43.5	51.6	56.7	68.0
GROSS REPRODUCTION RATE	3.2/a,b	3.1	3.1	3.4	2.6/a	2.2
POPULATION GROWTH RATE (%)						
TOTAL	2.4	3.4**	4.3**	2.1 /a	2.6	3.2/a
URBAN	10.6/c	8.7/a	9.9/b	3.0 /b	3.0	4.0
URBAN POPULATION (% OF TOTAL)	21.8/d	28.0	34.3	40.1 /c	26.8	61.0
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS	42.7/b	42.5	43.1	46.3 /c	44.7/a	40.0
15 TO 64 YEARS	53.7/b,e	54.8	54.0	50.2 /c	52.1/a	57.0
65 YEARS AND OVER	3.6/b,e	2.7	2.9	3.5 /c	3.2/a	3.0
AGE DEPENDENCY RATIO	0.9	0.8	0.9	1.0 /c	0.9/a	0.8
ECONOMIC DEPENDENCY RATIO	1.1 /f,g	0.9/b	1.1/c	1.8 /c,d	1.6/a	1.2/b,c
FAMILY PLANNING						
ACCEPTORS (CUMULATIVE, THOU)	..	..	..	112.2	222.2/a	979.4
ISFRS (% OF MARRIED WOMEN)	..	..	..	12.0	8.0/a	44.0
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSANDS)	1900.0/f	2600.0	2900.0/d	1300.0/c	2900.0/b	4600.0/b
LABOR FORCE IN AGRICULTURE (%)	86.0/f	82.0	80.0/d	57.0/c	43.0/a	..
UNEMPLOYED (% OF LABOR FORCE)	..	..	3.0/d	12.0/c	6.0/a,b	4.0
INCOME DISTRIBUTION						
% OF PRIVATE INCOME REC'D BY-						
HIGHEST 5% OF HOUSEHOLDS	30.9/h	..	50.0	..	26.3	..
HIGHEST 20% OF HOUSEHOLDS	51.9/h	..	9.0	..	56.0	..
LOWEST 20% OF HOUSEHOLDS	6.6/h	..	20.0	..	3.5	..
LOWEST 40% OF HOUSEHOLDS	16.5/h	..	..	..	11.2	..
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	..	..	..	53.0/e	..	..
% OWNED BY SMALLEST 10% OWNERS	..	..	..	0.5/e	..	..
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN	25480.0/i	15320.0	15760.0/a	5950.0	..	3170.0
POPULATION PER NURSING PERSON	2210.0/i,j	2830.0/c	1970.0	730.0/f	1080.0/a,c	10230.0
POPULATION PER HOSPITAL BED	..	1150.0	1240.0	410.0/g	270.0/a	2980.0/d
PER CAPITA SUPPLY OF -						
CALORIE (% OF REQUIREMENTS)	94.0	108.0	105.0/b	94.0/h	93.0/a,d	111.0
PROTEIN (GRAMS PER DAY)	52.0	60.0	56.0/e	63.0/h	49.0/a,d	68.0
WOF WHICH ANIMAL AND PULSE	..	18.0/d	..	14.0/h	20.0/a,d	31.0
DEATH RATE (/THOU) AGE 1-4	..	..	..	1.5/c,i	5.5	3.0
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL	46.0	76.0	84.0	94.0	89.0/a	98.0
SECONDARY SCHOOL	2.0	11.0	16.0	20.0	34.0/a	50.0
YEARS OF SCHOOLING PROVIDED						
FIRST AND SECOND LEVEL	13.0	13.0	13.0	13.0	13.0/a	12.0
VOCATIONAL ENROLLMENT						
(% OF SECONDARY)	11.0	7.4	8.0	34.0	3.0/a	16.0
ADULT LITERACY RATE (%)	9.0/d	20.0	..	..	55.0	..
HOUSING						
PERSONS PER ROOM (URBAN)	2.5/k	..	..	2.7/c	2.3/a	1.8/h,e
OCCUPIED DWELLINGS WITHOUT						
PIPE WATER (%)	..	..	..	60.0/c	65.0/a,e	51.0/b
ACCESS TO ELECTRICITY						
(% OF ALL DWELLINGS)	1.0/k	..	..	24.0/c	43.0/a	94.0/b
URBAN DWELLINGS CONNECTED						
TO ELECTRICITY (%)	..	..	..	..	30.0/a	88.0/b
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)	17.0	..	78.0	77.0	41.0	103.0
PASSENGER CARS (PER THOU POP)	3.0	10.0	15.0/f	13.0	27.0	3.0
ELECTRICITY (KWH/YR PER CAP)	21.0	95.0	144.0	155.0	382.0/a	823.0
NEWSPRINT (KG/YR PER CAP)	..	0.2	0.3	0.1	4.0/a	1.7

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970 between 1968 and 1970 and for Most Recent Estimate between 1973 and 1975.

* GNP per capita data are based on World Bank Atlas methodology (1974-76 basis).

** Due to immigration population growth rate is higher than the rate of natural increase.

*** The Republic of China (Taiwan) has been selected as an objective country because of its high rate of growth coupled with an improvement of the income distribution, its success in the diversification of production and exports, the dominant role of exports in its economic development, the high level of domestic savings and the low rate of urban unemployment despite a rural exodus.

IVORY COAST:	1960	/a	1957-58; /b African population only; /c 1955-65; /d 1965; /e 15 - 59 years and 60 and over respectively; /f 1964; /g Ratio of population under 15 and 60 and over to labor for 15 - 59 years; /h Population; /i 1963; /j Including assistant nurses, midwives and assistant midwives; /k 1956-57.
	1970	/a	1965-70; /b Ratio of population under 15 and 65 and over to total labor force; /c Government only, including midwives; /d 1964-66.
MOST RECENT ESTIMATE: /a 1976; /b 1970-75; /c Ratio of population under 15 and 65 and over to labor force age 15-59 years; /d Age 15-59 years; /e 1971; /f 1972.			
TUNISIA:	1970	/a	Due to emigration population growth rate is lower than the rate of natural increase; /b 1956-66; /c 1966; /d Ratio of population under 15 and 65 and over to total labor force; /e Covering 4.3 million hectares in private land, excluding 0.8 million hectares in public ownership, and 2.1 million hectares of collective land; /f Personnel in government services only; /g Government hospital establishments only; /h 1964-66; /i Registered only.
	1970	/a	West Malaysia; /b Registered applicants for work; /c Personnel in government services only; /d 1964-66; /e Piped water inside only.
MALAYSIA:			
CHINA, REP. OF:	1970	/a	Due to immigration population growth rate is higher than the rate of natural increase; /b 1966; /c Ratio of population under 15 and 65 and over to total labor force; /d Government only; /e Total, urban and rural.
	1970	/a	Due to immigration population growth rate is higher than the rate of natural increase; /b 1966; /c Ratio of population under 15 and 65 and over to total labor force; /d Government only; /e Total, urban and rural.

RII, August 12, 1977

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km²)

Total - Total surface area comprising land area and inland waters.

Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1973-75 basis); 1960; 1970 and 1975 data.

Population and vital statistics:

Population (mid-year million) - As of July first; if not available, average of two end-year estimates; 1960, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Crude birth rate per thousand, average - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Crude death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded. Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newspaper (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newspaper.

MON
notebook

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery

SUBJECT: Publication of "Prospects"

DATE: Oct. 31, 1977

After my discussion with Mr. Wahl, Mrs. Hughes sent a copy of the foreword and table of contents to all the other Executive Directors and contacted many of them for their reactions. She has had discussions with Messrs. Fried and Ryrie (who originally suggested that the papers be made widely available) and with Messrs. El-Naggar, Franco-Holguin, Gyasi-Twum, Murayama, Razafrindabe and Madinga, to make sure that they had no objections. She also talked with Messrs. Looijen, Drake, Johnston and Magnussen, who are also all agreeable. In short, we have found no objection to publication in the form proposed.

The trade liberalization paper has been revised to ensure that historical data and projections are consistent with Prospects. The paper is linked with your speech to the Governors by a footnote (p.50) indicating that the projection of \$114 billion of manufactured exports by 1985 could be on the high side. A complete draft is attached for reference.

The "Blue Cover" series in which we are suggesting publication has been used in the past for (largely statistical) publications of the Projections Department on commodity prices, debt, and capital markets, and seems the most suitable for a low-key release.

Mr. Damry is sending you the draft of his note to the Board on the release of this document.

Attachment

cc: Mr. Damry
Mrs. Hughes

HHughes:HBChenery:di

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Shirley Boskey, Director, IRD *JB*

SUBJECT: ACC Task Force on Long-Term Development Objectives

DATE: October 28, 1977

During one of our conversations the other day, I told you that you would soon have a report on the meeting of the ACC Task Force, as well as a note on the meeting of the working group of the Committee for Development Planning, the activities of which are related to those of the ACC Task Force. Attached are those notes. The one on the Task Force was prepared by Norman Hicks of the Policy Planning and Program Review Department, who attended the meeting with Julian Grenfell. The note on the working group of the CDP was prepared by Sidney Chernick, also of the PPR, who was accompanied by Mr. Hicks and who will continue to participate in meetings of the CDP and its working group. The report of the ACC Task Force itself is attached to the briefing for the ACC meeting which I sent to you on October 26.

If you have time, it would be useful if you could glance at the notes before the ACC meeting itself. In any event, I hope you will read the memorandum from Chernick to me to which the Hicks/Chernick notes are attached. You may see, in the comments of agency heads at the ACC, a reflection of the attitude of the agency representatives in the Task Force and the CDP to which Chernick refers in his para. 5.

In the last paragraph of his memorandum, Chernick poses the question of the role which the Bank should take in the formulation of the new International Development Strategy, embodied primarily, although not exclusively, in its posture in the Task Force and the CDP. I would certainly urge, and hope you would agree, that we should contemplate active participation. That is clearly what PPR recommends.

Attachments

SEBoskey/rob

cc: Mr. Haq
Mr. Chernick

*Forwarded to: AK
HH
Haq
Chernick
Boskey*

*Rec'd memo from
the attached
1/2*

*4/11/11
4/11/11*

*10/31 to Mr. Chernick
on item
Mrs. Boskey
Please work
together to give direction
to our representatives on
the ACC Task Force and
the Committee for Development
Planning
I strongly
agree
we
should
play an
active
role in
each
Phase
inform
and upon
my
return
what you
propose to
do
Errol*

OFFICE MEMORANDUM

TO: Mrs. Shirley Boskey, Director, IRD
THROUGH: Mahbub ul Haq, Director, PPR
FROM: Sidney E. Chernick, Norman L. Hicks, PPR
SUBJECT: Meetings of the ACC Task Force and the Working
Group of the Committee for Development Planning (CDP)

DATE: October 27, 1977

1. The attached notes report on the proceedings of the first meeting of the ACC Task Force on October 13 and 14, and the meetings of the Working Group of the Committee for Development Planning (CDP) on October 17-20. We represented the Bank at these meetings which were held at UN Headquarters in New York. Our task of representation was very much facilitated by Messrs. Grenfell and Burney of your Department.

2. The ACC Task Force report recommended, subject to the approval of the ACC, the preparation of two papers for its February 1978 meeting. They are:

- a. to identify the conceptual and strategic shortcomings of DDII Strategy; and
- b. to take an inventory of existing development targets and evaluate their consistency and inter-relationships.

The Task Force also agreed to a proposal, emanating from the UN Department of Economic and Social Affairs (ESA), to establish an inter-agency working group to coordinate quantitative modelling and projections. The ESA (and possibly UNCTAD) favors the development of a global econometric model - a central core model - which would guide the work of the UN Commissions and Agencies, but no agreement on this score was reached in either meeting. Clearly, there is a concern to harmonize views of future development prospects and define the role of each of the members of the UN System in pursuing agreed targets or goals.

3. The Working Group of the CDP also defined a short-term work program to prepare for its meeting scheduled for the end of March 1978. This includes the preparation of an inventory of long-term studies and projections and a series of trend extrapolations from the data bank of the UN Centre for Development Planning Projections and Policies.

4. Both the ACC Task Force and the CDP are gearing up to formulate a new international development strategy for the 1980's and possibly for the period to 2000. Although the substantive relationship between the two work programs still has to be clarified, and there is some potential for competition and friction, there was general agreement on the need to coordinate the work.

5. The important issue now is what role the Bank should take in helping formulate the new International Development Strategy. As you are aware,

October 27, 1977

the other agencies in the UN System, while recognizing the influence and quality of the Bank's work, consider the Bank to be secretive and uncooperative. In particular, they feel that the Bank is going its own way without reference to the directives of the General Assembly on DDII Strategy and the New International Economic Order. There is a danger that without proper coordination, the UN System will once again develop a series of essentially inconsistent targets. In our paper submitted to the ACC last April we had pointed out that such an uncoordinated approach towards this formulation of this DDIII strategy could prove very harmful for both recipients and donor agencies. It was acceptance of this view that led to the evaluation of the ACC Task Force.

6. In light of this, the role of the Bank should be reassessed. The essential question is whether to take an active role in the work of these two groups, with the hope of producing a workable strategy, or to take a strictly passive, observer role. Since the work on the new IDS is just beginning, we have the opportunity to take a constructive role in the work, shaping the discussions and giving more emphasis to the development issues we regard as important. Active participation will involve some cost in terms of manpower resources and the designing of mechanisms for the timely sharing of the results of our research and policy studies with the working staffs of the Task Force and the CDP. And of course, there is some risk that good work produced by these groups will be compromised in the political arena. On the other hand, taking a passive role is likely to reinforce the existing image of the Bank as uncooperative and secretive.

The answer is yes.

Attachments

cc: Messrs. Clark (o/r)
Chenery/Karaosmanoglu
Mrs. H. Hughes
Messrs. Burki
Grenfell/Burney

SEC/cc

Meeting of the ACC Task Force on
Long Term Development Objectives, October 13-14, 1977
at UN Headquarters.

1. The first meeting of the ACC Task Force was held in New York on October 13-14, 1977.
2. The meeting was Chaired by Mr. F. van Hoek, who opened with a summary of papers submitted by the various agencies. The Chairman's remarks laid considerable emphasis on the need to develop a new international development strategy (IDS), with emphasis on issues such as basic needs, collective self-reliance and the New International Economic Order (NIEO). He indicated a need to coordinate the work of the participating agencies, in order to prepare a consistent strategy, particularly within some sort of quantitative analytic framework. There was considerable comment from the delegates (including the Bank) that the Chairman's focus was going beyond the mandate of the Task Force, which many viewed as being primarily concerned with inter-agency coordination. In addition, concern with the new IDS at this time was somewhat premature and conflicted with the work of the Committee on Development Planning (CDP).
3. There was general agreement, however, that DDII was going to fall short of its goals, and that there were lessons to be learned from this experience which were relevant for the formulation of the

new IDS. It was felt that the conceptual framework for DDII was inadequate, and that the goals set were largely "aspirational" and were not supported by operational measures adequate for reaching these goals.

4. There was the clear possibility, moreover, that the new IDS would consist of a compilation of goals already adopted by various international fora. These goals include the attainment of a 4% growth in agriculture, a 25% LDC share in industry and the eradication of hunger, illiteracy and unemployment by the year 2000, among others. The various agencies of the UN system are individually obligated to work toward attainment of these goals, even though collectively these goals may be inconsistent. This obligation makes the coordination function of the ACC Task Force quite difficult, since a strategy which is internally consistent and realistic may have to reject one or more of the mandated targets.

5. In response to these questions, the Task Force agreed to a work program which will produce two draft papers for consideration at its February meeting. The first will identify the conceptual and strategic shortcomings of the DDII strategy, while the second will inventory existing targets, their consistency and interrelationship. Selected participating agencies will take the lead in preparing and discussing the papers, which in turn will be made available to the CDP.

6. The Economic and Social Affairs Division (ESA) also proposed the creation of an inter-agency modeling working group to coordinate existing quantitative work and to move toward the establishment of a

global quantitative framework in order to insure consistency between (including the Bank) agencies. Many representatives/felt that the proposal to move toward a global framework was premature and doubted that consistency between agencies could ever be attained. This was made even more difficult by the need to incorporate concerns for basic needs, NIEO and other structural changes into present models. The initial proposal, therefore, was scaled down to place greater stress on inter-agency cooperation, coordination and communication at the technical level.

7. The Bank came under some criticism from the delegates for not preparing a paper and not revealing more concerning the World Development Report (WDR). In response to these remarks we distributed copies of the preliminary outline of the WDR of June 3, 1977. The Task Force expressed concern that the Bank was proceeding with this study without coordinating with other UN Agencies, and without reference to the General Assembly's resolutions on the establishment of a New International Economic Order. We indicated that while the World Development Report could not be discussed with the ACC until it had been approved by our Board, we would be glad to informally discuss with the Task Force, staff papers relating to the work on this study. While recognizing the absence of specific references to the NIEO, we indicated that many of NIEO issues would in fact be discussed in the Report.

Conclusion

8. In general, the meeting of the Task Force was more productive than had been expected. A realistic work program has been adopted which could lead to improved inter-agency co-ordination of inputs for the new

IDS. The usefulness of the work of the Task Force will depend greatly on the quality of the staff work undertaken, and in this regard, the role of the Bank is still unclear.

Norman Hicks
PPR/October 26, 1977

Note on the Meeting of the
Working Group - Committee for Development Planning (CDP)

1. The Working Group of the CDP met at UN Headquarters on October 17-20, 1977, to discuss "long term studies and projections and their policy implications for development." Mr. Jean Ripert (Undersecretary-General designate for the Economic and Social Affairs Department) served as Chairman.
2. The main objective of the Working Group was to discuss long term studies and projections work that was underway or being planned in the various UN Commissions and Agencies. Written statements had been submitted by almost all the UN Commission or Agencies ^{1/} (the Economic Commission for Europe was a noticeable absentee) and supplementary oral remarks were invited at the meeting.
3. The UN Centre for Development Planning Projections and Policies led off the presentations and set the tone by elaborating on the Leontieff global model. Many of the other agencies were, therefore, impelled to apologize and explain why they had not made more progress in developing global or sectoral or regional models. Data deficiencies and the lack of skilled staff were the commonest reasons given.
4. Apart from the presentations by UN Headquarters staff - Mosak on the Leontieff model, Baum on natural resources and Tabah on population - which gave very balanced views of projections techniques in their respective areas of interest, there were two other noteworthy statements. The UNCTAD representatives

^{1/} A list of these is attached. The reports may be consulted or borrowed for reproduction by enquiring at Ext. 4546, Room D-447.

expressed their keen interest in developing a global model and favored the centralized coordination of projections work in the UN system. They are highly critical of any attempt to project future world economic developments that did not integrate the elements of the new international economic order, and announced that UNCTAD would undertake to build a quantitative framework to do just that.

The statement by the ILO representatives was rather disappointing. Apart from a number of country studies in various stages of preparation, there was no systematic follow-up program to the basic needs concept which the ILO articulated about 18 months ago.

5. The Bank's presentation reported on the current status of some of our longer term studies and reviewed the development of quantitative modeling in the Bank since the end of the 1960s. There was keen interest in the Bank's work on basic needs ^{1/} and the World Development Report. On the latter, a statement (the lines of which were agreed with Mr. Stern) was made outlining some of the issues that the Report is expected to address and the quantitative framework that is being considered.

6. Following the presentations of the Regional Commissions and Agencies, there was a general discussion which touched on such issues as:

- a) the quality of data being compiled in the various UN regional economic commission;
- b) the value of establishing a global inter-sectoral, inter-regional input-output model as an organizing concept;
- c) how to reconcile (internal) national policies and external or international strategies; and
- d) whether some of the recent long-term studies and quantitative models were focused on sufficiently problem solving.

^{1/} In a private conversation with the Chairman, Mr. Ripert, he appealed for an early progress report (it could be oral) to the CDP on the Bank's work on basic needs. Ripert was not expecting much more to come from ILO in this area and thought the Bank might be a better source of help in formulating a development strategy involving this work.

7. In preparation for the meeting of the full Committee in March 1978, it was agreed to prepare an inventory of ongoing long-term studies and projections and to examine various trend extrapolations to be prepared by the U.N. Centre for Development Planning, Projections and Policies. At that meeting it is also expected that a detailed outline of the Committee's work will be defined. As it is, the question as to whether a DD III covering the 1980s will be adopted is not yet decided. There is a suggestion to define an international development strategy extending to the year 2000. And quite apart from the time horizon, the content of the strategy still has to be addressed.

Sidney E. Chernick
Policy Planning & Program Review
October 27, 1977

14 October 1977

COMMITTEE FOR DEVELOPMENT PLANNING
WORKING GROUP ON LONG-TERM STUDIES
AND PROJECTIONS AND THEIR POLICY
IMPLICATIONS FOR DEVELOPMENT
17-21 October 1977

PROVISIONAL LIST OF DOCUMENTS
INFORMATION RELATING TO LONG-TERM
STUDIES AND PROJECTIONS

<u>Organization</u>	<u>Conference Room Paper No.</u>
International Labour Office	1
United Nations Industrial Development Organization	2 (and Add.1)
United Nations Educational, Scientific and Cultural Organization	3
Economic Commission for Africa	4
Economic Commission for Europe	5
Food and Agricultural Organization of the United Nations	6
United Nations Environment Programme	7
International Bank for Reconstruction and Development	8
Economic and Social Commission for Asia and the Pacific	9
Department of Economic and Social Affairs of the United Nations Secretariat	10
United Nations Conference on Trade and Development	11/Rev.1
Economic Commission for Western Asia	12
United Nations Institute for Training and Research	13
Economic Commission for Latin America	14
WHO's Approach to Long-Term Development Objectives in the Field of Health	15

NOV 2 1977
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OFFICE MEMORANDUM

TO: Mr. H. B. Chenery, VPD

DATE November 1, 1977

FROM: I.M.D. Little, DEDDR *Imd*SUBJECT: UN Committee for Development Planning--Ref. memo of Chernick and Hicks to Boskey dated 10-27-77

1. Sid Chernick asked me to give you my impressions of this Committee since the question arises whether the Bank should take it more seriously.
2. Considering its large LDC and CPE components, I believe it produces remarkably sane reports, which should tend to have a moderating influence in other UN fora. The membership will be substantially changed for the forthcoming sessions, and possibly the Chairman (heretofore Tinbergen, Corea, Salgado). So one cannot guarantee the future, but wild men have not been chosen in the past.
3. I do not think these reports are much read in academic circles. The Secretary (Talwar) assures me, however, that they are widely read in the UN, and influence many inter-governmental discussions. I have no independent evidence of this.
4. The Committee will be engaged for the next two years in helping to formulate the Third Development Decade Strategy. This should make its forthcoming session, and the next year's round, of more importance than usual.
5. In the years I was a member, the Bank representative played no part--except once when Mahbub attended. This was because of lack of continuity. Other agencies tend to send the same and a fairly senior representative year after year--although still only an observer he can then exercise some influence.
6. I would be inclined to agree that the Bank should try to do likewise, and also be prepared to help the Committee on occasion with background material and its own analyses when so requested.

IL:ao

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 26, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: Prospects Paper

Attached is a revised Foreword designed to take care of the questions that Wahl raised with me this morning. His main point was that by omitting discussions of certain topics - such as commodity stabilization - we should not appear to be taking a negative position on some of the issues of concern to developing countries. I have no difficulty in accepting this point, which seems to me perfectly valid.

He said that he saw no need for further discussion in the Board and would himself be quite content to clear a Foreword that met this objective.

If you receive confirmation from Wahl on this point, I would like your authorization to try to clear the draft Foreword with other directors that raised questions. From our earlier soundings, this should not present much of a problem.

Perhaps we can have a further word on this matter.

cc: Mrs. Hughes

HBC Chenery:am

FOREWORD

This staff study provides a general view of the medium-term prospects of the developing countries. For several years, development prospects have been dominated by adjustments to the inflation and recession of 1973-74. The initial steps in this process have been carried out with considerable success by most countries. We therefore focus on the longer-term factors affecting the evolution of the international economy, and the policies that would enable developing countries to take better advantage of the opportunities provided by international trade and capital flows. The analysis is thus complementary to the discussions on the changing structure of the world economy being held in various international forums.

The interdependence of the world economy is described in a set of projections of the growth in national income, trade and capital flows for the major income groups of developed and developing countries. Developing countries at different income levels have been affected quite differently by the changes that have taken place. Thus the projections provide a quantitative framework that makes it possible to identify issues and assess the impact of various policies for these different groups of countries. Each issue is treated from the standpoint of both developing and developed countries.

The analysis has a limited objective. It explores the implications of one set of assumptions as a "base case" to serve as a starting point for exploring the impact of changing conditions and policies. It necessarily omits details that are of concern to individual countries. The projections presented, while realistic, are only assessments of the developments likely to follow from the assumptions stated. They illustrate medium-term trends and ignore year-to-year fluctuations. They are in no sense forecasts.

The external environment for development is substantially different in 1977 from that of the early 1970s. The indebtedness of developing countries has become an important issue, with a great deal of uncertainty about the growth of the developing countries' debt. Appendix 1 presents a factual analysis of past and future trends in external debt . The discussion of external debt focuses on the principal trends in the changing debt structure; the situation of individual countries is not analyzed. The analysis reinforces the conclusion that the "debt problem" should be manageable if suitable policies are followed.

The most important questions in the present discussions of major reforms of the international economic system are those relating to trade. Prospects for the improved marketing of primary commodities and for the stabilization of primary product prices are being widely discussed and they are therefore not covered in this paper. The focus is more on the trade in manufactures which has received somewhat less attention in recent years. Appendix II examines the opportunities for further expansion through trade liberalization and identifies the impact of possible policy changes in the industrialized countries as well as in the developing countries. However, it covers only a narrow range of the spectrum of trade issues, and focuses on the potential for growth of manufactured exports from developing countries, to complement existing studies of primary commodity markets.

In publishing these papers, it is important to stress two qualifications. First, they are background studies and do not represent the views of the World Bank on policy matters. Second, they are part of the ongoing analytical work of the Bank staff and do not attempt a comprehensive coverage of development issues. The purpose of making them more broadly available is to contribute to the international discussion of how development, particularly of the low income countries, may best be accelerated.

Mr. Robert S. McNamara

October 25, 1977

Hollis B. Chenery

Social Indicators Data Sheet - Ivory Coast Income Distribution Data

1. This note responds to your inquiry about the income distribution data in the attached Social Indicators Data Sheet for Ivory Coast.
2. For "1960", the data sheet showed that the highest 20 percent of the population received 51.8 percent of income and the lowest 20 percent of the population received 6.6 percent of income. These data were taken from Shail Jain, Size Distribution of Income (IBRD, 1975). "Most recent estimates" of 50.0 percent and 9.0 percent of income received by the highest 20 percent and the lowest 20 percent of the population respectively were taken from IBRD, Ivory Coast: A Basic Economic Report, Vol. I (No. 1147-IVC, April 1976).
3. Both sources are quite approximate and incomplete. Jain's data (for 1959) were derived from various sources ^{1/} that were not directly comparable. She adjusted these data to obtain estimates of income shares accruing to each decile of the population. The data in the Basic Economic Report refer to 1973-74. They were derived from information about incomes of farmers and wage-earners in the absence of more complete data about income distribution for the entire population. The Report indicated that these estimates of income distribution for Ivory Coast "provide a valid picture of the existing situation", and that it is generally accepted that "there has been an improvement in the income distribution between 1970 and 1973-74."
4. In general, very few countries have comparable sources from year to year, and comparisons over time are very difficult without much added work. I suspect that the improvement shown here is quite exaggerated.

1/ Christian Morrisson, La Repartition des Revenus dans les Pays du Tiers Monde (Paris: Editions Cujas, 1969), p.206; and Christian Morrisson, "Ivory Coast" (unpublished memorandum of the Income Distribution Division, DRC of the World Bank), pp. 17-18.

cc: Mrs. Hughes, Mr. Cheetham

SELee/MEee/HBChenery:am

Chuthay:

Please give M. Nampun
the answer.

1/8

TABLE 3A
SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM2)	IVORY COAST			REFERENCE COUNTRIES (1970)		
TOTAL	1960	1970	1970 RECENT ESTIMATE	TUNISIA	MALAYSIA	CHINA, REP OF **
AGRIC. 171.0	170.0*	350.0*	610.0 /a	370.0	440.0	510.0
GDP PER CAPITA (US\$)						
POPULATION AND VITAL STATISTICS						
POPULATION (MID-YR, MILLION)	3.9	5.4	7.0 /a	5.0	10.8	14.5
POPULATION DENSITY						
PER SQUARE KM.	12.0	16.0	21.0 /a	30.0	33.0	403.0
PER SQ. KM. AGRICULTURAL LAND	23.0	32.0	41.0 /a	67.0	185.0	..
VITAL STATISTICS						
CRUDE BIRTH RATE (/THOU, AV)	46.0	46.1	45.6	44.7	42.2	28.0
CRUDE DEATH RATE (/THOU, AV)	26.4	23.3	20.6	16.9	12.9	6.0
INFANT MORTALITY RATE (/THOU)	138.0/a	..	..	125.0	40.8/a	18.0
LIFE EXPECTANCY AT BIRTH (YRS)	35.9	41.0	43.5	51.6	56.7	68.0
GROSS REPRODUCTION RATE	3.2/a,b	3.1	3.1	3.4	2.6/a	2.2
POPULATION GROWTH RATE (%)						
TOTAL	2.4	3.4**	4.3**	2.1/a	2.6	3.2/a
URBAN	10.6/c	8.7/a	9.9/b	3.0/b	3.0	4.0
URBAN POPULATION (% OF TOTAL)	21.8/d	28.0	30.3	40.1/c	26.8	61.0
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS	42.7/b	42.5	43.1	46.3/c	44.7/a	40.0
15 TO 64 YEARS	53.7/b,e	54.8	54.0	50.2/c	52.1/a	57.0
65 YEARS AND OVER	3.6/b,e	2.7	2.9	3.5/c	3.2/a	3.0
AGE DEPENDENCY RATIO	0.9	0.8	0.9	1.0/c	0.9/a	0.8
ECONOMIC DEPENDENCY RATIO	1.1/f,g	0.9/b	1.1/c	1.8/c,d	1.6/a	1.2/b,c
FAMILY PLANNING						
ACCEPTORS (CUMULATIVE, THOUS)	..	..	..	112.2	222.2/a	979.4
ISFRS (% OF MARRIED WOMEN)	..	..	..	12.0	8.0/a	40.0
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSANDS)	1900.0/f	2600.0	2900.0/d	1300.0/c	2900.0/a	4600.0/b
LABOR FORCE IN AGRICULTURE (%)	86.0/f	82.0	80.0/d	57.0/c	43.0/a	..
UNEMPLOYED (% OF LABOR FORCE)	..	..	3.0/d	12.0/c	6.0/a,b	4.0
INCOME DISTRIBUTION						
% OF PRIVATE INCOME RECEIVED BY:						
HIGHEST 5% OF HOUSEHOLDS	30.9/h	..	50.0	..	28.3	..
HIGHEST 20% OF HOUSEHOLDS	51.8/h	..	9.0	..	56.0	..
LOWEST 20% OF HOUSEHOLDS	6.6/h	..	20.0	..	3.5	..
LOWEST 40% OF HOUSEHOLDS	16.5/h	..	..	..	11.2	..
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	..	..	..	53.0/c	..	..
% OWNED BY SMALLEST 10% OWNERS	..	..	..	0.5/e	..	..
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN	25080.0/i	15320.0	15760.0/e	5950.0	..	3170.0
POPULATION PER NURSING PERSON	2210.0/i,j	2830.0/c	1970.0	730.0/f	1090.0/a,c	10230.0
POPULATION PER HOSPITAL BED	..	1150.0	1240.0	410.0/g	270.0/a	2980.0/d
PER CAPITA SUPPLY OF:						
CALORIES (% OF REQUIREMENTS)	94.0	108.0	105.0/e	94.0/h	93.0/a,d	111.0
PROTEIN (GRAMS PER DAY)	52.0	60.0	56.0/e	63.0/h	49.0/a,d	68.0
OF WHICH ANIMAL AND PULSE	..	18.0/d	..	14.0/h	20.0/a,d	31.0
DEATH RATE (/THOU) AGES 1-4	..	..	..	1.5/c,i	5.5	3.0
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL	46.0	76.0	84.0	94.0	89.0/a	98.0
SECONDARY SCHOOL	2.0	11.0	16.0	20.0	34.0/a	50.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	13.0	13.0	13.0	13.0	13.0/a	12.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)	13.0	7.4	6.0	34.0	3.0/a	18.0
ADULT LITERACY RATE (%)	9.0/d	20.0	..	..	55.0	..
HOUSING						
PERSONS PER ROOM (URBAN)	2.5/k	..	..	2.7/c	2.3/a	1.8/b,e
OCCUPIED DWELLINGS WITH HOT WATER (%)	..	..	..	60.0/c	65.0/a,e	51.0/b
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)	1.0/k	..	..	24.0/c	43.0/a	94.0/b
WATER SUPPLY CONNECTION TO ELECTRICITY (%)	..	..	..	..	30.0/a	88.0/b
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)	17.0	..	78.0	77.0	41.0	103.0
PASSENGER CARS (PER THOU POP)	3.0	10.0	15.0/f	13.0	27.0	3.0
ELECTRICITY (KWH/YR PER CAP)	21.0	95.0	144.0	155.0	382.0/a	823.0
NEWSPRINT (KG/YR PER CAP)	..	0.2	0.3	0.1	4.0/a	1.7

SEE NOTES AND DEFINITIONS ON REVERSE

10/18 To Dr. Chedevy
Are these figures correct - ANNEX I (a)
D. Chedevy

ROUTING SLIP

DATE: **Oct. 18, 1977**

NAME

ROOM NO.

Robert S. McNamara

APPROPRIATE DISPOSITION

NOTE AND RETURN

APPROVAL

NOTE AND SEND ON

CLEARANCE

PER OUR CONVERSATION

COMMENT

PER YOUR REQUEST

FOR ACTION

PREPARE REPLY

INFORMATION

RECOMMENDATION

INITIAL

SIGNATURE

NOTE AND FILE

URGENT

REMARKS:

**Quality of Prospects and
Debt Studies.**

c.c. AK

*Aug 10 Tward
with comment*

FROM:

Hollis Chenery

ROOM NO.:

E1239

EXTENSION:

3665

AUG 30 1977



Boston University

Center for Latin American Development Studies
745 Commonwealth Avenue
Boston, Massachusetts 02215
617/353-4030
Cable Address: CLADS

August 26, 1977

Prof. Hollis Chenery
Vice-President
IBRD
3033 Westlane Keys, NW
Washington, D.C. 20433

Dear Hollis:

I read with much delight the three reports number 1595, 1661, and 1674. No other institution on earth could have produced them. The synthetic power of "prospects for developing countries" makes it an ideal background study for a world development program and for a new (and better) Pearson report. Chapter V in it incidentally--while very good--has less synthetic power than the rest. I learned a lot from the "trade liberalization" report.

The main reason I write is not only to express admiration but also the wish that such excellent material should not be withheld from the public:

- 1) If it is not possible to publish them at once, I would like at least to make it available for courses in our Center and have one copy on the reserve shelf of the library with the admonishment that it is not to be quoted (if necessary).
- 2) I take it for granted that it will serve as background material for the Brandt Commission, and that it will be possible to use it also for the symposium we plan on the New International Economic Order (either in January or March) which might incidentally be used as a grand rehearsal for the Brandt Commission (if it really gets going). For that purpose I would like to be able to issue copies to the participants.
- 3) Finally if it is possible, may I suggest that you send a copy confidentially to, a) Jagdish Bhagwati, at M.I.T., and b) Raúl Saez in Santiago (Napoleón 2936, Las Condes, Santiago, Chile).

Best wishes,

From yours ever,

P. N. Rosenstein-Rodan

PNRR:jd
cc.: Mr. William Clark, IBRD.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 10, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: Coffee Exports

The data just released by the International Coffee Organization indicate that in 1976 the coffee exporting countries earned \$8.1 billion; nearly twice the average level of export earnings in 1973-75. The volume of exports in 1976 was the same as in 1973-75 so that the gains were exclusively due to the price increase (country details are shown in the attached Tables 1 and 2).

In January-March 1977 the export earnings from coffee amounted to a staggering \$3.8 billion (see Tables 3 and 4). In April-June, 1977 the export earnings may not be much above \$3 billion. Coffee prices fell in July-September but we have little information on the volume of sales.

The total value of coffee exports in 1977 is expected to significantly exceed the record of 1976. We reckon it is likely to be well in excess of \$10 billion.

Att.

SSingh/HHughes/kg

*Told him the same back without comment.**J.
10/12*

TABLE 1

VALUE OF EXPORTS BY EACH EXPORTING MEMBER TO ALL DESTINATIONS
JANUARY-DECEMBER 1971 to 1976

(000 US dollars)

Exporting Member	Average of 1974 and 1975	January-December					
		1971	1972	1973	1974	1975	1976
TOTAL	4,177,159	2,671,712	3,206,936	4,274,921	4,178,365	4,175,953	8,136,667
Colombian Milds	841,109	487,031	554,262	765,949	786,071	896,148	1,401,384
Colombia	685,420	399,737	430,435	597,749	626,568	744,273	1,026,342
Kenya	99,880	54,671	69,452	100,014	106,606	93,154	220,017
Tanzania	55,809	32,623	54,375	68,186	52,897	58,721	155,025
Other Milds	1,169,163	617,635	744,383	1,075,178	1,143,764	1,194,561	2,369,510
Burundi	27,023	15,913	22,904	27,216	25,453	28,593	55,423
Costa Rica	110,857	58,577	72,809	101,114	124,688	97,027	159,403
Dominican Republic	45,237	22,988	32,101	47,943	46,428	44,047	102,576
Ecuador	67,884	36,573	44,203	67,980	68,475	67,294	208,481
El Salvador	217,965	95,482	130,930	177,690	206,425	229,506	403,689
Guatemala	172,872	97,630	107,286	146,624	186,612	159,133	282,370
Haiti	22,954	20,151	22,405	22,121	23,316	22,591	50,694
Honduras	50,552	23,242	27,252	48,464	44,004	57,099	100,789
India	79,925	31,408	38,291	67,346	74,667	85,184	142,489
Jamaica	3,590	1,921	2,035	2,099	3,259	3,920	4,539
Mexico	179,735	91,014	105,044	177,119	169,840	189,630	412,752
Nicaragua	50,831	29,357	35,293	45,247	46,245 ^{1/}	55,416 ^{2/}	110,314
Panama	2,193	1,497	2,478	2,095	2,132	2,253	2,947
Papua New Guinea	47,220	24,831	24,714	45,073	48,326	46,114	129,379
Peru	44,045	36,052	49,250	63,554	34,888	53,201	100,501
Rwanda	24,380	12,402	9,631	14,971 ^{3/}	15,796 ^{3/}	32,963 ^{3/}	65,525
Venezuela	21,900	18,597	17,757	18,522	23,210	20,590	37,639
Unwashed Arabicas	1,045,601	900,476	1,143,191	1,453,149	1,069,968	1,021,235	2,571,289
Bolivia	5,818	3,137	3,360	4,975	4,497	7,139	14,231
Brazil	957,212	822,114	1,057,104	1,344,151	980,280	934,144	2,398,141
Ethiopia	76,219	74,210	79,610	101,357	81,205	71,234	155,162
Paraguay	6,352	1,015	3,117	2,666	3,986	8,718	3,555
Robustas	1,121,286	666,570	765,100	980,645	1,178,562	1,064,009	1,794,484
Angola	200,215	143,070	143,189	208,178	246,557	153,873	149,227
Ghana	3,013	3,068	3,739	3,014	3,394	2,632	8,129
Guinea	1,755	4,218	3,592	6,526	1,026	2,484 ^{1/}	715 ^{1/}
Indonesia	98,594	54,682	65,422	77,638	97,220	99,969	217,031
Liberia	4,316	3,485	4,351	5,231	4,106	4,525	6,483
Nigeria	997	2,220	3,060	1,933	226	1,768	8,574
QANCAF	(532,537)	(278,393)	(320,493)	(417,710)	(528,299)	(536,777)	(981,687)
Benin		967	2,066	238 ^{1/}			954 ^{1/}
Cameroon	114,973	49,899	62,740	94,293	117,568	112,378	161,959
Central African Rep.	12,004	10,594	11,110	10,506	12,024	11,984	15,855
Congo	624	517	1,114	738	504	744	2,882
Gabon		391	1,078	203 ^{1/}			73 ^{1/}
Ivory Coast	314,445	167,186	183,069	225,581	308,927	319,964	642,307
Madagascar	79,242	41,235	49,098	67,380	77,181	81,304	137,262
Togo	11,249	7,604	10,218	18,771	12,095	10,403	20,395
Sierra Leone	5,341	3,520	12,615	11,853	3,574	7,107	4,789
Trinidad and Tobago	2,569	3,034	2,244	2,360	1,386	3,750	3,651
Uganda	205,369	119,170	150,680	188,294	219,493	191,246	298,148
Zaire	66,580	51,710	55,715	57,908	73,281	59,878	116,050

Blanks have been left if information not provided

^{1/} Based on partial information^{2/} Estimated values; matter under correspondence with Member^{3/} Provided by Member; matter under correspondence

Statistics on coffee
International Coffee Organization

TABLE 2

EXPORTS BY EACH EXPORTING MEMBER TO ALL DESTINATIONS
JANUARY-DECEMBER 1971 TO 1976

(000 bags)

Exporting Member	January - December					
	1971	1972	1973	1974	1975	1976
<u>TOTAL</u>	<u>53,489</u>	<u>57,866</u>	<u>62,584</u>	<u>54,783</u>	<u>57,868</u>	<u>58,472</u>
<u>Colombian Milds</u>	<u>8,114</u>	<u>8,504</u>	<u>8,998</u>	<u>8,777</u>	<u>10,132</u>	<u>8,531</u>
Colombia	6,569	6,528	6,766	6,906	8,175	6,290
Kenya	935	1,044	1,242	1,183	1,104	1,262
Tanzania	610	932	990	688	853	979
<u>Other Milds</u>	<u>11,301</u>	<u>12,982</u>	<u>15,155</u>	<u>14,230</u>	<u>15,725</u>	<u>16,414</u>
Burundi	318	403	378	354	421	366
Costa Rica	1,035	1,277	1,394	1,488	1,274	1,087
Dominican Republic	421	526	668	584	533	678
Ecuador	777	904	1,162	988	1,072	1,534
El Salvador	1,689	2,083	2,489	2,554	3,062	2,666
Guatemala	1,685	1,856	1,919	2,215	2,158	2,105
Haiti	394	403	327	306	315	419
Honduras	419	544	664	515	812	723
India	610	742	968	843	993	833
Jamaica	18	16	15	16	21	18
Mexico	1,621	1,724	2,327	1,992	2,392	2,751
Nicaragua	530	580	622	557	674	802
Panama	29	41	30	24	26	26
Papua New Guinea	462	498	614	597	595	799
Peru	710	915	973	442	720	703
Rwanda	254	177	359	478	428	606
Venezuela	329	293	246	277	229	298
<u>Unwashed Arabicas</u>	<u>19,891</u>	<u>20,709</u>	<u>21,342</u>	<u>14,337</u>	<u>15,703</u>	<u>16,921</u>
Bolivia	64	69	74	54	86	78
Brazil	18,399	19,215	19,817	13,280	14,604	15,602
Ethiopia	1,403	1,356	1,403	936	914	1,167
Paraguay	25	69	48	67	99	74 <u>1/</u>
<u>Robustas</u>	<u>14,183</u>	<u>15,671</u>	<u>17,089</u>	<u>17,439</u>	<u>16,308</u>	<u>16,606</u>
Angola	3,035	2,985	3,648	3,690	2,665	1,395
Ghana	50	74	54	47	44	61
Guinea	103	74	124	17	56	18
Indonesia	1,139	1,398	1,632	1,797	2,168	2,106
Liberia	77	88	93	59	69	70
Nigeria	56	73	42	4	20	99
OAMCAF	(5,528)	(6,034)	(6,533)	(7,444)	(7,158)	(8,792)
Benin	21	38	9 <u>1/</u>	28 <u>1/</u>	37 <u>1/</u>	31 <u>1/</u>
Cameroon	980	1,116	1,422	1,669	1,623	1,641
Central African Emp.	197	205	161	144	166	145
Congo	12	29	13	8	12	30
Gabon	8	21	6 <u>1/</u>	3 <u>1/</u>	2 <u>1/</u>	3 <u>1/</u>
Ivory Coast	3,306	3,504	3,567	4,346	4,096	5,547
Madagascar	856	932	1,090	1,069	1,089	1,216
Togo	148	189	265	177	133	179
Sierra Leone	69	238	192	53	106	53
Trinidad and Tobago	69	52	43	18	55	45
Uganda	2,725	3,307	3,632	3,121	2,943	2,552
Zaire	1,332	1,348	1,096	1,189	1,024	1,415

1/ Estimated

TABLE 3

VALUES* OF IMPORTS BY EACH IMPORTING MEMBER FROM ALL SOURCES
BY QUARTERS DURING 1976

(000 US dollars)

Importing Member	1976				Year 1976	1977
	January- March	April- June	July- September	October- December		January- March
<u>TOTAL</u>	<u>1,626,749</u>	<u>1,860,992</u>	<u>2,206,045</u>	<u>2,584,755</u>	<u>8,278,541</u>	<u>3,781,171</u>
<u>U.S.A.</u>	<u>633,099</u>	<u>687,245</u>	<u>759,874</u>	<u>895,839</u>	<u>2,976,057</u>	<u>1,407,411</u>
<u>E.E.C.</u>	<u>585,204</u>	<u>735,387</u>	<u>871,584</u>	<u>1,095,292</u>	<u>3,287,468</u>	<u>1,512,038</u>
Belium/Luxembourg	43,909	48,480	62,152	90,721	245,262	119,814
Denmark	29,795	36,851	51,713	47,481	165,840	56,986
F.R. of Germany	171,789	216,124	261,932	365,920	1,015,765	459,728
France	135,031	168,820	186,212	215,132	705,196	371,885
Ireland	1,793	1,507	1,844	1,758	6,902	3,414
Italy	86,891	91,247	95,396	141,557	415,091	176,537
Netherlands	69,838	108,733	117,896	160,704	457,171	156,992
United Kingdom	46,158	63,625	94,439	72,019	276,241	166,682
<u>Other Members</u>	<u>408,446</u>	<u>438,360</u>	<u>574,587</u>	<u>593,624</u>	<u>2,015,016</u>	<u>861,722</u>
Australia 1/	8,332	16,316	21,222	20,286	66,155	23,619
Austria	18,256	23,966	25,063	27,957	95,242	33,605
Canada	45,551	63,540	65,967	78,939	253,997	133,715
Cyprus	1,075	713	580	1,603	3,971	2,352
Iceland	46,295	37,270	43,938	49,127	176,630	79,798
Hong Kong	967	4,767	12,009	11,137	28,880	13,227
Hungary	19,456 2/	19,456 2/	19,456 2/	19,456 2/	77,824	
Israel						
Japan	74,014	92,237	110,629	104,660	381,540	153,086
New Zealand	2,130	3,188	3,498	3,442	12,258	5,484
Norway	23,959	29,824	26,973	27,219	107,975	47,545
Portugal	5,434	5,503	8,075	10,117	29,128	11,406
Spain	63,361	22,178	77,664	54,489	217,692	89,435
Sweden	62,216	72,628	77,129	113,073	325,046	106,740
Switzerland	26,633	36,474	39,556	42,450	145,114	70,160
Yugoslavia	10,767	10,300	42,828	29,669	93,564	91,550

Blanks have been left if information not provided

* Values are on c.i.f. basis unless otherwise indicated

1/ f.o.b. values

2/ Estimated

Statistics on coffee
International Coffee Organization

TABLE 4

EXPORTS BY EACH EXPORTING MEMBER TO ALL DESTINATIONS
BY QUARTERS DURING 1976

(000 bags)

Exporting Member	1976					1977	
	January- March	April- June	July- September	October- December	Year 1976	January- March	April- June
TOTAL	14,890	16,602	12,029	14,951	58,472	16,641	12,900
Colombian Milds	2,640	2,580	1,505	1,804	8,531	2,339	1,797
Colombia	2,011	1,756	1,072	1,450	6,290	1,717	1,218
Kenya	307	473	321	161	1,262	380	382
Tanzania	322	351	112	193	979	242	197
Other Milds	4,578	4,693	3,198	3,946	16,414	5,170	2,912
Burundi	6	34	232	93	366	3	16
Costa Rica	356	362	66	303	1,087	363	287
Dominican Republic	313	129	88	148	678	165	93
Ecuador	227	232	595	479	1,534	224	61
El Salvador	697	1,038	416	515	2,666	1,328	859
Guatemala	749	554	157	645	2,105	884	375
Haiti	197	96	45	81	419	111	54
Honduras	182	325	101	115	723	265	144
India	157	295	207	174	833	183	236
Jamaica	6	5	4	4	18	6	2
Mexico	940	888	433	490	2,751	817	424
Nicaragua	326	311	74	91	802	477	108
Panama	14	9	0	4	26	6	2
Papua New Guinea	53	101	297	348	799	50	135
Peru	131	91	231	250	703	190	78
Rwanda	66	130	232	178	606	31	21
Venezuela	158	93	20	28	298	67	17
Unwashed Arabicas	3,124	4,462	3,188	6,148	16,921	4,736	
Bolivia	4	37	25	12	78	2	16
Brazil	2,665	3,942	2,993	6,003	15,602	4,506	3,881
Ethiopia	438	473	160	96	1,167	211	291
Paraguay	17	10	10 1/	37 1/	74 1/	17 1/	
Robustas	4,548	4,867	4,138	3,053	16,606	4,396	
Angola	586	381	355	74	1,395	314	224
Ghana	2	20	29	10	61	5	
Guinea	7	5	2	5	18	2	
Indonesia	350	873	588	296	2,106	391	799
Liberia	35	27	7	2	70	31	51
Nigeria	24	2	65	8	99	16	
OAMCAF	(2,510)	(2,555)	(2,126)	(1,598)	(8,792)	(2,511)	
Benin	8	8	6	9 1/	31 1/	10 1/	
Cameroon	437	552	357	296	1,641	260	478
Central African Emp.	28	45	54	19	145	23	31
Congo	14	8	4	3	30	6	
Gabon	- 1/	- 1/	2	-	3 1/	1	
Ivory Coast	1,588	1,590	1,531	837	5,547	1,936	1,311
Madagascar	397	311	114	393	1,216	238	162
Togo	38	41	58	41	179	37	21
Sierra Leone	36	14	3	-	53	61	15
Trinidad and Tobago	14	14	9	8	45	16	13
Uganda	696	648	526	682	2,552	736	647
Zaire	288	328	428	370	1,415	313	

- Less than 500 bags

1/ Estimated

Mr. Robert S. McNamara

October 10, 1977

Hollis B. Chenery

Publication of "Prospects"

1. I checked with Mrs. Hughes to see whether she had been contacted by Executive Directors about the publication of "Prospects" and the trade and debt papers. Mrs. Hughes tells me that among Part I Directors, Mr. Fried and Mr. Looijen have asked her about the progress of publication and that Mr. Freeman did so on behalf of Mr. Ryrie. When Mrs. Hughes explained that publication was being held up by Mr. Wahl's objection, the reaction was that bringing out the papers as staff papers would make it quite clear that these were staff views and did not represent Bank policy. Mr. Magnussen also raised the issue with Karsten Laursen, who has taken Goran Ohlin's place as advisor in the Economic Analysis and Projections Department.

2. Mr. El-Naggar, who invited Mrs. Hughes to lunch to discuss trade and related issues, thought that the publication of the papers as staff papers would serve a useful purpose, and Mr. Gyasi-Twun had a similar reaction when raising the issue on another occasion.

3. Mrs. Hughes has also had a large number of requests for the papers mainly from visitors to the Annual Meeting who were referred to her by various Executive Directors' offices. We have not distributed them, but are very concerned at the danger of partial leaks.

4. I am enclosing the cover pages and preface we have prepared to indicate to you how we would envisage the staff paper version if you decide to release it.

HHughes:nf

Attachment

cc: Messrs. W. Clark.
Damry

PROSPECTS FOR DEVELOPING
COUNTRIES, 1978-85

A World Bank Staff Study

Helen Hughes

Donald B. Keesing

Karsten Laursen

Goran Ohlin

John D. Shilling

September 1977

DRAFT
HH/kg

This study was prepared by Helen Hughes, Donald B. Keesing, Karsten Laursen, Goran Ohlin, and John D. Shilling.

The staff of the Economic Analysis and Projections Department, and of the Economics of Industry Division of the Development Economics Department assisted in the preparation of the study. In particular Al Cizauskas, Boris Blazic-Metzner, Enzo Grilli, Jeffrey A. Katz, Tom Klein, Tito Lejano, Elinor Sachse and Antoine Schwartz provided valuable inputs and comments.

The views expressed are the authors' and should not be attributed to the World Bank.

FOREWORD

This staff study provides a general view of the medium-term prospects of the developing countries. For several years, development prospects have been dominated by adjustments to the inflation and recession of 1973-74. The initial steps in this process have been carried out with considerable success by most countries. We therefore focus on the longer-term factors affecting the evolution of the international economy, and the policies that would enable developing countries to take better advantage of the opportunities provided by international trade and capital flows.

The interdependence of the world economy is described in a set of projections of the growth in national income, trade and capital flows for the major groups of developed and developing countries. Developing countries at different income levels have been affected quite differently by the changes that have taken place. Thus the projections provide a quantitative framework that makes it possible to identify issues and assess the impact of various policies for these different groups of countries. Each issue is treated from the standpoint of both developing and developed countries.

The analysis has a limited objective. It explores the implications of one set of assumptions as a "base case" to serve as a starting point for exploring the impact of changing conditions and policies. It necessarily omits details that are of concern to individual countries. The projections presented, while realistic, are only assessments of the developments likely to follow from the assumptions stated. They illustrate medium-term trends and ignore year-to-year fluctuations. They are in no sense forecasts.

The external environment for development is substantially different in 1977 from that of the early seventies. Two of the most striking changes are in the export prospects and in the levels of external debt, and these aspects have been selected for more intensive study in the two appendices to the main report.

Appendix I presents a factual analysis of past and future trends in external debt. The discussion of external debt focuses on the principal trends in the changing debt structure; the situation of individual countries is not analyzed. The analysis reinforces the conclusion that the "debt problem" should be manageable if suitable policies are followed.

The success that many developing countries have had in expanding their exports has helped to make problems substantially more manageable. Appendix II examines the opportunities for further expansion through trade liberalization and identifies the impact of possible policy changes in the industrialized countries as well as in the developing countries. However, it covers only a narrow range of the spectrum of trade issues, and focuses on the potential for growth of manufactured exports from developing countries, to complement existing studies of primary commodity markets.

In publishing these papers, it is important to stress two qualifications. First, they are background studies and do not represent the views of the World Bank on policy matters. Second, they are part of the ongoing analytical work of the Bank staff and do not attempt a comprehensive coverage of development issues. The purpose of making them more broadly available is to contribute to the international discussion of how development, particularly of the low income countries, may best be accelerated.

Hollis B. Chenery

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 7, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: Research Advisory Panel on
Income Distribution and Employment

1. I attach a package of papers on this subject for your meeting with the panel on Monday at 4 p.m.

(i) Mr. King's memo of October 5, suggesting some questions which we would like the panel to consider.

(ii) Biographical data on the panel members.

(iii) Papers by Messrs. Ahluwalia and Leiserson on research on income distribution and employment respectively. (Ahluwalia's text is only 11 pages; the rest is appendices.)

10/7
2. I think that it would help the panel's understanding of its role if you explained your conception of the Bank Group's function as a development institution and the place that a research capability has in that context.

3. It would also be useful to talk about the somewhat ambivalent attitude of the Executive Directors toward research. While they generally support the view that there should be an intellectual foundation for the Bank's policies and operations, some of them feel uneasy about an activity from which they are rather far removed and which they find difficult to comprehend.

4. Whether it is for the Executive Directors, for the staff or for yourself, an independent view should be valuable. You could stress that you would want their frank opinions.

Attachments

BBKing:HBChenery:di

*Not done. The panel is
concerned with the
"large size" of the
institution's role in
development.
The panel is not
yet formed, and the
panel is not yet
formed.*

Mr. Robert S. McNamara

October 7, 1977

Hollis B. Chenery

Basic Needs Work Schedule

1. In the President's Council's meeting on September 12, you requested that a detailed work program be prepared to explore the operational implications of the basic needs concept. The Policy Planning Division has defined a series of policy papers and studies with the specific object of testing hypotheses and identifying operational issues concerning basic needs at the country, sector and international policy levels. The proposed papers are listed in Annex I, with a summary description of the main purpose and scope of each given in Annex II. These proposals have been drawn up in consultation with the Regions and all the concerned departments of CPS and DPS. These studies are a sub-set of our overall work program on poverty-related issues and, in their orientation and timing, they should all feed into the World Development Reports for 1978 and 1979.

2. You will observe that the policy papers and studies listed in the annex are very ambitious in scope. If this work program is to be completed over the next 15 months, it must be given high priority by all the concerned departments of the Bank. On our part, besides the policy work proposed for the DPS, we also intend to be closely involved in all the sector studies to be undertaken by the CPS as well as restructure our mission support in such a way as to contribute to the designing and carrying out of country studies by the Regions.

3. The work program listed here, with other work related to WDR, constitutes the most significant portion of overall policy work till the end of calendar 1978. A few more policy papers may be added to the overall list, particularly in the trade and urban development area, depending on the progress of current research work in these fields. In addition, there will be the usual demands of the Board and senior management for specific policy papers which will need to be accommodated in the overall program.

4. Let me also add that a good deal of the present work contemplated on basic needs is of an exploratory nature which, I hope, will help distinguish concrete issues from mere slogans or elusive images. It is a new area where it would be rash to promise final results or pre-judge the outcome. I am afraid that our discussions with the Regions, CPS and other parts of the Bank have been quite rushed and inadequate

Mr. McNamara

- 2 -

Oct. 7, 1977

in the time period we have had to prepare this work program for submission to you. It would be necessary to continue this dialogue and consultations further in order to finalize and implement this work program.

Attachments

cc: The President's Council

MHaq:AKaraosmanoglu:di

Mr. Robert S. McNamara

October 3, 1977

Hollis B. Chenery

Research Advisory Panel on Income Distribution
and Employment (RAPIDE)

The Panel is meeting Monday to Wednesday, October 10-12. As you know, this is the first of a proposed series of review panels. I would like to invite you to have lunch with the group on Monday. If this is not convenient, I hope you would be willing to meet with us for half an hour or so on Monday afternoon.

The members of this Panel are:

Albert Fishlow (Chairman)
Simon Kuznets
Arthur Lewis
Gerardo Sicat
Leopoldo Solis
Justinian Rweyemamu

HBChenery:nf - signed by BCR

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: World Economic and Social Indicators:
Survey of Economic Trends

DATE: Sept. 23, 1977

This is the first of the reports designed to comment on the statistics presented in the Monthly Indicators. It is not bound with the Indicators because the circulation, at least for the time being, has been limited to Bank staff.

We are working on the analytical content of the statistics, and we have engaged a consultant to improve the layout. We will incorporate these changes in the January issue, which will also carry the next expanded survey of economic trends.

Attachments - 2

cc: Mr. William Clark
Mr. A. Karaosmanoglu
Mrs. H. Hughes

HHughes:HBChenery:di

OFFICE MEMORANDUM

Mr. Chenery
SEP 1 1977
Mr. N. W. ...

TO: Mr. Robert S. McNamara

DATE: September 1, 1977

FROM: Attila Karaosmanoglu

SUBJECT: Buffer Stock Financing Facility - Request to IMF
from the International Sugar Organization to Support
a Buffer Stock Facility in the context of a New
International Sugar Agreement and related issues

1. The IMF was asked by the Chairman of the International Sugar Organization (ISO) whether the 1969 IMF decision which defined criteria for assisting the financing of international buffer stocks, could also cover stocks nationally owned but internationally controlled. Since the second round of negotiations 1/ for a new international sugar agreement is going to start on September 12, 1977, it is possible that similar questions on buffer stock financing may also be addressed to the World Bank observer attending the conference. The purpose of this memorandum is to discuss the evolution of IMF policies in this field, offer some views from our staff as to the likely size and financing needs of the buffer stock under the new international sugar agreement and briefly review the Bank's previous discussions with the International Tin Council on possible Bank financing of the international tin buffer stock.
 2. The IMF position toward financing of international buffer stocks has been to restrict such funding only to buffer stocks which were internationally held and controlled 2/, where the international advantages were more assured and the resource requirement more limited. Consequently, buffer stock financing has been limited only to tin (about 30 million SDRs or about 36 million US\$) 3/. Another restriction of the existing IMF buffer stock financing facility is that only those countries that have balance of payment difficulties are eligible for financing. The IMF facility, moreover, covers country quotas arising from obligations contracted in the framework of an international agreement and the financing is extended to the country and not to the buffer stock agency.
 3. The IMF staff recently recommended to the Board of Directors that buffer stock funding also be permitted for nationally held but internationally controlled stocks, provided that such buffer stock agreement is compatible with the principles 4/ set in the IMF 1969 study (on the problem of stabilization of prices of primary products) and in the Havana Charter. The IMF
-
- 1/ The first round of negotiations for a new International Sugar Agreement took place in April-May 1977 and ended in disagreement.
 - 2/ IMF Executive Board Decision No. 2772-(69-47), dated June 25, 1969.
 - 3/ Drawing for the tin buffer stock was made by five countries: Bolivia 13.5 SDRs, Malaysia 7.3 SDRs, Thailand 2.1 SDRs, Indonesia 5.6 SDRs, and Nigeria 1.5 SDRs. See IMF, International Financial Statistics, August 1977, p.10.
 - 4/ These principles set the guidelines for country participation, voting and equitable treatment as a prerequisite of IMF assistance.

Board of Directors will be discussing the staff's proposal 1/ on September 7, 1977 (copy attached).

4. The proposal to hold national stocks as part of an international sugar agreement was made by the United States delegation at the last ISO meeting in Geneva (May 1977) and was supported by other importing developed countries such as Canada and Japan. Initially the US proposal was that exporting country members to an international sugar agreement hold about 4.3 million metric tons of stocks, but later this amount was scaled down to 3.0 million metric tons. Exporting countries argued that 2.0 million metric tons of stock would be sufficient to serve the purpose of price stabilization and expressed the view that even such level of stocks would constitute a heavy economic burden for the participating countries, most of whom are developing countries. The existing difference in the positions of the importing and exporting countries regarding the size of the proposed buffer stock (3 and 2 million tons respectively) is not insurmountable, and it seems likely that if other outstanding issues (such as price range, export quotas) are resolved at the next round of negotiations for a new agreement in September 1977, a compromise on a global buffer stock level of about 2.5 million metric tons (about 16% of the trade in the free market or 3% of world consumption) could well be reached.

5. As presently envisaged, the buffer stock activities would require funds primarily for stock acquisition and storage. Strictly speaking, foreign exchange would not be necessary to acquire the stocks since they would be owned and held by the exporting countries themselves. The IMF staff, however, argues that support from its buffer-stock facility is needed because stocking would result in withdrawals of sugar from the free market and in reduction of export earnings for the countries involved. If the price of sugar under an international agreement were to stabilize at 11¢/lb (the expected price floor to be protected), the required acquisition cost for 2.5 million metric tons would be approximately US\$600 million, and the share of IMF members' obligation would be about 80% of the total (US\$480 million) 2/; the remaining 20% is accounted by Cuba and East European countries. As for carrying costs, if the US proposal of a special levy of US\$6-7 per metric ton were to be accepted, the US\$70-80 million to be collected annually should cover the costs of maintaining the buffer stock, including interest.

6. The capital cost of developing storage capacity for the 2.5 million metric tons of buffer stocks would, however, be substantial, and participating developing countries might need financial assistance from international institutions. The ISO estimates capital cost requirements for storage at US\$500-600 million. This would cover primarily the cost of new storage facilities. We think that these estimates may be on the high side and that US\$200-300 million would be sufficient if existing storage facilities (and the lower cost of improving them) were to be considered more fully. Since storage

1/ Buffer Stock Financing Facility--Possibility of Fund Support for a New International Sugar Agreement, SM/77/211, August 19, 1977.

2/ The share of developing IMF members would be about 60% (\$360 million).

requirements are likely to be proportionate to country shares in exports, developing exporting countries that are IMF/Bank members would consequently require between US\$120 and 180 million in capital to cover their needs. The financing of additional storage capacity under a new international sugar agreement could, therefore, present considerable difficulties for many developing countries. Since the IMF buffer stock financing facility is not intended to fund the expansion of storage capacity (which is infrastructure, requiring long-term financing), requests for Bank assistance for such a financing from ISO or the relevant exporting countries is likely.

7. The Bank has, so far, not participated in the financing of international buffer stocks, nor has it financed the expansion of storage capacity for individual countries under international commodity agreement sponsorship.

8. In the case of tin, the Bank considered in February-March 1976 the possibility of extending a loan to the International Tin Council to finance a part of the international tin buffer stock. The loan was to be guaranteed pro rata by the developing countries which are members of the Bank and are contributors to the buffer stock. Preliminary negotiations with the ITC were held in March 1976. Developing producing countries considered it inequitable to have to assume the additional burden of guaranteeing the Bank loan, since under the terms of the Fifth International Tin Agreement they already pledged to contribute 50% of the required buffer stock, while consumers did not undertake any obligation to contribute, but only agreed to make unspecified voluntary contributions. The Bank therefore, after consultations with the Chairman of the ITC, decided to let her proposal drop until the consuming countries specify the amounts of their contributions to the buffer stock.

9. Bank Group financing of storage facilities in member countries may well be worth considering if the new International Sugar Agreement were to iron out the mechanics by which exporting countries would hold their stocks and the proposals for a buffer stock operations are potentially viable. If the Bank were to embark on this activity, some guidelines would be needed on possible lending conditions.

cc: Mr. Knapp
Mr. Chenery ✓

EBrook/SSingh:lb

SM/77/211

August 19, 1977

To: Members of the Executive Board

From: The Secretary

Subject: Buffer Stock Financing Facility - Possibility of Fund
Support for a New International Sugar Agreement

The attached paper has been prepared by the staff in order to ascertain the view of the Executive Board on possible Fund support for a new International Sugar Agreement.

It is intended to bring this matter to an early agenda, prior to the resumption of the UN Conference on a new International Sugar Agreement on September 12, 1977 in Geneva.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Buffer Stock Financing Facility: Possibility of
Fund Support for a New International Sugar Agreement

Prepared by the Research Department

(In consultation with the Exchange and
Trade Relations and Legal Departments)

Approved by J.J. Polak

August 17, 1977

A United Nations conference to negotiate a new International Sugar Agreement with economic provisions regulating the free market trade in sugar was held in Geneva in April/May 1977.^{1/} Largely owing to disagreement over proposed methods of stabilizing the free market price of sugar, the conference was adjourned on May 27. The Chairman of the conference was instructed to consult with governments, and in the light of these consultations, to decide whether to request the reconvening of the conference later in the year. The consultations with representatives of some 20 governments substantially interested in world trade in sugar were held in London in the second half of July.^{2/} On most major issues, the positions taken by government representatives moved considerably nearer to each other at the July consultations than they were at the April/May conference. Consequently, the Chairman requested the Secretary-General of UNCTAD to reconvene the conference for three weeks starting September 12, with a view to the formal conclusion of a new International Sugar Agreement which could come into force at the beginning of 1978. The Chairman of the conference, who is also Chairman of the International Sugar Organization (ISO), considers that the chances of reaching a satisfactory stabilization agreement would be substantially enhanced if financial assistance from the Fund were available. For this reason, he has requested an indication of Fund support in principle for the financing of such stocks (see cable, Appendix 1).

2. Because the buffer stock proposed under the new International Sugar Agreement would consist of stocks nationally owned but internationally controlled, assistance under the Fund buffer stock facility would require extending the scope of Executive Board Decision No. 2772-(69/47), dated June 25, 1969. Paragraph 1 of this Decision specifically limits assistance

^{1/} The report of the Fund observers is contained in SM/77/159 (7/5/77).

^{2/} The report of the Fund observer is contained in SM/77/212 (8/19/77).

to members in connection with the financing of buffer stocks "in accordance with the principles and subject to the quantitative limits set forth in Chapter III, Section 2, and Annex A of Part II of the study."^{1/}

3. The decision establishing the buffer stock facility deliberately omitted reference to Section 3 of Chapter III of the staff study (see Appendix 3). That section, entitled "Other Stabilization Action," deals with national stockpiling, whether or not it is undertaken as a commitment under an international agreement. In this section, the staff recognized that "where such commodity action . . . is judged viable and consistent with Fund objectives, being based on a realistic appraisal of the medium-term trend, Fund support might be as appropriate as for the financing of stock purchases in foreign exchange by an international buffer stock." The staff concluded, however, that although the activity could have an impact upon the member's balance of payments, it would "not involve an immediate and precisely determinable use of foreign exchange." The staff recommended that "any assistance by the Fund in connection with national stocking activities (other than in relation to an export shortfall permitting a drawing under the Compensatory Financing Decision) should therefore be approached in the context of the Fund's general tranche policies."

4. In establishing the buffer stock facility, the Fund was proposing to venture into an entirely new field in assisting the financing of commodity stocks, the effects of which on the Fund's liquidity and on its role as a provider of conditional credit could not clearly be foreseen, even in the short term. It was therefore with understandable caution that the Fund decided to restrict assistance on specially lenient terms to the financing of international buffer stocks (internationally held and controlled), where the international advantages were more assured and the resources needed more limited. The experience since 1969 shows that the negotiation of buffer stock arrangements is a difficult and laborious process even with the possibility of financing by the Fund of members' contributions. Consequently, use of the buffer stock financing facility has been very small.

5. The recent increase in interest in commodity agreements to stabilize prices and export earnings has not yet led to advanced results for any commodity except sugar (and possibly rubber). With respect to sugar, for a variety of technical and political reasons, it has been found that the most practical and acceptable arrangements would involve stocks nationally owned but internationally coordinated. The international coordination is particularly strong as it is to be effected through international financing of the costs of storage which are relatively high. The International Sugar Council is expected to be empowered to issue precisely defined instructions which will ensure that the stocks to be financed would be additional to normal trading stocks and would be released when prices reach the upper part of the price band.

^{1/} Annex A of Part II is reproduced in Appendix 2.

6. In the light of all these considerations, the staff recommends that the holding of national stabilization stocks under the control of the International Sugar Agreement authorities should not bar that Agreement from being accepted by the Fund for the purposes of buffer stock financing if it otherwise satisfactorily met the established Fund criteria as set out in Annex A of the 1969 staff study (see Appendix 2). The staff, therefore, recommends that the Fund observer be authorized to inform the Sugar Conference accordingly, when the Conference resumes in September. If the Board did not judge it appropriate to amend the 1969 Decision prior to the review of the Buffer Stock Facility that it is planning to make, it could deem assistance to members to finance sugar stocks under a Sugar Agreement to be compatible with that Decision, assuming it was satisfied that the criteria of Annex A were fulfilled.

Text of Cable from Mr. Jones-Parry, Chairman of the International Sugar Organization, to the Fund Managing Director, Dated August 2, 1977

Sugar consultative group at recent London meetings considered (1) how carrying costs of national stocks held under control of ISO could be financed and (2) whether carrying costs would cover interest paid on money borrowed by exporting members of new ISA for holding stocks STOP Should be grateful if IMF Executive Board could be invited to consider urgently whether its 1969 decision could be extended to cover stocks nationally owned but internationally controlled STOP UN Sugar Conference is due reconvene Geneva 12th September.

From the 1969 Staff Study, The Problem of Stabilization
of Prices of Primary Products, Part II

ANNEX A

Criteria for Fund Assistance to Members in Connection with
International Buffer Stocks

Criteria for appraisal of international buffer stock proposals are considered below under three categories relating respectively to (a) observance of certain general principles of intergovernmental relations as regards commodity agreements and international trade measures, (b) the temporary use of Fund resources and the appropriate operation of international buffer stocks, and (c) buffer stocks and price support measures.

General Principles of Intergovernmental Relations
in Commodity Agreements

(1) Participation. Certain general principles and rules have been adopted by the United Nations Economic and Social Council regarding procedures to ensure equity in the conclusion and conduct of international commodity agreements. The Council has recommended that members of the United Nations should continue to accept these principles as a general guide to intergovernmental consultation or action with respect to commodity problems. It is suggested that adherence to these general principles as they relate to participation, voting, equitable treatment, and duration, should be a necessary condition for the provision of Fund assistance.^{1/}

^{1/} These general principles are those included in Articles 60(1), 63(b), and 65(1) of the Havana Charter for the then proposed International Trade Organization. Article 60(1) states:

The Members shall observe the following principles in the conclusion and operation of all types of inter-governmental commodity agreements:

- (a) Such agreements shall be open to participation, initially by any Member on terms no less favourable than those accorded to any other country, and thereafter in accordance with such procedure and upon such terms as may be established in the agreement, subject to approval by the Organization.
- (b) Non-Members may be invited by the Organization to participate in such agreements and the provisions of sub-paragraph (a) applying to Members shall also apply to any non-Member so invited.
- (c) Under such agreements there shall be equitable treatment as between participating countries and non-participating Members, and the treatment accorded by participating countries to non-participating Members shall be no less favourable than that

General acceptance of the procedures dealing with the preparation, negotiation, and conduct of commodity agreements has been an important change by comparison with the interwar attempts to deal with difficult commodity situations mainly by producers alone. Most postwar agreements

accorded to any non-participating non-Member, due consideration being given in each case to policies adopted by non-participants in relation to obligations assumed and advantages conferred under the agreement.

- (d) Such agreements shall include provision for adequate participation of countries substantially interested in the importation or consumption of the commodity as well as those substantially interested in its exportation or production.
- (e) Full publicity shall be given to any inter-governmental commodity agreement proposed or concluded, to the statements of considerations and objectives advanced by the proposing Members, to the nature and development of measures adopted to correct the underlying situation which gave rise to the agreement and, periodically, to the operation of the agreement.

The reference to Article 63(b) is as follows:

The Members shall observe the following principles governing the conclusion and operation of commodity control agreements, in addition to those stated in Article 60:

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- (b) Under such agreements, participating countries which are mainly interested in imports of the commodity concerned shall, in decisions on substantive matters, have together a number of votes equal to that of those mainly interested in obtaining export markets for the commodity. Any participating country, which is interested in the commodity but which does not fall precisely under either of the above classes, shall have an appropriate voice within such classes.

Article 65(1) states:

Commodity control agreements shall be concluded for a period of not more than five years. Any renewal of a commodity control agreement, including agreements referred to in paragraph 1 of Article 68, shall be for a period not exceeding five years. The provisions of such renewed agreements shall conform to the provisions of this Chapter.

have been concluded initially under UN auspices, they have been open to participation on the widest basis, and periodic reports on their operations have been submitted to UN bodies. In practice, the preparation and stages of negotiation of some agreements, especially those renewing existing agreements, have been conducted under the auspices of commodity councils, GATT, and FAO; the general procedures as laid down in the Havana Charter have been broadly observed in most negotiations, even where these have not been carried out under the aegis of the United Nations or UNCTAD.

The question of the extent to which interested countries take advantage of the opportunities presented to them of participating in the operation and management of a commodity scheme is also of importance. The widest possible active participation would, of course, be desirable. However, a scheme may operate effectively and equitably without the participation of all countries with a substantial interest in the commodity. Evaluation of schemes from this point of view should therefore be on a case-by-case basis.

(2) Trade restrictions. The successful negotiation and operation of a commodity agreement including buffer stock operations may necessitate provisions requiring members, in certain defined circumstances, not to trade in the product with countries not members of the agreement. The possibility of consequential trade discrimination among Fund member countries, while not a matter falling within the Fund's jurisdiction (unlike discrimination in payments arrangements) is nonetheless of concern to the Fund, having regard to its purposes. It could be expected that Fund member countries parties to a buffer stock agreement would seek to avoid any consequential discrimination in their trade with other Fund member countries. The procedures for consultation with members participating in buffer stock arrangements would afford an opportunity for discussion of any recourse to discriminatory trade practices in connection with the arrangements.

The Temporary Use of Fund Resources and the Appropriate Operation of International Buffer Stocks

It is proposed that drawings under the buffer stock financing facility should be temporary in character and subject to the repayment terms applicable to all Fund drawings including the standard three- to five-year rule on repurchases, with the addition of a special provision under which the member should repurchase from the Fund earlier to the extent that the buffer stock distributed cash to its members. Members that make use of the buffer stock financing facility will be expected to make the necessary provision, both inside the buffer stock agreement and in their own arrangements, to enable them to meet their repurchase commitments to the Fund.

Despite this partial separation of the member's obligations to the Fund from any arrangements it may have with the buffer stock, the Fund is concerned that the operation of the scheme should be such as to ensure

that the member's use of Fund resources is no more than temporary. This fits well with the objective of the facility to foster the smoothing out of short-term price fluctuations round a medium-term trend. The following points are intended to meet these desiderata:

(3) Stability of export earnings. The relationship between price stabilization and the stability of a country's earnings from a commodity should be an explicit consideration in the drafting of commodity schemes. As indicated in Part I of the staff study on Stabilization of Prices of Primary Products,^{2/} the elasticity of demand might be such that price stabilization by a buffer stock agency could tend to destabilize rather than to stabilize export earnings in certain circumstances, namely, when price fluctuations are caused by supply fluctuations rather than by demand fluctuations.

From the Fund's point of view, there would be serious reservations with regard to any scheme which appeared likely significantly to destabilize export proceeds for any considerable proportion of individual countries, and thus, inter alia, to increase rather than to reduce the use of Fund resources in the form of drawings under the Compensatory Financing Decision. In practice, even where supply fluctuations are important, a variety of techniques might be used to secure full or partial stabilization of export earnings in association with some degree of price stabilization. These include adjustment of the price range in response to overall supply variations, partial postponement of payment for stocks acquired in glut years, and temporary quota arrangements. The Fund would wish to consider the extent to which the possibilities offered by such techniques have been utilized in the arrangements.

The Fund recognizes that even arrangements for price stabilization that tended to increase earnings instability might have longer-term benefits in improving the trend in demand and the allocation of resources in producing countries or might otherwise reduce real costs. Nevertheless, having in mind the difficulties which buffer stocking with a destabilizing effect on earnings could create for the repayment of Fund drawings used in the financing of the stocks, it would seem appropriate for the Fund to confine its assistance to schemes which appear likely to increase (or at least not to reduce) the stability of export earnings for the generality of the developing countries concerned.

Even where price stabilization measures may be expected to reduce earnings fluctuations for the majority of participants, the earnings of some individual countries may be destabilized. Where there appear to be wide-ranging benefits from the scheme for participants taking one year with another, this should not preclude Fund assistance to the scheme.

^{2/} See pp. 44-49 and 158.

(4) The stabilization of prices. The type of buffer stock scheme for which Fund financing would generally be suitable would be one that aimed at stabilizing prices round a medium-term trend, i.e., one in which stock accumulation and decumulation could be expected to balance out roughly in the medium term without resort to abrupt ad hoc variation of export quotas or ceiling prices undertaken regardless of the stability of export earnings.

In order to meet these desiderata it is necessary that the intervention price range should itself be flexible within the period of operation of the scheme. For example, it might be fixed for a maximum of one year ahead in time and changed in the light of revisions in anticipated demand and supply conditions. It is not feasible to lay down a specific formula for determining the medium-term trend value of the intervention range from year to year. However, once the scheme had been in operation for some time, the intervention range for any year might be set at a level which, if maintained, would be likely to result in a balance of stock accumulations and decumulations over a reasonable medium-term period centered on the year with respect to which the range was fixed, with some allowance for any stock accumulation prior to the period in question and for other relevant circumstances.

An important question concerns the width of the range between the upper and lower intervention points. A fairly wide range, though it permits a greater degree of price variation, has considerable advantages in reducing the probable amount of stock accumulation and thus the danger that the buffer stock will exhaust its financial resources, and in increasing the profitability of the operation of the buffer stock and thus facilitating the building up of reserve funds. On the other hand, a wide range could delay disposals at the upper intervention level and lengthen the cycle of stock transactions. It would thus be important to provide for flexibility in revising the width as well as the level of the price range in the light of continual market appraisal.

In all matters having to do with the determination of intervention prices, it will clearly be important that careful preliminary studies be made employing the best available techniques for forecasting variations in demand and supply conditions affecting the commodity.

Procedures recommended under the UN Resolutions to which reference was made earlier, envisaged the establishment of specialized study groups as a first preparatory stage in the conclusion of commodity agreements. Under UNCTAD procedures extensive use has been made of preliminary consultations and exploratory meetings prior to the convening of formal commodity conferences for negotiation. Judgment by the Fund on specific commodity arrangements should be facilitated by such procedures.

(5) Supplementary techniques for medium-term stabilization. Most discussion of the role of buffer stocks envisages the use of supplementary

measures such as quantitative controls on exports or national commitments on internal stock levels. As already indicated, such measures could play a useful role particularly in mitigating short-term fluctuations in exports and export earnings induced from the supply side, leaving the buffer stock to take the impact primarily of demand fluctuations; and effective provisions permitting the temporary application of quotas for this purpose might be indispensable to protect the financial resources of the buffer stock. Where such resources are very limited, it might be necessary to apply such measures even where the effect was to destabilize export earnings. Too much recourse to this device, however, might be an indication that other features of the arrangement--the price range or the amount of financing available to the buffer stock--were unsatisfactory.

(6) Financial arrangements. The various features of buffer stock schemes discussed at (3) to (5) above should all make it easier for the buffer stock so to arrange its transactions with countries participating in the scheme as to make it easier for the latter to repurchase from the Fund any amounts they may have drawn under the proposed facility. However, certain aspects of the facility and of the financing of the scheme are also important in this connection.

In the first place, not all types of payments from participants to the buffer stock authority would qualify for financing by the Fund. For example, buffer stock expenditures for the construction of storage facilities are clearly of a long-term character and not suitable for indirect financing by the Fund. Again, use of the facility would presumably be confined to reimbursement of members' contributions for the financing of new purchases of stock or of operating expenditures or for refinancing of short-term indebtedness incurred for such purposes. Third, it is envisaged that in the event of the buffer stock distributing cash to its participants, these amounts would be used for repurchases of drawings on the proposed Fund facility. Any subsequent transfers of cash from Fund members to the buffer stock authority, provided it was for the acquisition of additional stocks and not for the refinancing of any temporary borrowing operation related to stocks previously financed through drawings on the Fund, would then give rise to a possibility of new drawings on the facility.

Moreover, it would be expected that an appropriate part of the initial and operating costs of buffer stocking would be met from sources other than international financial institutions. This could be achieved from the start by means of contributions by countries which would be unlikely to draw on the facility, or in appropriate cases by a restriction of drawings on the facility to some proportion less than 100 per cent of the amounts transferred from participants to the buffer stock authority. Lagged or phased systems of payment can also play an important part in appropriate market conditions in reducing initial foreign exchange costs; countries accepting lagged or phased payments would thus bear a proportion of the financial burden of the scheme. Such provisions might

provide safeguards for the prudent operation of buffer stocks. Also the buffer stock might be expected to build up a reserve fund from non-Fund sources to minimize any danger that stocks might have to be sold at an inappropriate time merely to facilitate repurchases to the Fund. This could be achieved, for example, through the collection of a trade levy (which itself would of course not qualify for refinancing through the proposed facility), and by the accumulation of any operating profits earned by the buffer stock.

Buffer Stocks and Price Support Measures

(7) Long-term restriction of supply. Merely to provide, as has been suggested above, that the price and other provisions of commodity agreements involving buffer stocks should be such as to promote a balance between stock accumulation and decumulation in the medium term is not enough to ensure that prices will tend toward the level that would obtain in stable and liberalized trading conditions. Buffer stocking arrangements may be introduced as part of an agreement combining other and potentially restrictive elements such as export quotas, restrictions on output, or diversion of supplies into low value uses.

Provision for the possible application of temporary export quotas has been regarded above as a desirable function of such agreements in the interest both of price stabilization and of the short-term character of stock accumulation and decumulation. However, quotas can be, and frequently are, employed not temporarily but more or less continuously and for the purpose not merely of stabilizing the price of the commodity in question round a medium-term trend but also of maintaining prices in the medium and even in the long term above the level that would otherwise have obtained.

Articles 57(c) and 63(a) (in conjunction) of the Havana Charter provide that commodity control agreements (those involving trade or output control or regulating prices) should be designed to assure the availability of supplies adequate at all times for world demand at such prices as are fair to consumers and provide a reasonable return to producers, having regard to the desirability of securing long-term equilibrium between supply and demand.

This formulation would not appear to preclude agreements envisaging export quotas or restrictions on output that would be continuous throughout the lifetime of an agreement if these were required to prevent prices from being drawn down in the medium term to unreasonably low levels, as a result, e.g., of a past accumulation of national stocks, or overextension of production capacity, or other such cause. However, it would appear to preclude the use of such restrictions to maintain a price that would in all likelihood require the continuance of such controls in perpetuity.

In more recent years a concept has developed--largely in the context of the UNCTAD, but reflected in the request by a number of Fund Governors with reference to which the Rio Resolution was passed--according to which commodity agreements should aim at prices that are "remunerative"^{3/} to developing producing countries, even though this may involve a permanent real income transfer from consumers to producers.

In considering the relative merits of these not entirely compatible criteria of long-term price fixing, it should be taken into account:

(a) that if the agreement is negotiated in accordance with the principles laid down in (1) above and therefore includes provision for adequate participation of consuming countries, the latter may be deemed to have consented to any real income transfer involved in quantitative restrictions, concessional sales, etc.; and

(b) that if the provisions of the agreement relating to prices appear likely, despite the various controls proposed, to result sooner or later in a breakdown of the arrangement, the Fund, with its interest in stabilization, cannot afford to overlook this consideration in determining whether or not the buffer stock element in the agreement is worthy of Fund support.

It may be wise for the Fund not to decide in any general terms as between the different criteria of long-term price determination, but to judge on the merits of each case, whether "the expansion and balanced growth of international trade . . . and the development of the productive resources of all members" would be furthered by Fund assistance to such arrangements.

^{3/} For a possible interpretation of this term, see Part I, The Problem of Stabilization of Prices of Primary Products, p. 117.

Section 3 of Chapter III of Part II of the 1969 Staff Study
on the Problem of Stabilization of Prices of Primary Products

3. Other Stabilization Action

National or international action for the temporary limitation of export supplies can in principle deal more effectively than international buffer stocks alone with the problem of earnings stabilization when supply is variable, since they are confined to obviating the depression of market prices by withholding excess offerings, while avoiding the overcompensation which will occur if the excess offerings are remunerated at full market prices as stocks taken up by an international agency. Where such commodity action in other forms is judged to be viable and consistent with Fund objectives, being based on a realistic appraisal of the medium-term trend, Fund support might be as appropriate as for the financing of stock purchases in foreign exchange by an international buffer stock.

The building up of stocks financed by national authorities or the withholding of supplies in observance of international quota commitments does not require an immediate foreign exchange outlay, but, depending on the extent to which payment is made to domestic producers and on what offsetting action is taken elsewhere in the economy, it may put additional strains on the domestic economy and hence on the balance of payments.

In contrast to the situation applying to international buffer stocks, which rest on the ability of members of a commodity scheme to make prompt payment to meet demands by the administration of the buffer stock, this form of supply management does not involve an immediate and precisely determinable use of foreign exchange. Fund support may be appropriate; but only analysis of the individual country situation can determine this. Some national stockpiling policies may be of great international interest and conducive to the balanced growth of international trade; others are likely to be disastrous both to the country investing in the stockpile and, in the slightly longer run, to other producers as well. The distinction cannot always readily be drawn; and it cannot be derived from some formal characteristic, e.g., whether the stockpiling is a commitment under an international commodity agreement. Moreover, the impact on the balance of payments of domestic stocking activities cannot be separated from the impact of other investment activities financed by the government. Indeed such stocking activities cannot be considered solely from the point of view of the price of the commodity and the income of its producers, but must also be appraised in the general context of a country's policies of aggregate demand and economic stability. The problems posed here are, therefore, very closely connected with the general relations between the member and the Fund, both consultative and financial. Any assistance by the Fund in connection with national stocking activities (other than in relation to an export shortfall permitting a drawing under the Compensatory Financing Decision) should therefore be approached in the context of the Fund's general tranche policies.

In appraising the fiscal and monetary impact of domestic accumulations of carry-over stocks in the context of a member's economic objectives and its possible use of the Fund's resources, consideration would, as at present, be given to the appropriateness of members' domestic credit arrangements. In addition, specific attention would be given in future to the appropriateness of such accumulations in the light, inter alia, of international commodity arrangements, general repercussions on the other main producing countries, and the interests of consuming and importing countries. Consideration would be given to the appropriate policies of the member relating to domestic credit and fiscal arrangements in this connection. Equally, in assessing the impact on the balance of payments of liquidations of stocks on external markets--and the domestic fiscal and monetary position of members--specific consideration would be given to any repercussions in international commodity markets.

Fund support of international supply management would obviously have to reflect certain general principles, in particular the need for the observance of the short-term character of the stabilization operation in conformity with the apparent medium-term trend. The integration of the Fund's concern with members' cooperation in acceptable international commodity policies into its general relationship with members could be both an important support for such policies and a means of guiding commodity arrangements in appropriate directions. In dealing with other questions, for example in relation to bilateral trade arrangements for particular commodities, the Fund might also, where appropriate, bear in mind the international commodity aspects of members' policies.

In the context of this general approach to a country's economy, the Fund could be prepared as in the past to grant members access to its resources, in accordance with its purposes, to meet payments problems arising from investment in stocks of primary products. The Fund would, in consultation with the member, determine in each case the amount it considered appropriate in the circumstances, which would be granted within the framework of the normal tranche policies.

McNamara

8/8 To Dr. Chenery

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(through Mr. A. Karaosmanoglu) *A.K.*
FROM: Benjamin B. King *BBK*
SUBJECT: Review Panel on Research on Income
Distribution and Employment

DATE: August 5, 1977

I understood you were establishing a panel to review the entire Research Program. Please discuss with me your views on such an action as soon as you return.

1. We would now like to proceed with invitations to become members of this panel. A list prepared in consultation with Professor Fishlow, the chairman, is attached together with short curricula vitae, except for Professors Lewis and Kuznets who need no introduction (Attachment 1).

2. If you approve, we will have letters of invitation prepared for your signature. A draft letter is attached (Attachment 2) together with a draft letter from Professor Fishlow (Attachment 3) which would be sent at about the same time. He would sound out Professors Lewis and Kuznets before any letters are sent.

3. Several Executive Directors, who were consulted on the membership of the panel, were evidently surprised at the absence of an outside panel to review all research, particularly with a view to determining the proper level of expenditure for research. Mr. Grimes' memo of July 22 (Attachment 4) elaborates on this feeling. The transcript of the meeting on the Annual Report on Research includes suggestions to this effect by Sen and Janssen, but no agreement on your part to set up such a panel. In fact, it was always our idea that it would be very difficult to assemble a panel with the time and competence to undertake such a task without the prior completion of several more limited reviews on particular subjects.

4. You did, however, suggest that there be a "total reexamination" within the next 12 months. So far, no such reexamination has been undertaken. I have spoken to Hollis about this; he intends to make proposals when he returns from leave in September.

Attachments

cc: Messrs. Chenery (o/r)
Karaosmanoglu
Avramovic
Duloy
Ahluwalia
Leiserson

BBKing:gm

4 copied to Mr. King

as you return. I am assuming the creation of the panel on "Income" does not prejudicial the formation of an overall review panel. I am concerned in the distribution of the proposed letters.

LIST OF INVITEES

Sir Arthur Lewis (Jamaica)

Professor Simon Kuznets (US)

Professor K. N. Raj (India)

Born 1924. Currently Director of the Centre for Development Studies, Trivandrum, Kerala. From 1953 to 1973. was Professor of Economics at Delhi School of Economics. He advised the Government of India and the UN on many occasions. One of India's most eminent and respected economists, whose work over a wide range includes much that is socially oriented. For example, the Centre conducted a case-study in Kerala for the UN on issues related to poverty, unemployment and development policy (published in 1975).

Miguel Urrutia (Colombia)

Currently Minister of Mines and Energy. Previously Director of the Department of National Planning. Has published various works on income distribution, the latest being a book (in collaboration with Professor Berry) on income distribution in Colombia.

Gerardo P. Sicat (Philippines)

Currently a member of the Cabinet, Minister of Planning, and Director-General of the National Economic Development Authority, the main economic policy-making body in the Philippines. He was first appointed to the government in 1970, as Chairman of the National Economic Council. After receiving a doctorate in economics from MIT in 1963 he held various positions at the University of the Philippines, interspersed with brief consultancies to government agencies and to the Asian Development Bank, ECAFE and the Development Centre of the OECD. He was born in 1935. His main areas of interest are trade theory, industrial economics and applied econometrics; much of his work has been on Philippine industrial development and trade policy. He has published in Asian, UK and US professional journals and is author or co-author of several books and monographs.

Justinian Rweyemamu (Tanzania)

Became Special Adviser on Economic Affairs to the President of Tanzania in 1975, having been Principal Secretary, Ministry of Economic Affairs and Development Planning for a year prior to that. Born in 1942, he received his Ph.D. in economics from Harvard and began his career at the University of Dar es Salaam, where he was Dean of Arts and Social Sciences from 1970-73, and since 1973 has been Head of the Department of Economics. He holds several advisory and executive positions in Tanzanian financial and academic communities, being a Director of the Bank of Tanzania, Director of the National Development Corporation, a member of the National Scientific Research Council and its Executive Committee, and a member of the Executive Committee, Council for the Social Sciences of East Africa, among other responsibilities. He has been associated with the ILO's World Employment Programme and has represented Tanzania at numerous international conferences. Most of his published work concerns trade, investment and industrialization in African development.

REDRAFT
BBKing:gm
August 4, 1977

Dear ,

As you may be aware, the Bank has over the last five years carried on a program of economic research on a substantially larger scale than hitherto. Although we regularly review within the Bank individual research projects as they are completed, this appears to be a good time to seek external advice on our progress to date and on future directions. Accordingly, I am initiating a series of panels on groups of related research projects. The first such panel will be on research into income distribution and employment. Professor Albert Fishlow, who is currently Professor of Economics at Berkeley, has agreed to act as chairman of the panel. I would much appreciate it, if you could spare the time to serve as a member of the panel.

The precise way in which the panel conducts its business will, of course, be up to its members. However, I would expect that there would be two meetings in Washington, one in September/October 1977 and one near the end of the year. It is hoped that the duration of these meetings could be kept down by supplying reading material beforehand and that they would not exceed three days each on average. The Bank would, of course, pay for all travel expenses, together with an honorarium.

Professor Fishlow will also be writing to you, explaining in more detail how he hopes to proceed.

DRAFT
AFishlow:gm
August 5, 1977

Dear

You have already heard from Robert McNamara, inviting you to serve on a small panel of five or six persons to review the Bank's research on Income Distribution and Employment. I join in hoping you will be able to accept.

As you probably know, the Bank has greatly expanded its research efforts in this area in recent years. That, and the intrinsic importance of the subject matter, explain why it has been selected for evaluation first. The scope and terms of reference of the review are for us to decide, although the views of the Bank's own Research Committee will be a valuable input. Obvious questions would seem to include an assessment of the quality and influence of the research, the validity of the priorities, and the effectiveness of the internal selection and evaluation procedures within the Bank. Our findings will receive a careful reading and can influence the Bank's continuing research in the field of Income Distribution and Employment. In addition, because this panel is the first, our procedures will influence the subsequent evaluation of other parts of the research program.

The Bank is offering us a free hand. The panel will be able to count on assistance in organizing and summarizing the extensive amount of material. By distributing much of this beforehand, it will be possible to use our meeting time in Washington more effectively. A draft agenda for the first

meeting and a packet of materials should be ready by the end of the month.

Your unique perspective is an essential input to the thoughtful review required. I personally am eager for your active participation. If you have any questions, please do not hesitate to get in touch with me. I look forward to your joining the panel.

Best regards (for those he knows personally)

Yours sincerely (for others)

Mr. Hollis B. Chenery

July 22, 1977

Orville F. Grimes, Jr., VPD

Outside Panels to Evaluate Research

1. A composite list of candidates to serve with Professor Fishlow on the Research Advisory Panel on Income Distribution and Employment (RAPIDE) was circulated on July 15 to Messrs. Hanfland, Pesqueira, Rigaud, Sen, and Thahane. I followed up this week with a brief visit to obtain their views on the suitability of the candidates proposed and receive other suggestions. While discussions with Messrs. Pesqueira and Rigaud centered on the list of candidates, those with Dr. Sen, Mr. Thahane and, to some extent, Mr. Hanfland took a different turn. They were not persuaded that outside panels to review research in particular sectors should take precedence over an outside review of Bank research as a whole.

2. Both Dr. Sen and Mr. Thahane saw the discussions at the Joint Audit Committee and the Board earlier this year as having concluded that first priority should be given to the question of the overall size and scope of the research program. Both also felt this question was to be addressed by an outside panel. I replied that we had initiated work in several directions, with the review of income distribution and employment research intended to complement the largely internal discussion of overall directions and resources promised as part of the next research report. After absorbing the experience of two or three of the sectoral panels, we also intend to constitute an apex group whose main task would be to review the entire program. Mr. Thahane's reaction was that to provide guidance on the future role of the Bank, an outside panel which could form a judgment about the appropriate size and content of the research program would have been more useful at this time than a sectoral panel. Dr. Sen went further, urging that such a group be appointed this year so that preliminary results, at least, may be available by January 1978. He added that if this is not done, he and several other Directors would oppose the research program budget when it is next discussed.

3. Mr. Hanfland began our meeting by stating his confusion about whether the RAPIDE panel was to review all Bank research or only that on income distribution and employment. I recalled Dr. Janssen's support of the

proposal by Dr. Sen at the Board discussion last February to undertake an outside review of the entire program, but stressed that without adequate preparation outsiders would have undoubtedly found this an extremely forbidding task. They would moreover find the body of work produced during the past five years highly uneven, with a rather well-defined set of studies in income distribution and employment and some other sectors, but not a great deal in, for example, population or urbanization. Mr. Hanfland said he hoped an overview panel would be constituted soon, but was satisfied with the reasons why at present we had no firm timetable for doing so.

4. As a postscript to the above discussions, Mr. El-Naggar telephoned me today to transmit his own impression that an outside panel was to be established this year to review Bank research as a whole. He implied, as had Dr. Sen, that several Directors may seek to clarify this issue at a forthcoming Board meeting.

cc: Mr. B. B. King (o/r)
Mr. Weiner

OFGrimes:gm

Mr. Robert S. McNamara

August 1, 1977

Hollis B. Chenery

Publication of "Prospects" and Related Papers

We discussed the possibility of publishing the Prospects, Trade and Debt papers, which contain the background material to your Governors' speech, at the time of the Annual Meeting or shortly thereafter. We agreed to keep this possibility under review, depending on the Board's reaction to Prospects.

Duke Merriam has since raised the same question with me and he will talk to you about it. In the meantime, I have asked Cheetham to look at the three documents to see what revisions (if any) would be needed if they were to issued together.

HBChenery:nmf

[Dictated by Mr. Chenery, and signed in his absence.]

cc: Messrs. W. Clark
Merriam
Karaosmanoglu
Cheetham

Memo

Typist Send

To : RSM

S: Publication of Prospects and related papers

We discussed the possibility of publishing the Prospects, Trade and Debt papers, which contain the background material to your Governors' speech, at the time of the annual meeting or shortly thereafter. We agreed to keep this possibility under review, depending on the Board's reaction to Prospects.

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cc: Clark, Merriam, AK, Cheetham

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Hollis B. Chenery *HBC*
SUBJECT: Revisions to the Prospects Paper

DATE: July 29, 1977

With reference to my memorandum of July 25, an amended version of the Prospects paper will be distributed by the Secretary's Department by Thursday, August 4.

RCheetham:nmf

cc: Mr. Cheetham

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Trade Section of Your Speech

DATE: July 29, 1977

As requested, I attach a revised draft by Keesing and myself that includes reference to the need for expanding primary exports and the potential benefits from doing so. Changes of any significance are underlined. Table 4 has also been corrected to include the latest figures from Prospects, Table VI.5. Export growth with present policies is also taken from Prospects (Annex Tables 2 and 7). Agricultural increases come from the Trade Liberalization paper and are consistent with your 1976 speech.

Don Keesing is the source of all of the above and can answer any questions.

Attachment

HBChenery:nmf

cc: Messrs. Haq
Keesing

Revisions, starting on line 3, page 18 of your draft

Trade Expansion

The per capita growth rates of 2% for the poorest countries and 4% for the middle-income nations for the years 1977-85 are based on a continuation of the set of policies that produced the expansion in their export earnings in the last decade. With such policies we believe that by 1985 the developing countries' total exports, other than oil, can be 2.3 times larger than in 1975. Their manufactured exports can increase much faster, perhaps 3.5 times, implying an annual growth rate of over 13% in real terms.

This will in itself require a major effort on the part of the developing countries. They will have to increase the supply of their exportable goods at competitive prices. And the success of this effort assumes a continued tolerance on the part of the developed world to accept such a rapid expansion in imports from the developing countries. The developed world is unlikely to accept such an increase unless it puts in place adjustment policies which will shift the burden from displaced labor and capital to the whole of society.

As I pointed out last year in Manila, if the OECD countries were to completely dismantle their trade barriers against the developing countries, these less-advantaged societies could, by 1985, earn an additional \$33 billion per year,^{1/} of which \$24 billion would come from manufactured exports.

^{1/} All trade figures in this section are expressed in 1975 dollars.

Expanded trade with the advanced countries represents only one part of the additional opportunities available to the developing countries. A recent Bank study indicates that if these countries were to act quickly to remove all of their own policy-related supply constraints on exportable manufactures, they could earn yet another \$21 billion per year by 1985.

In other words, if fully rational policies were pursued by importers and exporters alike, the developing countries' export earnings from manufactured goods alone could be increased by \$45 billion in 1985, some 40% above the levels, ~~in the order of \$115 billion~~, which will result from a continuation of past policies.

Substantial further gains could be made in agricultural and mineral exports, which continue to be the principal exports from the majority of developing countries, including most of the poorest. Some primary exports are held back not only by import restrictions, but also by supply constraints that could be overcome by policy changes.

It is, of course, unrealistic to expect that the developed world, even over a ten-year period, could dismantle all trade barriers, or that the developing countries over the same period, could remove all such supply constraints. That would mean that the developed countries would quickly have to shift capital and labor away from those industries that can no longer compete with imports, and the developing countries would have to shift more of their effort from traditional and inefficient production into export lines.

Now, neither of these adjustments is going to happen quickly, but they show the immense contribution to development which can be made by further efforts to liberalize trade. Could it not be agreed that developed and developing nations alike would seek to realize one-half of the full potential by 1985? As shown in Table 4, in regard to exports of manufactures this object could be achieved if:

- . First, the Tokyo Round of trade negotiations leads to a tariff reduction of 50%. This could add \$4 billion to the developing countries' manufactured exports by 1985.
- . Second, the non-tariff trade barriers of the industrial countries are partially relaxed. This could add \$6 billion per year to these earnings.
- . Third, the developing countries exploit say one-half of their remaining unused comparative advantage by improving the efficiency of their export sector and by further reducing their own supply constraints. If these actions were matched by pledges of the industrial countries not to react by increasing their levels of protection, developing country export earnings might increase by an additional \$10 billion per year.

Table 4

Developing Countries' Earnings from Export of Manufactures
(\$billion, 1975 prices)

	<u>Poorest Countries</u>	<u>Middle-Income Countries</u>	<u>Total</u>
1965	2.4	7.6	10
1975	3.4	29.6	33
1985 - Present Policies	<u>7.6</u>	<u>106.4</u>	<u>114</u>
Possible additions from:			
Tokyo Round	.3	3.7	4
Partial Relaxation of Non-Trade Barriers	1.0	5.0	6
Improved LDC policies	2.5	7.5	10
1985 - New Policies	<u>11.4</u>	<u>122.6</u>	<u>134</u>

Substantial further gains--probably one-third to one-half as large as those in manufactures--could be achieved in primary products.

The truth is, of course, that these policy actions are in the larger interest of both the developed and developing nations.

They would benefit consumers in the industrialized countries, and expand incomes in the less-advantaged countries.

It requires, however, practical adjustment assistance for those industries affected in the developed nations. And it means that the developing countries must shift to a more outward-looking economic stance so as not to inhibit the trade expansion that the international markets are willing to absorb.

In short, it calls for enlightened attitudes on both sides, and a mutual measure of political courage.