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Hollis B. Chenery papers - McNamara Discussions 1974 (July-Dec)



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JULY TO
DECEMBER 1974

JAN 6 1975

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, ^{ABZ}VP, Development Policy

SUBJECT: Bank/IDA Experience with Program Lending

DATE: December 26, 1974

1. The sudden increase in balance of payments deficits caused by recent changes in international prices has stimulated interest in the greater use of program lending by the Bank and IDA. The attached paper by the Program Review Division provides a brief review of the Bank's experience with this technique since the present policy was adopted in January 1971. It shows the variety of "special circumstances" under which program lending has been used and the total volume involved. The purpose is to disseminate information on this experience; there are no policy recommendations.

2. The policy paper of December 1970 concluded (after much internal discussion) that program loans might amount to 7 to 10 per cent of total commitments. In fact they averaged about 6 per cent from 1972 to 1974 and may increase to 10 per cent in 1975 in response to the new requirements. The policy paper now in preparation on local cost financing will present comparable figures on this aspect of lending.

3. We shall continue to monitor program lending and related developments and to report on any significant issues which may arise.

Attachment

cc: President's Council
Country Program Directors
Regional Chief Economists, Senior Economists
Program Division Chiefs
DPS Directors, DPS Division Chiefs
HBChenery/lc

PROGRAM LOANS:

A Review of Bank Group
Experience since 1970

Program Review Division
Policy Planning and Program Review Department
December 1974

PROGRAM LOANS^{1/}

1. In reviewing the recommendations of the Pearson Report on program lending in December 1970, the President concluded, and the Board concurred, that "we might find it appropriate to extend program loans or credits to perhaps four or five countries, and that this form of assistance might amount to some 7 to 10 per cent of our total lending commitments".^{2/}

2. This paper assesses the Bank Group's program lending since January 1971 and describes some of the loans presently proposed. Detailed coverage is limited to those loans which have been presented to the Board as program loans, although it is recognized that many other loans which have been presented as project loans clearly have a program component.

Extent of Program Lending

3. Between January 1971 and December 13, 1974, 15 program loans were presented to, and approved by, the Board. Another six are under study.^{3/}

Table I: Program Lending as a Share of Bank Group Commitments
FY1971 - 1975
(in \$ millions)

	<u>FY71</u>	<u>FY72</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u> (Projected)
1. <u>Commitments</u>					
Bank Loans	1,921	1,966	2,051	3,218	3,650
IDA Credits	584	1,000	1,357	1,095	1,625
Total Commitments	2,505	2,966	3,408	4,313	5,275
2. <u>Program Lending</u>					
Bank	80	60	30	-	205
IDA	25	125	195	219	305
Total	105	185	225	219	510
3. <u>Program Lending as</u> <u>Percentage of</u> <u>Commitments</u>					
Bank	4.2	3.1	1.5	-	5.6
IDA	4.3	12.5	14.4	20.0	18.8
Total	4.2	6.2	6.6	5.1	9.7

^{1/} The term 'program loans' is used here to describe both loans and credits unless otherwise specified. The section of CPM 1.21 governing program lending is reproduced in Appendix I.

^{2/} Bank/IDA Report to Executive Directors, December 15, 1970.

^{3/} A list of the program loans presently being considered by the regions for the latter part of FY 1975 is given in Appendix II.

Eight countries received program loans; one each by Nigeria, Colombia, Zambia, Sri Lanka and Egypt, three each by India and Bangladesh, and four by Pakistan. One of the loans made to Pakistan for rehabilitation of its (former) eastern wing just before its separation, was cancelled, as were parts of the loans to Colombia and Zambia.

4. Bank Group commitments for program loans represented a relatively unchanging share of total commitments, ranging from 4 to 7 per cent between FY 1971 and 1974 (see Table I). Program loans in FY 1975 are likely to be greater in number than in previous years, and will probably amount to about 10 per cent of total commitments, still within the range suggested in December 1970.

Type and Rationale of Program Loans

5. The eleven program loans which went to South Asian countries were all IDA credits, while countries outside of South Asia obtained their loans on 'standard' IBRD terms. This pattern has been followed into FY 1975, although half of the recent program loan to Egypt was on IDA terms.

6. Three basic reasons have been used to justify program lending.

- (1) Reconstruction or rehabilitation of the economy after war or 'acts of God' has been the rationale for six past program loans, (three to Bangladesh, two to Pakistan and one to Nigeria).
- (2) A sudden fall in the price of a major export was the justification for the program loans for Colombia (coffee) and Zambia (copper), though in both cases parts of the loans were cancelled when the price rose again much faster than was originally expected.
- (3) The need to supply industrial raw materials or equipment to utilize existing capacity was the basis for six program loans made to India (3), Pakistan (2) and Egypt (1).

7. From the beginning of FY 1975, however, a sharp deterioration of the terms trade as a result of rapid rises in import prices has gained ground as a rationale for program lending. This is the rationale for the credit to Sri Lanka and for loans presently under consideration for Kenya, Tanzania, Korea, Honduras (also qualifies under 6(1) above) and Uruguay. (Reasons for continued program lending to India and Bangladesh remain the same as before.)

The Programs Which Program Loans Support

8. In almost all cases, the program loans were stated to be granted in order to support the government's development plan, be it a one, three or five year plan, in draft or in operation. The planned investments implied certain import requirements, part of which were to be financed by the Bank Group. In two cases, Nigeria and Pakistan, the loans supported general rehabilitation policies of the government.

9. Where program loans have been granted specifically to finance industrial imports the policies discussed between the Bank Group and the government have often been quite detailed, including such items as measures to improve industrial licensing procedures, incentives for private industrialists, industrial sub-sector policies and urban wage and price policies. In the case of the reconstruction and rehabilitation loans, discussions with the government on policy matters apparently did not play a large role in the work of preparing the program loan.

Program Loan Conditions and Implementation Procedures

10. For all but two of the program loans no legal commitments were requested from the government and no specific targets were set. (For the Colombia loan conditions for the effectiveness of half of the loan were attached to specific price and performance criteria, while for the Egyptian loan exchange rate conditions were among those set). Counterpart funds generated by the loans to Colombia, Zambia, Sri Lanka and Egypt were to be tied to the respective development programs.

11. In almost all cases the foreign exchange was 'tied' to the import of specific categories of goods, sometimes with ceilings on each category, sometimes without. Typical broad categories were raw materials, spare parts, some capital goods and fertilizers, although it has now been decided as a matter of policy not to include finished fertilizer (c.f. the FY1975 program loans to Sri Lanka and Bangladesh).

Supervision and Disbursement Problems

12. It appears that once the system of paperwork for applying for withdrawal of Bank Group funds is set up and understood by the country concerned (Controller's Department usually send a man on the appraisal mission to assist in this) it runs very smoothly. Apart from details such as setting the minimum amount for the value of imports which have to be documented, and occasional mistakes (such as in the Zambia loan where the documents required use of the SITC when the country itself applied the Brussels Nomenclature), there tend to be few supervision problems, and disbursement is usually very rapid, with about 70 per cent disbursed in the first six months after the loan becomes effective.

13. However, for countries which suffer such a shortage of foreign exchange that they cannot even afford to finance the eligible imports for the period up to reimbursement by the Bank/IDA, the supervision and disbursement difficulties are much greater. In these cases - all the program credits to Bangladesh and (possibly) the program loan to Egypt - the Bank Group must guarantee a large number of letters of credit and has to review or supply legal documents to suppliers. This involves considerable staff time. Also,

because slippages occur when goods are unavailable or are delayed, disbursement is often much slower. For example, at the present time, disbursements on all the past three program credits to Bangladesh are still being made (see Appendix III, pages 7, 11, 16), whereas for other countries which have received more than one program loan, disbursements on one loan are usually nearly complete by the time the next loan becomes effective.

14. Details of the 15 program loans approved between January 1971 and December 13, 1974 are shown in Appendix III.



Operational Policy Memorandum

PROGRAM LENDING

1. In this memorandum, references to the Bank and Bank loans apply equally to IDA and IDA credits unless otherwise stated. The term project means either a single specific project or related specific projects forming part of a sector investment program. The term program loan means a loan other than a loan for a project.

2. Article III, Section 4(vii) of the Bank's Articles of Agreement provides that:

"Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development."

Article V, Section 1(b) of IDA's Articles of Agreement contains a similar provision.

3. Starting with the reconstruction loans made in 1947, the Executive Directors approved a number of program loans without defining the circumstances which could be regarded as special. In connection with the discussion of the proposal for Sixth Industrial Imports Credit to India in October 1969, General Counsel was asked for an opinion as to whether there could be special circumstances which would justify repeated import loans over a period of years. His opinion stated, *inter alia*, that "the circumstances justifying the exception must in the first place be 'special' in the sense that they are not generally present in the field of activity assigned by their charters to the Bank and the Association and are not common to the generality of the borrowers of the Bank and the Association. Secondly, the special circumstances must be of such a nature as to make a departure from the normal practice of lending for specific projects clearly desirable and appropriate in the light of the achievement of the stated purposes of the Bank and IDA and the other provisions of the charters of those institutions."

4. In most cases the Bank can make an adequate contribution to the external capital required by a country by lending to cover the import requirements of high priority projects. Where for one reason or another financing the import content of projects does not provide the country with sufficient external capital, the Bank may provide foreign exchange to finance part of the local expenditure (OPM 1.22, "Foreign Exchange Loans for Local Expenditure"). There may be circumstances, however, in which neither of these forms of financing would provide all the external capital required, and there may thus be a case for adducing special circumstances to justify program lending.

5. A staff paper on program lending dated November 5, 1968 (R68-206) was reviewed in November 1968 by the Executive Directors, who, without defining the criteria for special circumstances, agreed that it might sometimes be appropriate for the Bank to make program loans. A memorandum by the President dated December 15, 1970, (R70-234) dealt both with program and local expenditure financing contained the following conclusions relating to program lending:

(a) The Bank had a well-established role and capabilities in the provision of project finance, and should therefore emphasize this form of lending in the absence of clearly preferable alternatives.

(b) In practice the bulk of the assistance provided by the Bank and IDA could take the form of financing the foreign exchange component of investment projects without invoking the special circumstances required to justify the financing of local expenditures or program lending.

(c) The Bank should make program loans in special circumstances where necessary to

Operational Policy Memorandum



increase the effectiveness of its lending and to ensure an adequate and timely transfer of resources in support of the development of member countries.

(d) Special circumstances might arise when:

(i) A borrowing country presented a development program, with supporting economic and financial policies, which was judged to provide a satisfactory basis for external assistance in a given amount; and

(ii) The needed transfer of resources from external lenders in support of the development program could not be

achieved effectively and expeditiously by the financing of investment projects, including justifiable local currency expenditures in connection therewith.

6. After discussing this memorandum in January and February 1971 the Executive Directors accepted the conclusions summarized in sub-paragraphs (c) and (d) of paragraph 5 above.

7. For a further discussion of this subject see the President's memorandum dated December 15, 1970 referred to above, in particular paragraphs 33-54.

Program Loans Under Consideration by the Regions
for FY1975

<u>Country</u>	<u>Amount*</u>	<u>Bank/IDA</u>
Tanzania ^{1/}	\$30 million	Bank
Kenya	\$30 million	Bank
Uruguay	\$25 million	Bank
Korea	\$75 million	Bank
Honduras	\$15 million	Bank/IDA
India	\$200 million	IDA

* Provisional

^{1/}

Since this paper was prepared this loan has been approved by the Board.

Details of Program Loans and Credits

Fiscal Years	Loan/Credit Number	Country	Amount	Page
1971	Credit No. 228	Pakistan	\$25 million	1
1971	Loan No. 732	Nigeria	\$80 million	2
1972	Credit No. 327	India	\$75 million	3
1972	Credit No. 337	Pakistan	\$50 million	4
1972	Loan No. 842	Colombia	\$60 million	5
1973	Credit No. 345	Bangladesh	\$50 million	7
1973	Credit No. 396	Pakistan	\$45 million	8
1973	Credit No. 402	India	\$100 million	9
1973	Loan No. 911	Zambia	\$30 million	10
1974	Credit No. 458	Bangladesh	\$50 million	11
1974	Credit No. 466	Pakistan	\$35 million	12
1974	Credit No. 474	India	\$150 million	13
1975	Credit No. 512	Sri Lanka	\$15 million	14
1975	Credit No. 515	Bangladesh	\$50 million	16
1975	Loan/Credit No. *	Egypt	\$70 million	17

* Not yet available

PAKISTAN.

Credit No. 228

Date of Approval: January 13, 1971
Effectiveness:

TYPE OF CREDIT: Reconstruction Terms: IDA, with relending to Province
of East Pakistan on same terms.

AMOUNT: \$25 million

RATIONALE: Assistance for the reconstruction of the 1970 cyclone damaged coastal areas of East Pakistan.

GOVERNMENT PROGRAMS: The credit supported the program of the Reconstruction Board for Cyclone-Affected Areas.

POLICY DISCUSSIONS:
Issues touched upon were:
i. suitable auditing arrangements to be made by the Government for the Program and sub-projects.
ii. the employment of consultants by the Government for sub-project preparation, evaluation and execution when deemed necessary by the Association.

CONDITIONS: No legal commitments were made and no specific targets set.

IMPLEMENTATION:
i. The credit was intended for items for specific sub-projects in selected categories of the Reconstruction Program, i.e. fresh water supply facilities, coastal embankments, rural infrastructures, fishing boats, gear and related equipment, water transport equipment and terminal facilities and technical assistance for sub-project preparation, evaluation and execution.
ii. IDA would finance 100% of the foreign exchange cost and 50% of the local currency cost of each approved sub-project. The Government of Pakistan would cover the remaining 50% of the local component.
iii. In view of the urgency of the major project elements of the Reconstruction Program, the usual Bank/IDA procurement procedures could be relaxed; procurement could be from the most expeditious sources including local distributors.

SUPERVISION: Disbursement did not start due to mounting disturbances which culminated in the emergence of an independent Bangladesh.

STATUS: The loan was cancelled.

NIGERIA

Loan No. 732

Date of Approval: April 20, 1971

Effectiveness: June 21, 1971

TYPE OF LOAN:

Rehabilitation

Terms: i. 20 years incl.
5 years grace
ii. 7 1/2%

AMOUNT:

\$80 million

RATIONALE:

- i. Special circumstances arising from the civil war which ended in January 1970 and which reflected the coincidence of:
 - a) substantial rehabilitation needs, in addition to the usual requirements of development, and
 - b) a reduced pipeline of aid commitments because of lack of project preparation during the period of hostilities.
- ii. Shortage of foreign exchange reserves.

GOVERNMENT PROGRAMS:

- i. The loan supported priority rehabilitation work and development investments during 1971 and 1972 as set out in Nigeria's Second National Development Plan (April 1970/March 1974).
- ii. The resource gap during 1971/72 was estimated at \$180 million.

POLICY DISCUSSIONS centered on:

- i. Government procedures to speed up disbursements as a prime pre-requisite to meeting urgent rehabilitation needs, including the handling of applications for foreign exchange.
- ii. Government's meeting with the forthcoming Consultative Group on bilateral aid.

CONDITIONS:

No legal commitments were made and no targets set.

IMPLEMENTATION:

- i. Disbursement procedures assured that Bank funds were used only to finance qualifying capital and intermediate goods imports.
- ii. Intended for homogenous commodities such as steel products, electrical equipment, spare parts, agricultural machinery, fertilizer, etc.

SUPERVISION:

No major problems were encountered

STATUS:

The loan was fully disbursed by July 1972, one year after the effective date.

INDIA

Credit No. 327

Date of Approval: June 8, 1972
Effectiveness: October 19, 1972

TYPE OF CREDIT: Development Terms: IDA
(Seventh Industrial Imports Project)

AMOUNT: \$75 million

RATIONALE: i. Balance of Payments support required because of:

- a) slow growth in export earnings
- b) increase in trade deficit forecasted for following three years.
- c) foreign exchange resources inadequate to support a level of industrial raw materials imports consistent with growth targets of both production and investment.
- d) declining net aid transfers.

GOVERNMENT PROGRAMS:

- i. The credit supported the Fourth Five-Year Plan.
- ii. Import requirements for FY1973 were \$258 million of which IFA share would average about 29% of total needs.

POLICY DISCUSSION: Issues were

- i. Measures to improve procedures for obtaining IDA licences and information retrieval methods.
- ii. Investigation and dialogue over possible ways of increasing exports through improved industrial performance by inducing competition through a limited amount of corresponding free imports.
- iii. Review of charges and margins of the State Trading Corporations.

CONDITIONS: No legal or public commitments were made and no specific targets set.

IMPLEMENTATION:

- i. Intended, as past six credits, for the import of raw materials, components, spare parts and some balancing equipment for certain branches of manufacturing industry. Power tillers and aluminum smelting equipment were added.
- ii. Limitation of IDA's contribution to the fertilizer and pesticides industries (US \$18 million).
- iii. International bidding procedures were to be applied to bulk raw material purchases through State Trading Corporations, but no special procurement procedures would apply for direct imports of components and spare parts.

SUPERVISION: No major problems were encountered.

STATUS: An adjustment of \$4.1 million was made to reflect the devaluations of the United States dollar in 1972 and 1973, and the loan was fully disbursed in 12 months from the effective date.

Date of Approval: June 22, 1972
Effectiveness: December 11, 1972

TYPE OF LOAN: Development (Industrial Imports Program) Terms: IDA

AMOUNT: \$50 million

RATIONALE:

- i. Foreign exchange was needed in support of the 1972 liberalized import policies and exchange rate reforms.
- ii. The rise in imports after devaluation permitted increased utilization of existing capacity which, in turn, increased employment and reduced fixed costs per unit of output.
- iii. Recovery of output and investment under way could have been brought to a halt without commodity aid.
- iv. Assistance in controlling inflation.

GOVERNMENT PROGRAMS:

- i. The credit assisted part of the import requirements for 1972/73 as well as that part of the Government's program for the import of such fertilizer which could not be procured and financed from bilateral sources in time.
- ii. The balance of payments requirements for 1972/73 were \$285 million.

POLICY DISCUSSIONS:

These were carried out through the Pakistan Consortium.

CONDITIONS:

No legal commitments were made and no specific targets set.

IMPLEMENTATION:

- i. The credit was intended for imports of industrial raw and semi-finished materials, components, spare parts, and miscellaneous items of manufacturing equipment. Fertilizers were not included.
- ii. Goods procured by Trading Corporation of Pakistan (TCP) were to be procured on the basis of international competitive bidding.

SUPERVISION:

No problems were encountered.

STATUS:

An adjustment of \$2.3 million was made to reflect the devaluations of the United States dollar in 1972 and 1973 and disbursement of \$52.3 million was completed by June 1973, six months after its effective date.

Date of Approval: June 22, 1972
Effectiveness: August 24, 1972

TYPE OF LOAN: Development Terms: i. 20 years, incl. 5 years grace
ii. 7 $\frac{1}{4}$ %

AMOUNT: \$60 million

RATIONALE:

- i. Balance of Payments support required because of
 - (a) sudden fall in coffee prices.
 - (b) heavy rains and flooding in 1970-71 which required budgetary aid and caused zero agricultural growth.
 - (c) slowdown in non-traditional exports.
- ii. Counterpart funds required
 - (a) to support the public investment program.
 - (b) to finance working capital for the export sector.

GOVERNMENT PROGRAMS:

i. The loan supported the Development Plan, 1970-73, which had itself previously been approved by a Bank economic mission and the Consultative Group.

POLICY DISCUSSION:

Discussion of policies taken and to be taken was made at the 1971 Consultative Group meeting. These included the fiscal measures necessary to support its investment program.

CONDITIONS: i. The loan was divided into two equal tranches (\$30 m each), with the second available after a six months review to include the following criteria:

- (a) coffee price should not exceed 57 cents;
- (b) an expansion in 1972 of at least 15% in non-traditional export registrations as compared to 1971;
- (c) a 19% increase in 1972 of the current budgetary surplus of the Government as compared to 1971; and
- (d) implementation of measures aimed at yielding at least Col.\$1,000 m. in annual net revenues beginning in 1973.

IMPLEMENTATION:

- i. \$20 million program component was to be used for imports of certain commodity groups (agricultural machinery and implements, fertilizers, pesticides and herbicides; basic metals and metal products, and minerals for industry, mechanical and electrical machinery, equipment and materials).
- ii. \$10 million Export Project Component (fixed investment) was to be used for financing foreign exchange and up to 50% of local procurement costs of specific export projects.
- iii. Counterpart funds from import financing were to be used to support the public investment program and the working capital needs of export enterprises.

SUPERVISION:

The implementation of the first tranche went well and funds were used for development purposes:

i. Program Component: No problems were encountered during an unusually brief period of disbursement (the full \$20 m. was disbursed from December 5, 1972 to January 9, 1973).

- ii. Export Project Component: Although there were some delays in Banco de la Republica project submission due to staffing problems, all disbursements should be completed by about December 31, 1974, the original closing date.

STATUS:

As a result of the rise in world coffee prices from about US\$.50 in early 1972 to US\$.63 in December 1972, the second tranche was cancelled at the Bank's instigation.

Date of Approval: November 21, 1972

Effectiveness: January 30, 1973

TYPE OF LOAN: ReconstructionAMOUNT: \$50 million

RATIONALE: The credit supported:

- i. Post-war reconstruction of productive capacity.
- ii. Foreign exchange needed to replace West Pakistan as a supplier of imports.
- iii. Reconstruction needs owing to damage caused by 1970 cyclone.

GOVERNMENT PROGRAMS:

- i. The credit supported the First Annual Plan for 1972/73 - a reconstruction program.
- ii. Import requirements for 1972/73 were put at \$900 million (minimum) leaving a projected deficit of \$500 million, of which 82% would be financed by bilateral aid donors.

POLICY DISCUSSION:

The Government's policies for reconstruction were supported, though discussions did not take place solely in the context of this credit.

CONDITIONS: No legal commitments were made and no specific target set.

IMPLEMENTATION:

- i. Ceilings were placed on various categories of imports, very high in most cases to give flexibility; low where it was considered bilateral donors would provide the items.
- ii. The credit was intended for spares, raw materials, replacement equipment and some new capital goods.
- iii. No counterpart fund arrangements were made.

SUPERVISION:

- i. The Government was reluctant to issue licences and slow in organizing imports to be financed.
- ii. Difficulties occurred with poor staffing in the Banking system.
- iii. The pattern of allocation was changed often, depending on alternative financing and the rapidity with which credits were used.
- iv. The physical distribution of items such as cotton, rock phosphate, cement and iron sheet was beset by difficulties.

STATUS: As of January 30, 1973, 12 months after the effective date, only 43% had been disbursed. By July 1974, 18 months after effective date, disbursements were 69%.

Date of Approval: June 7, 1973
Effectiveness: August 3, 1973

TYPE OF CREDIT: Development (Industrial Imports) Terms: IDA

AMOUNT: \$45 million

RATIONALE:

- i. Foreign exchange was needed in support of the 1972 liberalized import policies and exchange rate reforms.
- ii. The rise in imports after devaluation permitted increased utilization of existing capacity which, in turn, increased employment and reduced fixed costs per unit of output.
- iii. Recovery of output and investment under way could have been brought to a halt without commodity aid.
- iv. Assistance in controlling inflation.

GOVERNMENT PROGRAMS:

The credit provided part of the import requirements for 1973/74.

POLICY DISCUSSION: Issues were:

- i. Increased government funds for investment in infrastructure and public enterprises.
- ii. Incentives for the private sector to invest.
- iii. Continuation of foreign capital flows.

CONDITIONS: No legal commitments were made and no specific targets set.

IMPLEMENTATION:

- i. The credit was intended for imports of industrial raw and semi-finished materials, components, spare parts, and miscellaneous items of manufacturing equipment. Fertilizers were not included.
- ii. Goods procured by Trading Corporation of Pakistan (TCP) were to be procured on the basis of international competitive bidding.

SUPERVISION: No problems were encountered.

STATUS: Disbursement of the credit, adjusted to reflect the devaluations of the United States dollar in 1972 and 1973, was completed by June 1974, 10 months after the effective date.

Date of Approval: June 7, 1973

Effectiveness: July 30, 1973

TYPE OF CREDIT: Development (Eighth Industrial Imports Project) Terms: IDAAMOUNT: \$100 million

RATIONALE: To enable the Government to ensure an uninterrupted flow of maintenance imports in view of:

- i. the Seventh Industrial Imports Credit (Cr. 327-IN) being fully disbursed by June 30, 1973, well before the closing date.
- ii. India's overall resource position being seriously constrained on the domestic side through the difficulties of resource mobilization and on the foreign exchange side through limits on the rate of growth in export earnings and a decline in gross and net external assistance.
- iii. The shortage of imported raw materials and components constraining output.

GOVERNMENT PROGRAMS:

Import requirements for FY1974 were \$295 million of which IDA would contribute about 34%.

POLICY DISCUSSION:

Issues discussed included further proposals to improve licensing procedures and information retrieval methods.

CONDITIONS:

No legal or public commitments were made and no specific targets set.

IMPLEMENTATION:

- i. The credit was for imports of raw materials, components and spare parts for selected priority industries. To render IDA assistance as flexible as possible, no sectoral allocations were proposed except for fertilizers and pesticides (US \$25 million).
- ii. International bidding procedures were to be applied to bulk raw material purchases through 'canalizing' agencies or public corporations, though no special procurement was to apply for direct imports of components and spare parts.
- iii. The credit was intended to be used by firms registered with the Directorate General of Technical Development.

SUPERVISION:

No major problems were encountered.

STATUS:

The loan was fully disbursed in 12 months.

Date of Approval: June 14, 1973

Effectiveness: June 29, 1973

TYPE OF LOAN: Development Terms: i. 20 years incl. 5 years grace
ii. 7½ percent

AMOUNT: \$30 million

RATIONALE: i. Balance of Payments support was required because of
(a) a sudden fall in copper prices,
(b) accidental closure of a major copper mine,
(c) increase in transport costs owing to the Rhodesian border closure.
ii. Budgetary support through counterpart funds was required because of a decline of Government revenues which were highly dependent (60 percent) on the copper industry.

GOVERNMENT PROGRAMS:

- i. The loan supported the 1973 Government investment program of \$171 million, 40% less than forecast in the 1972-6 plan.
- ii. Import requirements in 1972 were \$270 million.

POLICY DISCUSSION: Issues were

- i. Restraint of urban wages.
- ii. Review and eventual elimination of subsidies for urban consumers.
- iii. Appropriate prices to encourage agricultural production and industrial competitiveness.

CONDITIONS: No legal or public commitments were made and no specific benchmarks or targets set.

IMPLEMENTATION:

- i. Foreign exchange could be used for import of specific capital and intermediate goods listed in S.I.T.C.
- ii. Counterpart funds were to be used for development expenditures not financed by any external agency by Government agencies specified by budget heads up to a maximum of 50 percent of the allocations in the 1973 investment program.

SUPERVISION: i. Procedures went well though provisions for controlled use of funds may not have increased the total amount spent by Government or prevented the 'misuse' of these funds for non-development purposes.
ii. Disbursement was probably hindered because the Loan Agreement specified use of the SITC groups whereas the Brussels nomenclature was used on import documents. Also the commercial banks were slow in presenting import documents to the Ministry of Finance (no commission was involved) and recourse to the Central Bank as intermediary also added some delays.
iii. A rapid improvement in copper prices reduced the pressure on the Central Bank or the Ministry to disburse the loan.

STATUS: \$17.5 million was undisbursed and cancelled at Bank's instigation on March 14, 1974.

Date of Approval: February 5, 1974
Effectiveness: February 13, 1974

TYPE OF CREDIT: Reconstruction (Imports Program) Terms: IDA

AMOUNT: \$50 million

RATIONALE: The credit was required to assist in the revival of production through priority imports of raw materials and equipment on account of:

- i. disruption of vital material supplies to enterprises due to the war and general uncertainty.
- ii. problems relating to a shortage of working capital and poor ports facilities.
- iii. a worsening international commodity price situation.

GOVERNMENT PROGRAMS:

- i. The credit supported the Government's first Five Year Plan (1973/74 - 1977/78) and its financial development outlay of US\$5.9 billion.
- ii. Non-foodgrain import requirements were US\$4.74 billion.

POLICY DISCUSSIONS: Issues were:

- i. downward adjustment of Government production targets to obtain more realistic estimates.
- ii. improved utilization of existing capacity.
- iii. a review of the system of import controls to reduce delays.
- iv. strengthening the unit in the Planning Commission established to monitor the progress of the credit.

CONDITIONS:

- i. The credit was intended for imports of fertilizer, raw materials for fertilizer production, industrial components, chemicals, raw materials, spare parts, balancing equipment and packing materials.
- ii. Ceilings were placed on various categories of imports; these were to be under constant review by both the Government and Association.

SUPERVISION: The Government allocated the proceeds of the credit among the various eligible industries but, as with the first credit, disbursement has been slow owing to the delays inherent in a program of import financing when the imports are subject to disbursements from many sources. Nevertheless, actual disbursements have been about twice as large as projected disbursements indicating improvements in the procedure.

STATUS: Disbursements as of September 13, 1974, 7 months after the effective date, amounted to \$25.3 million, or 51 per cent.

PAKISTAN

Credit No. 466

Date of Approval: March 12, 1974
Effectiveness: May 5, 1974

TYPE OF CREDIT: Reconstruction (Flood Rehabilitation) Terms: IDA

AMOUNT: \$35 million (of which \$18 million was program component)

RATIONALE: The credit helped finance reconstruction needs owing to damage caused by the 1973 floods and the adverse effects of this damage on the budget and the balance of payments through a decline in Government revenues which were highly dependent on export duties on cotton and, because of lower cotton exports, a balance of payments deficit estimated at \$535 million.

GOVERNMENT PROGRAMS:

- i. The credit supported reconstruction requirements which were to be met within the original budget estimates of the annual development plan by curtailing some development schemes.
- ii. It was an integral part of international aid, expected to be \$475 million.

POLICY DISCUSSION:

The Government imposed additional taxes, mainly customs and excise duties and sales taxes, to minimize the budget deficit after the flood and to restrain inflation. These programs were supported.

CONDITIONS: No legal commitments were made and no specific targets set.

IMPLEMENTATION:

- i. US\$16 million was to be used to cover part of the cost of restoring the river banks, canals, drains and roads affected by the flood, and to provide imported equipment and spare parts needed for the repair of flood damage; US\$18 million was to be used to import selected industrial materials required to maintain output and economic growth; US\$1 million was unallocated.
- ii. Goods procured by the Trading Corporation of Pakistan (TCP) were to be procured on the basis of international competitive bidding.

SUPERVISION: No major problems were encountered.

STATUS: By October 1974, 5 months after the effective date, disbursements amounted to \$29.07 million, or 83.1 per cent.

Date of Approval: May 28, 1974
Effectiveness: June 24, 1974

TYPE OF CREDIT: Development (Ninth Industrial Imports Project) Terms: IDA

AMOUNT: \$150 million

RATIONALE: To enable the Government to ensure an uninterrupted flow of maintenance imports following the Eighth Industrial Imports Credit in the light of the scarcity of foreign exchange on account of large-scale foodgrain imports 1972/73, and spiralling costs of domestic items and of essential imported commodities particularly foodgrains, oil and fertilizer in 1973/74, as well as the shortage of imported raw materials and components which was perpetuating low capacity utilization in industry and was hampering rapid industrial growth.

GOVERNMENT PROGRAMS:

- i. The Credit supported the Government's Draft Fifth Plan.
- ii. The total merchandise import bill was conservatively estimated at US\$4,970 million for 1974/75.

POLICY DISCUSSIONS:

- i. In anticipation of the favorable effects of the Government's industrial policy of February 1973, emphasizing the easing of several controls to enhance policy implementation, the Bank considered that the GOILs policies should be supported.
- ii. The Government recognized the need to remedy problems associated with export performance, export incentives and import licenses to exporters.
- iii. In the Consortium, the Bank urged members to increase the proportion of their assistance for imported raw materials and components to India.

CONDITIONS: No legal commitments were made, no special conditions for effectiveness proposed and no specific targets set.

IMPLEMENTATION:

- i. To render IDA assistance as flexible as possible, no sectoral allocations were proposed except for fertilizers and pesticides.
- ii. The credit was intended for imports of raw materials, components and spares for selected priority industries.
- iii. International competitive bidding was relaxed for procurement by Canalising Agencies, i.e., Government trading corporations.

SUPERVISION: No major problems were encountered.

STATUS: The credit became effective on June 24, 1974 and disbursement is estimated at about US\$15-20 per month.

Date of Approval: September 17, 1974

Effectiveness:

TYPE OF CREDIT: Development

Terms: IDA

AMOUNT: \$15 million

RATIONALE:

- i. To finance urgently needed imports for efficient utilization of existing facilities in agriculture, industry and selected services.
- ii. To complement the efforts of the Aid Group which met in Paris in May 1974 to discuss the need for immediate and quick disbursing assistance to Sri Lanka prompted by:
 - (a) sharp escalating costs for imported food and fertilizer;
 - (b) doubling of the oil import bill;
 - (c) prolonged deterioration of the country's terms of trade;
 - (d) negligible growth over last 10 years and increasing unemployment.

GOVERNMENT PROGRAMS:

- i. The credit expected to support Government's Five-Year Plan (1972-76)
- ii. The balance of payments deficit on current account was expected to increase from \$183 million estimated early in 1974 to \$235 million.

POLICY DISCUSSIONS: Centered on:

- i. The creation of a Counter-part Fund, within the Central Bank (using rupee proceeds obtained from the sale of foreign exchange provided for the purchase of items financed by the Credit) to be used exclusively for development expenditures shown in the 1974 and forthcoming 1975 budgets, which the Government agreed to.
- ii. As part of the appraisal of this credit, and on the basis of a sample survey of manufacturing enterprises in the eligible sub-sectors chosen for the credit, and discussions with the Government, three major topics, i.e., management and structure of the industrial sector, factors affecting production, and export performance, were discussed.

CONDITIONS:

- i. No legal commitments were made and no specific targets set.
- ii. It was 'assumed' that the Government would persist in its efforts to implement economic reforms especially those:
 - (a) emphasizing realistic pricing of agricultural products;
 - (b) adjusting welfare policies including food subsidies;
 - (c) stimulating through incentives, improvements in both agricultural and industrial productivity.

IMPLEMENTATION:

- i. The credit was intended for raw materials, components and spare parts for manufacturers and spare parts for actual users.
- ii. Eleven groups of manufacturing enterprises were selected on the basis of their priority to the economy in terms of the need for particular products, export potential and employment generation.

- iii. A review by the Association of a monthly statement of expenditures from the Fund account prepared by the Central Bank was agreed.
- iv. Flexibility was arranged where international competitive bidding was considered inappropriate.

SUPERVISION: No problems yet encountered.

STATUS: It was estimated that about US\$5 million would be disbursed between September and December 1974 and about US\$5 million each quarter thereafter. The loan was not effective as of October 23, 1974.

BANGLADESH

Credit No. 515

Date of Approval: October 8, 1974
Effectiveness: October 10, 1974

TYPE OF CREDIT: Development (Third Imports Program) Terms: IDA

AMOUNT: \$50 million

RATIONALE: Relief of 'import starvation' arising from a precarious balance of payments situation as a result of a rise of 65 percent in the average cost of imports and poor export performance.

GOVERNMENT PROGRAMS:

The credit was intended to support the 1974/75 Annual Development Plan and specific import plans totalling \$650 million, of which \$410 million would be financed through non-food commodity aid commitments.

POLICY DISCUSSIONS:

The main issue discussed was the need to examine the institutional and administrative constraints in the import control system.

CONDITIONS: No legal conditions were made or targets set.

IMPLEMENTATION:

- i. The credit was intended to finance \$10 million of imports retroactively.
- ii. It was for the same items as under the second import program but excluded finished fertilizers, shipbuilding products, food and allied products (except for shrimp processing) and included spare parts for low-lift pumps.

SUPERVISION:

STATUS: Has recently become effective.

Date of Approval: December 3, 1974
Effectiveness: - -

TYPE OF CREDIT: Development Terms: i. IBRD 25 years
(Agricultural and Industrial Imports) with 5 years
grace at 8%
ii. IDA

AMOUNT: \$35 million IBRD/\$35 million IDA

RATIONALE: To help increase utilization of agricultural and industrial capacity and the Port of Alexandria.

GOVERNMENT PROGRAMS:

The loan/credit supports the Interim Development Program for July 1974 - December 1975, which requires imports, additional to those which can be financed by the country, of about \$600 million over the period.

POLICY DISCUSSIONS:

These covered a wide range of macro-economic policies, including rationalization of the pricing system, stimulation of the private sector and decentralization.

CONDITIONS:

These included:

- i. Use of the 'parallel market' rate of exchange for foreign exchange transactions.
- ii. Implementation of sub-sector studies to appraise the long-term needs of five industrial sub-sectors.
- iii. Guarantees that the funds made available would be additional to those presently allocated under the Foreign Exchange Budget for fiscal years 1975 and 1976 for the agricultural and industrial sectors and for the Port of Alexandria.
- iv. Counterpart funds generated by the loan will be placed in a special account, and withdrawals are to be used only for development expenditures authorized under the budgets for 1975 and 1976.

IMPLEMENTATION: The loan/credit is intended to finance raw materials, intermediate goods and spares to support current production in industry (\$33 million), relevant inputs for agriculture (\$19 million), specific equipment to relieve bottlenecks in key production processes (\$10 million), some imports for private sector industry (\$4 million) and equipment and parts for Port of Alexandria operations (\$3 million). The remaining \$1 million is to support sector studies.

SUPERVISION: Disbursement is expected to be largely, but not necessarily,
on a reimbursible basis.

STATUS: Has recently been approved and is not yet effective.

ROUTING SLIP		Date 12/26/74	
NAME		ROOM NO.	
Mr. Cargill			
To Handle	Note and File		
Appropriate Disposition	Note and Return		
Approval	Prepare Reply		
Comment	Per Our Conversation		
Full Report	Recommendation		
Information	Signature		
Initial	Send On		
REMARKS <p style="font-size: 1.2em;">For your clearance please.</p> <p style="font-style: italic;">Cargill sent to Schulman on Dec 30</p> <p style="font-style: italic;">12/26/75 Cargill, Toms, Saxe (4 others?) had a mtg & decided to leave the system as is for the present.</p> <p style="font-style: italic; color: red;">VW</p> <p style="font-style: italic;">Feb. 75 - Cargill writing M.E.</p>			
From <p style="text-align: center; font-size: 1.2em;">H. B. Chenery</p>			

DRAFT
HBChenery/lb
12/26/74

TO: Mr. Robert S. McNamara, President
FROM: Hollis B. Chenery, VP, Development Policy
SUBJECT: Reporting on OPEC Capital Flows

1. I have discussed this subject with Messrs. Cargill, Schulmann and Tims. We agreed that in order to move toward a formal reporting system for OPEC flows, it would be desirable to have a senior official of the Bank discuss the subject with some of the principal countries involved.

2. Peter Cargill and I would like to discuss with you the nature of the proposed system and the means to implement it.

cc and cleared with Mr. Cargill
Attachment

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, ^{HB}VP, Development Policy

SUBJECT: Reporting on OPEC Capital Flows

DATE: December 20, 1974

1/20

Attached is the preliminary statement that you requested of ways in which the International Finance Division of Mr. Tims's Department would propose to handle the reporting requirement. It would start from the framework established by P & B and extend it by a variety of sources, many of which we are already using. At some point a visit by a senior staff member to major recipients (and donors) might be desirable.

Attachment

HBChenery/lis

1740 TB Dr. Chenery,
Hollis I don't
believe this as

satisfactory. Will
it not be necessary
to set up a formal
reporting system

with
OPEC
(and
broadly
recipient
countries.)

Encl

Note on

Reporting on and Analysis of Flows of Finance from OPEC

Members and Other Oil Exporting Countries to Developing Countries

1. In order to collect information from countries for which staff members have specific responsibility regular reports would be made by these staff members (country economists or loan officers) to the External Debt Division about any such transaction. These could be from the donor/lender or recipient/borrower side. They would include sales on extended or concessional payment terms, loans repayable in currency or goods, grants, guaranties of loans, contributions to or from multilateral institutions, etc. and might be official, semi-official or private. Although detailed information like that specified on the forms for reporting external debt and grants through the Debtor Reporting System would be desirable, it is clear that much less detail will be available in most cases at least for some time to come. Consequently even very fragmentary information with little or no detail will be valuable. Simplified reporting forms will be sent to those designated to report.
2. Standard reports received by the DRS, particularly from recipients, would be scrutinized to extract information about these transactions, prior to routine processing, for incorporation into a special periodic report on this subject.

3. The reporting on lending by financial institutions now done by the IFD with the help of the European and Tokyo offices would be extended to include the activities of financial intermediaries established or used by the oil exporting countries. Direct contacts with lenders would be used as now. Although these transactions may not be ODA there is already a considerable volume of them (see the monthly report to Mr. McNamara, Finance for Developing Countries for October and November). Lending to developing countries would be the principal but not the only information available from these sources.

4. As we are now doing we will continue to use the financial press, specialized publications like the Middle East Economic Review and governmental sources which may be available to us to secure information about these flows. This would be an extension of the use of published material by IFD in its work on foreign and international bonds and eurocurrency credits. It would be expanded to the Arabic language press.

5. Information from the OECD would also be used. Valuable information has already been received from them (in particular, a report by a consultant who traveled widely in the Middle East last summer) which has already been incorporated into reports which have been prepared. Recently the Secretariat therefore has asked member governments of the DAC to transmit to it any information which they may have. If they receive a favorable response this will add considerably to their information and ours.

6. Bank and Fund country missions to both oil exporting and recipient countries would regularly be briefed (as is now the case for eurocurrency borrowing) to obtain additional information. Resident missions would be briefed as well.

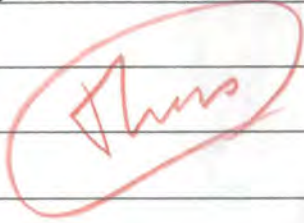
7. Close cooperation will be maintained with the IMF in order that we may continue to receive information which they may have.

8. The system established should not be limited to receipts of flows by developing countries but will include developed countries as well. In order to encompass all of the "recycling" of the capital exports of the oil exporting countries. This too entails close cooperation with the IMF.

9. The material derived from these reports would be analyzed in the framework of the analysis of flows of resources to developing countries which is a continuing task of IFD.

JWSaxe/ad'A

December 20, 1974

ROUTING SLIP		DATE 12/20/74	
NAME		ROOM NO.	
Mr. H. B. Cheney			
			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
COMMENT		PER OUR CONVERSATION	
FOR ACTION		PER YOUR REQUEST	
INFORMATION		PREPARE REPLY	
INITIAL		RECOMMENDATION	
NOTE AND FILE		SIGNATURE	
REMARKS			
<p>Here is that Memorandum from Scholmann I mentioned to you.</p>			
FROM		ROOM NO.	EXTENSION
Jo W. Sar		D 550	X4097

OFFICE MEMORANDUM

DEC 20 1974

TO: Mr. Jo W. Saxe, Chief, International Finance Division, EAPD DATE: December 20, 1974

FROM: Horst Schulmann, Deputy Director, P & B /H

SUBJECT: Reporting on Oil-Exporting Countries' Aid

In response to your query about an appropriate division of labor for reporting on financial assistance from oil-exporting countries, we have done some more thinking since yesterday. I have also checked with John Adler regarding Mr. McNamara's instructions; he confirmed that Mr. McNamara stated at the meeting of the President's Council on December 9 that P & B will continue to take full responsibility for the collection and dissemination of the information.

Specifically, this entails P & B continuing (a) to issue a monthly report on the status of the aid flows in the present format and (b) to seek confirmation of the information contained in the report from internal Bank sources and other national and multinational organizations including OECD. On the other hand, EA&P would include under its existing data gathering activities the analysis of receipts (commitments and disbursements) of developing countries from the oil-exporting countries as well as from other sources. As EA&P builds its file on recipient countries, it would bring to P & B's attention any additions to, deletions from, corrections to, or confirmations of P & B figures. P & B would provide the same information for any recipient country which EA&P would want reviewed.

We are confident that this arrangement will be workable and that any problems which may arise in the day-to-day operations of the system, be solved to our mutual satisfaction. ..

LDTaylor:cbm

ROUTING SLIP

Date

12/26/74

NAME

ROOM NO.

Mr. McNamara

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

For your information.

From

H. B. Chenery



DEPARTMENT OF STATE

Washington, D.C. 20520

File
DEC 26 1974

DEC 20 1974

Dear Hollis:

The Secretary has asked me to thank you for sending him an advance copy of your article "Restructuring the World Economy". We found it interesting.

It would be fine if the producers accepted your "low price" option as being in their own best interest. Let's hope they do. Your comparison of the adjustment needs of 1974-85 with those of 1947-55 is also useful. Even in perspective, however, the size of the adjustment which we now face is impressive. We must try to reduce it. This effort need not conflict with our longer run economic growth objectives.

Warm regard, *see you next week.*

Sincerely,

Thomas O. Enders

Assistant Secretary for
Economic and Business Affairs

Mr. Hollis B. Chenery
Vice President, Development Policy
International Bank for
Reconstruction and Development
Washington, D.C. 20433

Form No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

12/23/74

NAME

ROOM NO.

Mr. McNamara

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information.

Signature

Initial

Send On

REMARKS

Attached are several pieces
commenting on the Foreign Affairs
article.

From

H. B. Chenery

Grow on regardless

growth in the world's rich countries means starvation for the poor

The big industrial countries should meet and agree that the priority aim of their economic policies will be to return to 5 per cent per annum economic growth in 1976. If they do, the oil and petrodollar problem will be manageable. As they are doing the opposite, the problem will turn into graver crisis. The most numerate analysis of the alternatives yet is published in *Foreign Affairs* this week by Mr Hollis B. Chenery, the leading economist at the World Bank in Washington.

The rise in the oil price has taken a once-for-all 2 per cent from the annual gnps of rich countries, and 3 per cent from those of poor countries. If Opec countries were able instantly to absorb \$60 billion more a year of industrial countries' exports, all that the rich industrial countries would need to do is to shift six months' normal growth of gnp into making these exports. Thereafter, all our internal incomes could grow as before. As Opec cannot expand its imports so quickly, the rich countries have felt they must either:

(1) Cut their internal demand and have a slump. This is the policy they are now following, and it will not work even in getting the oil deficit to go away. It will merely spread unemployment in rich countries, and starvation in poor ones. Or

(2) Borrow from the Arabs at a rate that will begin at billion a year, drop slowly at first, but still make \$300 billion of total borrowing by 1980.

After 1980, the Arab balance of payments surplus will begin to disappear, because expensive investment projects now set afoot will be producing energy at lower cost than the Arabs' present \$9.60 for a barrel of oil in 1974 prices (which is why Mr Chenery believes that the Arabs would be well advised to drop the price to \$7 so as to avert this coming glut).

Debt or unemployment

The rich OECD countries say that a \$300 billion debt to Opec countries by 1980 would be unbearable. Why? It would mean Opec ownership of the equivalent of only 2 per cent of OECD countries' fixed assets. But, says Mr Chenery, "a reduction of OECD growth from its normal 5 to 3½ per cent would wipe out some \$300 billion in potential asset formation by 1980 and cause considerable unemployment, which is a much graver cause for concern than the risks of Opec control". And everybody knows that OECD countries are at present foolishly heading for a cut to something far below even 3½ per cent growth.

What of the transfer problem after 1980? If OECD countries had to repay a \$300 billion debt over six years at a real interest rate of 5 per cent—and provided (this is the all important proviso) they return to their pre-1973 economic growth rate of 5 per cent per annum from 1976 when their annual debt service would be at a maximum 1980 of 1.8 per cent of gnp and 9.2 per cent of exports. Many developing countries have an annual debt service now of 3–4 per cent of gnp, 20–25 per cent of exports.



Fiscal rectitude won't feed them

Big west European countries should note that if they had had to repay Marshall Aid on the same terms in the 1950s, then debt service would have risen in the peak year of 1955 to 3.1 per cent of gnps and 13 per cent of exports. The natural working of the price system turned the Americans' "dollar gap" of the 1940s into an American deficit by the 1950s, so that Marshall Aid would in fact have been repayable. The price system is by the 1980s going to send the Arabs' surplus the same way.

There is one element of special pleading in Mr Chenery's paper—pleading for the billion people in the poorest countries in the world like India and Bangladesh, who with present policies of stern fiscal rectitude in America and Germany will probably suffer widespread starvation. If OECD countries returned to 5 per cent per annum economic growth, then concessionary lending by them and Opec countries at between 0.3 and 0.4 per cent of their gnps—the levels maintained by OECD countries until shortly before the oil crisis—would enable the poor countries to start re-expanding their own gnps. But if OECD countries cut back from 5 per cent to much lower growth, Mr Chenery is right to suggest that they will almost certainly slow their lending to the poor. Those economic innumerates who say that "what the rich countries must realise is that they need to cut their standards of living" are not only advocating precisely the wrong policies for rich countries. They are also advocating the starving of Indians. What the rich countries must realise is the need to return to 5 per cent per annum growth.

WORLD PRESS REVIEW

HAMBURG: The illustrated magazine, Stern, carried an interview with World Bank President Robert McNamara, running to over two pages in this week's issue.

It quoted Mr. McNamara as explaining why the Western countries should not seek to cut spending on development aid.

"What we suggest the developed nations should spend additionally on aid is so insignificant that it can be raised even in such difficult times -- namely only two per cent of the increase in real income over the coming three to four years," Stern quoted Mr. McNamara as saying.

He said he believed that people were ready to help. In some countries, people were ahead of their own governments in their readiness to grant aid.

But it was important to inform the Western world adequately about the extent of the looming catastrophe, Mr. McNamara said.

LONDON: A Washington report in the Sunday Telegraph newspaper referred to an article on the oil crisis in the U.S. Foreign Affairs magazine by Mr. Hollis Chenery, a Vice President of the World Bank.

The Sunday Telegraph's report said "A senior man in the World Bank has produced a rare commodity -- optimism about the world oil crisis. He is Mr. Hollis Chenery, Vice President in charge of the Bank's Development Policy and a former professor of economics at Harvard...

"He believes that the governments of the Western industrial countries are losing their nerve in the face of a fourfold rise in oil prices, surplus 1974 oil revenues of more than 25,000 million sterling and mounting balance of payments deficits. He blames parochial policy-making and a lack of international cooperation for failure to realize that "The thing is unmanageable."

According to the Sunday Telegraph report, Mr. Chenery said in his article that countries should not fear huge debts for oil because the effects of reduced economic growth due to drastically curbed oil consumption would in most cases be much worse. "Indeed the effect of quadrupled oil prices could be cushioned by putting off repayments," the report quoted Mr. Chenery as saying.

The report added: "Mr. Chenery drew a comparison with Europe just after the 1939-45 War when America was pumping in dollars through the Marshall Plan...

"After 1947, Europe developed its exports so quickly that it could have paid its debt to America back if that had been required.

"The Arabs plainly cannot absorb imports from the West as quickly as America absorbed Europe's after the War but Mr. Chenery believes the same balancing mechanism will work eventually meanwhile, an Arab surplus would have to be accepted."

...../

- 3 -

The Sunday Telegraph report from Washington said that the industrial countries must cooperate and share their oil deficits. Countries had been too concerned with their inflation and foreign trade balances to approach the oil problem internationally.

"Mr. Chenery concludes that the economic disasters widely predicted are no more inevitable now than they were in 1946 and 1947," the Sunday Telegraph report said.

"The chief problem is to make a relatively small redistribution of world income between countries, with minimum loss of welfare."

- 0 -

An undated report in the Times today said that Saudi Arabian Oil Minister Sheikh Ahmed Zaki Yamani had "hinted broadly" that in future oil producing countries might accept deferred payment for possibly a quarter of their crude oil.

The Times was quoting a speech by the Saudi Arabian Oil Minister published at the weekend by the influential Middle East Economic Survey (MEES).

According to the Times, Sheikh Yamani said solutions to problems of surplus funds held by the oil producers and payments deficits for oil producers could be found in talks between the two sides.

The Times said that Sheikh Yamani added it might be possible for the producers to accept payment for a considerable portion, perhaps 25%, of their oil on "A long-term basis."

"MEES said that under such a scheme, the allowed portion of deferred payment would vary with the purchasing country's economic strength and ability to pay."

The Times linked its account of Sheikh Yamani's statement in the MEES with other reports on the oil crisis, including one which said that Kuwait's Oil Minister Abdel-Rahman Al-Atiqi had announced his country now effectively owned the whole of the Kuwait Oil Company (KOC) in which British Petroleum and the U.S. Gulf Oil Company both have 20% stakes.

The Financial Times also carried a report on its front page stating that Qatar had now come forward with a demand for immediate negotiations for a 100% takeover of its oil industry.

The report added that "A number of countries, including Kuwait and Nigeria, have now cut back the amount of oil taken by the major oil companies, possibly in the hope of being able to sell more on the market on their own."

...../

NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

This news story appeared on page 2 of the 22 December 1974 issue of:

☒ THE NEW YORK TIMES
☐ THE WALL STREET JOURNAL
☐ THE JOURNAL OF COMMERCE
☐ THE WASHINGTON POST

☐ THE CHRISTIAN SCIENCE MONITOR
☐ THE TIMES
☐ THE FINANCIAL TIMES
☐

Attacking Dilemmas in Energy and Economic Policy

By EDWIN L. DALE Jr.

WASHINGTON—President Ford's seemingly impossible dilemmas in making both economic policy and energy policy decisions in the next few weeks may not be quite so bad as they seem.

In various ways and from various people has come a set of ideas that fit together and could well be among the options from which the President will be asked to choose. Here is a presentation of those ideas as a package.

The package would require partial or total abandonment of some previously held Presidential positions, but Presidents have changed their minds before.

There are three starting assumptions:

¶The rapidly sliding economy does need some net fiscal, as well as monetary, stimulus. The risk of making inflation worse again later on is real, but it has become the lesser risk.

¶While it is desirable to reduce oil consumption, and particularly automotive gasoline consumption, there is no compelling reason for the nation to deny itself foreign oil—neither in the amount of one million barrels a day (the President's announced target) nor any other amount. There is no need for self-imposed new waiting lines at filling stations.

¶By far the most sensible means of reducing gasoline consumption without self-imposed shortages is a higher gasoline tax, and this can be

made palatable when it is combined with major tax reductions designed to stimulate the economy.

This is the package:

The President proposes a combined individual and corporate tax reduction of about \$25-billion. Much of it could be presented as a simple redressment of unintended inequities. These were brought about by the effect of inflation on after-tax individual incomes (the "upward tax bracket slide") and on corporate profits (serious under-depreciation of fixed equipment). The tax cut would have the all-important additional effect of stimulating total demand and corporate liquidity.

The President simultaneously proposes to "take back" almost \$10-billion of this by a 10-cent increase in the gasoline tax. This would raise the relative price of gasoline and curb consumption to some extent, but the great

majority of families would have a net increase in their incomes even after paying the extra gasoline tax. How much of an increase would depend on how much gasoline they chose to consume. The new economic stimulus would be about \$15-billion.

Finally, the President abandons all other proposed "mandatory" measures for curbing oil consumption, including quotas to cut off imported oil at the border.

The last point perhaps should be explained. Grave doubts are beginning to arise in Washington about the wisdom, and political acceptability, of this nation's denying itself foreign oil as long as the oil is freely available.

These doubts arise because of possible unemployment effects, because of all the disadvantages of devices like rationing, allocation and import quotas and because of the likely public response to renewed waiting lines at the

nation's filling stations.

Perhaps the most remarkable case for a nonpanicky approach to the oil problem has just been made in a lengthy article in Foreign Affairs by Hollis Chenery, a vice president of the World Bank. Mr. Chenery comes to these surprising conclusions:

¶Even if the oil-producing countries are forced (or volunteer) to reduce prices by several dollars a barrel, the flow of funds to them—and the resulting debt of the oil-importing countries—will still amount to about \$300-billion by 1980. This is because more oil would be imported, and less substitute fuel used, at the lower price.

¶The importing countries' borrowing—what Arthur F. Burns, chairman of the Federal Reserve Board, calls "the intolerable mountain of debt"—is in fact entirely tolerable and can be adjusted to, by the industrial countries at least.

¶Therefore, while some

continued

conservation is useful, it is preferable to continue importing oil and going into debt to the producing countries rather than slowing domestic economic activity (with higher unemployment) or investing vast sums in extremely costly alternative sources of energy.

The fact is that the United States, at least, is having no difficulty in paying for foreign oil, even though its oil bill this year will be some \$25-billion higher than last. Our "borrowing" comes in the form of deposits in American banks by the Arabs and other producing countries and by their purchases of United States securities.

But the increased gasoline tax is still worthwhile apart from its conservation effect because, by producing some \$10-billion revenues, it makes possible a really meaningful income-tax reduction for everybody. And a sizable income-tax cut could well

moderate wage demands.

Of course there is by no means agreement in Washington on the basic issue of whether there should be major stimulus for the economy, which would mean a larger budget deficit. Opinions range from zero to \$30-billion, with "liberals" tending to favor a large stimulus and "conservatives" troubled that stimulus would abort gains being made against inflation. The \$15-billion figure suggested in this article approximately splits the difference.

Finally, the package, in the view of its advocates, has an extra advantage. If the President proposes it next month, as he presumably would, Congress would be under great pressure to move quickly. But if Congress does cut taxes by a large amount, this would mean that anti-recession stimulus could not take the route of big increases in Government spending.

Form No. 75
(7-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

12/23/74

NAME

ROOM NO.

Mr. Ljungh

E1227

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

The stop in Saigon is personal
and Mr. McNamara has approved.

From

H. B. Chenery

Mr. Anders Ljungh, EXC

Myrna Gary, EPDDR VPD

Absence from Headquarters - Development Policy Staff
December 1, 1974 - March 31, 1975

11/18 To Dr. Chenery
If this I don't believe
it would be advisable
November 27, 1974
for you to stop in
Saigon.
Ernest

OFFICE OF THE VICE PRESIDENT

Mr. Chenery

December 1-6: Rotterdam, The Hague, London
Seminars on Income Distribution

Acting Vice-President: Mr. Stern

December 26 - January 5: San Francisco
American Economic Association Meeting;
Vail, Colorado

Acting Vice-President: Mr. Gulhati

February 6 - March 2:
Tokyo, Taipei, Saigon, Manila, Kuala Lumpur,
Delhi, Pakistan.

Acting Vice-President: Mr. Stern

Mr. Stern

December 7 - January 1:

India: General Discussions with
Government and Business
Officials

Philippines: ADB/NBER - Seminar on Trade
Strategies for Economic
Development

Annual Leave

San Francisco: Allied Social Sciences
Association Annual Convention

January 28 (p.m.): New York, N.Y.
Study Group on India,
Council on Foreign Relations

Acting Director: Mr. Tims

OFFICE MEMORANDUM

TO: Messrs. M. Haq, EPR; W. Tims, EPD; DATE: December 23, 1974
J. Saxe, EPD
FROM: H. B. Chenery, VP, Development Policy
SUBJECT: OPEC Reporting

Before presenting a further proposal to Mr. McNamara on OPEC reporting, I think we should discuss the question with Mr. Cargill and P & B. I have set up a meeting with Mr. Cargill at 3 p.m. on December 26 for this purpose.

Attachment

cc: Mr. Stern

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, ^{HB}VP, Development Policy

SUBJECT: Reporting on OPEC Capital Flows

DATE: December 20, 1974

12/20

Attached is the preliminary statement that you requested of ways in which the International Finance Division of Mr. Tims's Department would propose to handle the reporting requirement. It would start from the framework established by P & B and extend it by a variety of sources, many of which we are already using. At some point a visit by a senior staff member to major recipients (and donors) might be desirable.

Attachment

HBChenery/lis

12/20 to Dr. Chenery
Hollis I don't
believe this is

satisfactory. Will
it not be necessary
to set up a formal
reporting system

with
OPEC
(and
broadly
recipient
countries.
L. McN

Mr. Robert S. McNamara, President

December 20, 1974

Hollis B. Chenery, VP, Development Policy

Reporting on OPEC Capital Flows

Attached is the preliminary statement that you requested of ways in which the International Finance Division of Mr. Tims's Department would propose to handle the reporting requirement. It would start from the framework established by P & B and extend it by a variety of sources, many of which we are already using. At some point a visit by a senior staff member to major recipients (and donors) might be desirable.

Attachment

HBChenery/lc

Note on

Reporting on and Analysis of Flows of Finance from OPEC

Members and Other Oil Exporting Countries to Developing Countries

1. In order to collect information from countries for which staff members have specific responsibility regular reports would be made by these staff members (country economists or loan officers) to the External Debt Division about any such transaction. These could be from the donor/lender or recipient/borrower side. They would include sales on extended or concessional payment terms, loans repayable in currency or goods, grants, guaranties of loans, contributions to or from multilateral institutions, etc. and might be official, semi-official or private. Although detailed information like that specified on the forms for reporting external debt and grants through the Debtor Reporting System would be desirable, it is clear that much less detail will be available in most cases at least for some time to come. Consequently even very fragmentary information with little or no detail will be valuable. Simplified reporting forms will be sent to those designated to report.

2. Standard reports received by the DRS, particularly from recipients, would be scrutinized to extract information about these transactions, prior to routine processing, for incorporation into a special periodic report on this subject.

3. The reporting on lending by financial institutions now done by the IFD with the help of the European and Tokyo offices would be extended to include the activities of financial intermediaries established or used by the oil exporting countries. Direct contacts with lenders would be used as now. Although these transactions may not be ODA there is already a considerable volume of them (see the monthly report to Mr. McNamara, Finance for Developing Countries for October and November). Lending to developing countries would be the principal but not the only information available from these sources.

4. As we are now doing we will continue to use the financial press, specialized publications like the Middle East Economic Review and governmental sources which may be available to us to secure information about these flows. This would be an extension of the use of published material by IFD in its work on foreign and international bonds and eurocurrency credits. It would be expanded to the Arabic language press.

5. Information from the OECD would also be used. Valuable information has already been received from them (in particular, a report by a consultant who traveled widely in the Middle East last summer) which has already been incorporated into reports which have been prepared. Recently the Secretariat therefore has asked member governments of the DAC to transmit to it any information which they may have. If they receive a favorable response this will add considerably to their information and ours.

6. Bank and Fund country missions to both oil exporting and recipient countries would regularly be briefed (as is now the case for eurocurrency borrowing) to obtain additional information. Resident missions would be briefed as well.

7. Close cooperation will be maintained with the IMF in order that we may continue to receive information which they may have.

8. The system established should not be limited to receipts of flows by developing countries but will include developed countries as well. In order to encompass all of the "recycling" of the capital exports of the oil exporting countries. This too entails close cooperation with the IMF.

9. The material derived from these reports would be analyzed in the framework of the analysis of flows of resources to developing countries which is a continuing task of IFD.

JWSaxe/ad'A

December 20, 1974

*Printing slip to HCN Dec 19
for mtg Dec 20
cc: W. Clark Maddux*

Propositions about Urban Poor and Urban Development

A. Diagnosis

1. Urban population growth of 4% p.a. during 1960-80 is historically unprecedented. Big cities increased even more rapidly. Approximately half of this growth results from natural increase and the rest from migration from rural areas which are also experiencing acute demographic pressure. U.N. projections imply continued urban population increase from 2.4 billion estimated for 1980 to 3.8 billion in 2000. (This proposition is old-hat, non-controversial and it can be fully illustrated.)

2. Causes and consequences of rural-urban migration are not yet fully understood. Both "push" and "pull" factors are important but their relative quantitative significance is not known. Available studies reveal that

- migrants find jobs in urban centers fairly quickly
- migrants holding city jobs earn more than they did in their places of origin.

3. We do not know whether the bulk of the migrants come from the top, middle or bottom segments of the rural income pyramid. We can not predict the impact of vigorous rural development on the rate of migration. Substantial migration will continue in the period ahead.

4. Employment in urban areas has increased rapidly but not as fast as the labor force. Therefore, there exists today:

- sizeable underemployment and the phenomenon of the "working poor" (i.e. lots of hard work yielding very low incomes); there is some "open" unemployment as well.
- severe strains on the physical and social infrastructure of cities

(There is evidence to support these generalizations.)

5. A very small part of the urban labor force has income levels as low or lower than the rural poor despite pressures mentioned in paragraph 4. Access of urban low-income groups to services supplied by government is fairly limited but it is generally better than in the country-side. (These generalizations can be supported with statistics.)

6. Government policy in most countries during the past 25 years has tended to accentuate the dualism between the urban and rural sectors. This policy bias is reflected in budgetary expenditures, role of trade restrictions in raising prices of manufactured goods, taxation of primary exports, etc. (This proposition follows from what we have just said in the Rural Development Policy Paper - Report 588.)

7. Government policy has also accentuated the dualism within the city i.e. between the organized, modern sector and the informal, traditional sector. The modern urban sector is characterized by capital-intensity, relatively high wages, technology yielding high labor productivity but which is not sensitive to the prevailing factor endowment. The modern sector has absorbed the bulk of investment and it enjoys preferential access to inputs. However, its job-generating capacity is limited. The informal urban sector is substantial in size (accounts for 38-69% of urban employment for countries for which we have data) and capable of meeting many city needs on the basis of technology which is a "better fit," given present factor endowments. Present government policy neglects and frequently discriminates against the informal sector. (Many of these points can be substantiated by available evidence which is limited.)

7a. Present government policy also discriminates against the urban poor by excluding them from employment opportunities and urban services. This discrimination takes the form of demolition of central city slums and adherence to unrealistic standards for housing, health, education, water supply, etc. Despite this discrimination, the urban poor exhibit considerable resilience in coping with city environments. Frequently, the poor have to pay very high prices for water, transport, etc. (These points can be substantiated by available evidence from many cities.)

8. Inequality of income is greater in urban than in rural areas in several countries for which we have evidence. There is reason to believe that such urban inequality is growing in many countries; however, statistical evidence is very limited and we have not digested fully what is available.

B. Strategy

8a. Historically, economic development has been associated with urbanization and the secular trend in developing countries is the same. Underlying this process is the general dynamics of demand and economies of agglomeration. Many cities today absorb substantial proportions of the total labor force. They can become much more efficient job generators for the growing population of developing countries, provided the policy framework is overhauled. Major elements of a viable urban policy are the following:

- redirection of investment (paragraph 9)
- measures to rationalize the urban modern sector (paragraph 10)
- measures to stimulate the urban traditional sector (paragraphs 11 and 12)
- measures to expand access of urban poor to social and physical infrastructure (paragraph 13)

9. An urban strategy must complement efforts aimed at rural development. Excessive emphasis on one or the other can undermine both growth and equity objectives. What is the right allocation will depend on structural characteristics which vary widely from country to country-- the present degree of urbanization (15% in Africa, nearly 40% in Latin America) potential returns on investment in each sector, et.al. Given the past and present bias of government policy, it will be necessary in many (but not all) countries to

- expand the proportion of total investment devoted to rural development
- expand the proportion of total urban investment devoted to improving the earning capacity and thereby the living standards of the urban poor.

10. The urban modern sector can be rationalized and its labor-intensity enhanced by

- reducing gradually subsidies on long-term capital and short-term finance currently enjoyed by large units in the modern sector; reforms are also necessary in the foreign trade and exchange rate regimes.
- using fiscal and other instruments to manipulate the product-mix in favor of labor-intensive types of goods and services.
- expanding R and D as well as establishing information systems for "appropriate technologies".

(These are old themes, but well-worth repeating with the aid of illustrative material which is available.)

11. The informal sector provides a livelihood for the great majority of the urban poor in commodity production and services (domestic work, petty trade, transport). We know of no effective way of directly assisting those engaged in service activities. They will gain indirectly through the multiplier effect of growth in the modern and informal commodity producing sectors.

12. Commodity production in the informal sector can be stimulated directly. There is need for a selective approach; not all small units in this sector should be supported. Micro-studies will be necessary to identify activities which can be viable on a small-scale. (Viability means production at equal or lower cost, calculated at shadow prices, compared to corresponding production in large-scale modern sector.) The following measures are relevant:

- where governments control the quantitative availability or the allocation of funds or intermediate inputs, viable small units in traditional sector should get equal and possibly preferential allocation.

- small industry growth in informal sector can also be fostered by means of preferences in government contracts, encouragement of subcontracting, reservation of some lines of production for small units, hire-purchase arrangements for machinery, and free or low-cost technical, design and marketing assistance.

13. Another major aspect of the proposed policy for urban areas is to expand access of low-income groups to city services--education, health, housing, water, electricity, transport, etc. This is not so much a matter of substantially increasing government outlays on these services as it is of the following:

- adoption of appropriate standards and producing city services at sufficiently low cost which the poor can afford (see forthcoming housing policy paper.)
- levy of user charges and taxes on middle and upper income consumers of city services to generate surpluses which can be used for expanding coverage of these services
- strategic location of employment, residence and services to decrease transport cost and to expand earning opportunities for low-income households.

C. The Bank's Role

14. The Bank has a variety of instruments to promote efficient urban growth and to help the poor. Support for policies and projects described in paragraphs 10 and 12 will stimulate employment. Bank projects in housing, transport, public utilities, education, health, family planning, and nutrition can adopt standards which will serve, not exclude the poor. (There are many suggestions along these lines in recent Bank policy papers.)

15. The Bank should consider the possibility of integrated urban projects, analogous to the "minimum package programs" in rural development, which seek to link employment-generation policies with provision of services.

16. The Bank commits a substantial proportion of its funds in urban areas. Essentially, what is required is greater coordination and more focus on a city-wide approach than has prevailed up to now.

December 19, 1974.

THEMES FOR 1975 GOVERNORS SPEECH

INTRODUCTION

/ Background: Refer to examination of "New World Order" at U.N. Special Session on Development and International Cooperation in following weeks. /

- Two themes:
- (1) Bank response to oil crisis and recycling and assistance in readjustment process.
 - (2) Progress on our longer term objectives of distribution and growth.

I. BANK RESPONSES TO WORLD DISEQUILIBRIUM

- Expansion and reallocation of Bank resources toward most affected countries
- Shift in borrowing patterns (OPEC and U.S. more prominent)
- New techniques (third window, increased program lending (?), etc.)
- Closer relation of Bank and Fund in supporting readjustment process (Development Committee agenda)

II. PROGRESS ON RURAL DEVELOPMENT AND DISTRIBUTION

1. Objectives: Restate from 1972 and 1973 speeches, stress small farmer and integrated rural development. Objectives need to be reinterpreted to take account of increased urgency of food production in some countries.
2. Role of Small Farmer in Production: Must be integral part of production program. Small farmer as efficient user of resources, especially land.
3. Bank Progress toward Nairobi Objectives: Countries of concentration, Bank experience to date.
4. Further Evidence on Income Distribution and Identification of Poverty Groups

III. URBAN DEVELOPMENT

(See Gulhati note based on Urban Poverty Task Force results and Urban Transport and Housing papers)

1. Nature of the Problem:

- All countries urbanizing rapidly, particularly those in lower to middle incomes (\$150 to \$500).
- Urbanization is shifting part of poverty problem from rural to urban areas. Growing squatter settlements, inadequate infrastructure, poor access to jobs accentuate the problems of the poor.
- Despite social and economic disruption caused by rapid migration, average urban incomes are much above rural and will continue to attract migrants.

2. Need for Integrated Approach to Urban Development:

- Essence of Urban Problem: to secure balance between rural and urban investment (now usually skewed toward urban), greater efficiency of urban systems, and more equal access for poverty groups.
- Increasing Efficiency: need to recognize resource limits, adopt more appropriate design (avoidance of "overdesigning"), locate infrastructure to facilitate productive investment, etc.
- Increasing Incomes of Poor: need minimum "urban package" of housing, access to infrastructure, credit for informal sector, etc. Analogy to rural development package.

3. Evolution of Bank Programs for Urban Development:

- General approach: integrating of investment in infrastructure, housing (?), education, technical assistance. Concentration on 15-20 cities.
- Appropriate design of infrastructure, housing to avoid excessive concentration on upper incomes. Special problems of transportation.
- Dimensions of future Bank programs.

HBC

Mr. Robert S. McNamara, President

December 6, 1974

for Hollis B. Chenery, VP, Development Policy *ES*

Co-financing Practices and Potential

1. The attached paper has been prepared by the Policy Planning and Program Review Department and is being distributed for information to the PRC. The paper confines itself to a review of the Bank's co-financing practices in recent years and does not raise any issues requiring management's decision. The purpose of the paper is to make the Bank's experience in regard to co-financing available to the interested departments.
2. Co-financing is likely to be of increasing importance to the Bank Group in coming years, particularly as a form of association with new sources of capital. If the ratio of co-financing to Bank lending were maintained, \$6-7 billion of co-financing would be undertaken in the next five years.
3. The ability to associate other financing agencies with our projects is of major importance to our member countries. However, the scope of our effort is not explicitly recognized in our lending plans nor is the staff time and resources spent to realize co-financing recognized in the budget. At the staff level the priority for the individual staff member is not clear. Systematic attention to co-financing possibilities could increase the Bank's role in mobilizing additional sources of capital for the developing countries.
4. Since I believe the material in the paper is not general knowledge, nor readily available elsewhere, you may want to consider sending it to the Board.

cc: Mr. Knapp

Attachment
MHaq/EStern:ls

bcc: Messrs. Stern
Haq

OFFICE MEMORANDUM

✓

TO: Mr. Robert S. McNamara, President

DATE: December 2, 1974

FROM: Warren C. Baum, VP, Central Projects Staff

Hollis B. Chenery, VP, Development Policy Staff

SUBJECT: Sector and Country Economic Work in the Bank

12/3

You asked us respectively to prepare (memorandum of July 3, 1974) a report on the status of sector and country economic work in the Bank by December 31. Work is in progress, but competing claims on the time of the staff involved make the December 31 schedule very difficult if the analysis is to be more than perfunctory. Moreover, the statistical material on which an analysis should be based has only become available recently. Unless you consider that the matter is urgent, we propose an extension of 45 days, to February 15.

1-14

OK

Encl

ESTern/lis

sent cc's to:
Baum
Chenery
Hag/Chernick

12/4
L.S.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 2, 1974

FROM: Hollis B. Chenery, VP-DP *HBC*
*4721*CONFIDENTIALSUBJECT: U.S. Position on Oil and Recycling

DECLASSIFIED

DEC 18 2014

1. My interpretation of the present U.S. position (State Department version) is based largely on two hours of discussion last Tuesday with Enders, McGeorge Bundy, and Walter Levy. We took turns probing the U.S. position from various points of view and Enders responded quite candidly. He also gave his assessment of the main European reactions to the Kissinger-Simon proposals.

2. Oil Prices. Although the urgent need to reduce oil prices is still featured in all official statements, the State Department assessment is that no reduction is likely to take place before 1980. The problem therefore becomes how to live with the surplus accumulations of the OPEC countries and to institute policies that will bring down prices thereafter or at least make the surpluses manageable.

3. Surplus Accumulation. Enders stated that his projection of the OPEC surpluses was now "virtually the same as the Bank", ranging around \$400 billion dollars in 1980 (our estimate in Report 477 was \$410). While this may or may not be fully accepted in Treasury, it is clearly a change from the earlier assessment. Uncertainties have more to do with the absorptive capacity of the OPEC countries for imports rather than with the volume and price of their exports.

4. Recycling. The United States strongly prefers a recycling "safety net" to be under the aegis of the OECD for a mixture of economic and political reasons. On the economic side, they feel that they can get agreement on a stronger set of economic measures by the borrowing countries, including energy conservation, trade policy, etc. (Levy questions whether there is very much to be gained from energy conservation outside of the United States.) On the political side, a two-stage set of negotiations, first getting agreement with the other importers and then discussing with the producers, is preferable to either an IMF forum or the French proposal to go directly to a meeting of producers and consumers. However, the Americans and French apparently have an understanding to support each other's proposals, at least formally, although Enders does not see that the French conference would have much substance. Levy raised the question of the desirability of having the OPEC countries share the risk of default by borrowers. From Enders' point of view this is not a large factor compared to the economic and political benefits of

having the OECD forum independent of OPEC participation in their deliberations.

5. Recycling to the LDCs. The Kissinger speech at Chicago deliberately omits any reference to the upper tier of developing countries, which in volume terms require the largest amounts of recycling. Apparently, little work has been done on the U.S. Trust Fund proposal or other aspects of the IMF role, since the main purpose now is to get the OECD facility in place.

6. The Role of the IMF. I questioned whether the U.S. proposals would not weaken the IMF. Enders insisted that this need not be the case and that, indeed, it might be easier for the IMF to provide funds to the developing countries if it were not also burdened with the main borrowing from the OECD.

cc: Mr. McGeorge Bundy, Ford Foundation
 Mr. E. Stern

H.B. Chenery: msg

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: November 20, 1974

FROM: Hollis B. Chenery, VP, ^{HBC}Development Policy

SUBJECT: Bank Policy on Rural Development

1. As you requested, I asked Mark Leiserson the chief of our Employment and Rural Development division (a former economics Professor at Yale), to go over the policy paper carefully and to suggest alternative language where needed. His suggestions are attached. They have also been sent to Mr. Yudelman and others concerned with the paper.

2. Mr. Leiserson will attend your review this morning and be prepared to work with Mr. Yudelman on any redrafting that is needed.

Attachment

HBC:gss

3708
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
FROM: Hollis B. Chenery, VP, Development Policy
SUBJECT: Takayama Project

DATE: November 19, 1974
The evidence shows I agreed to up to \$50,000 for the project from the contingency fund. I will therefore approve it. Lnc

1. I refer to your comment on Mr. Waelbroeck's memorandum (November 5, 1974) concerning the use of your special fund to finance one of the research projects being undertaken under the Ford Foundation Program for Research in International Economic Order.

2. The idea of a project in cooperation with Ford in connection with the International Economic Order Competition was initiated by you (on June 26, 1974) with the suggestion that you would contribute from your contingency funds. In fact, there was a project of considerable merit, for which there was a genuine need for Bank support. You had agreed, in principle, to support this project, subject to further staff review.^{1/}

3. Since then, a good deal of work has been put into the reformulation of the project. In subsequent discussions, this project has been considerably modified and moulded to the Bank's own purposes. It would now appear that we are buying cheap into a project of considerable importance for the developing countries - namely, the development of a tool for forecasting prices of all major foods. This is directly in line with the priorities set for the Bank's work on commodities. It is no longer just an interesting project in which we are cooperating with Ford. It is our project in a real sense, although support from Ford for the project as a whole would be greater than ours (\$90,000 versus \$50,000).

4. The consequences of turning a good project down at this stage would be quite serious. First of all we would lose the project, which would be a setback to our commodity work. Secondly, our relationship with Ford would, at the least, make it difficult for us to put forward any tentative steps towards an agreement on this project or other possible future joint ventures with credibility. Thirdly, our credibility in the academic community would be hurt.

^{1/} See my memorandum to you of August 2; and King to Stern of August 6; copies attached.

5. Financing this project from the Research Budget would almost certainly result in expenditure exceeding the budget of \$1,955,000 this fiscal year. At present, authorizations are 7% in excess of the budget, which we anticipate adhering to with the help of slippage. While we could authorize an additional sum of about \$10-20,000 this year, the Takayama project needs \$50,000. Consequently, if the project is to go forward, the major contribution will have to come from your special fund.

Attachments

cc: Messrs. Tims/Waelbroeck
Balassa
B. King

DCRao:gm

OFFICE MEMORANDUM

3708

TO: Mr. Robert S. McNamara

FROM: Jean Waelbroeck (through Mr. H.B. Chenery)

SUBJECT: Takayama Project

DATE: November 5, 1974

As you will remember, Messrs. T. Takayama, S.C. Schmidt, M. Aoki and G.G. Judge have submitted to the Ford Foundation a research project on a model of the grains, meat, and soybeans markets. Mr. Takayama is principal investigator. The proposal was made under the Ford Program of Research in International Economic Order. The grant requested was US\$200,000.

The Ford Foundation judged that the proposal has great scientific merit and decided to finance it. The grant requested exceeded however the amount normally granted under the program. You had indicated earlier that the IBRD might be willing to complement a Ford grant if a project seemed particularly relevant to policy making and that, in principle, the Takayama project was worth consideration.

The project has been examined by a panel of Bank staff members, followed by detailed discussions in which Messrs. M. Balassa, B. King, D.C. Rao and I took part. The conclusion was that the project merits support. We felt that the Bank should finance Takayama's work on estimation of supply and demand functions for 25 regions of the world. This is part of the research initially proposed to the Ford Foundation. During conversations with Takayama it appeared that there was mutual interest in sharing ideas, results, and data while the project was in progress. It is accordingly suggested that the support be given in the form of a US\$50,000 research contract with the Bank. This would be financed out of your Special Fund.

JWaelbroeck:aws

cc: Mr. B. King, VPD
Mr. D.C. Rao, VPD
Mr. W. Tims, EPDDR
Mr. S. Singh, CE
Mr. B. Balassa, DRCDD

Cleared with Messrs. King and Tims

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: August 2, 1974

FROM: Hollis B. Chenery, ¹⁴³²VP, Development PolicySUBJECT: International Economic Order Competition
(Ford Foundation)

1. We have checked into the proposals which Ford has received in the general field of international trade to see if there was any which might in fact be in the area you are interested in. There appears to be one which has considerable merit. Moreover, it presents Ford with a problem, since the cost would amount to 20% of their budget. From their point of view, this is the only thing against it.
2. We have obtained a copy of this proposal on a confidential basis. It has been given a quick screening by two of our most experienced researchers (Waelbroeck and Balassa). Though each has certain reservations, they both regard the project favorably, certainly enough to give it a more thorough review. Before we do this, however, we would like to "legitimize" our possession of the document, i.e. Ford would get the authors' permission to release the document to us.
3. Before approaching Ford again, we would also like to be certain that this is the sort of project in principle that you would be prepared to support from your contingency reserve.

The Project

4. The project is by a University of Illinois team, which includes Professors Takayama and Judge, who have collaborated before and have a high reputation. Its title is "Projection and Evaluation of Trends and Policies in Agricultural Commodity Supply, Demand, International Trade, and Food Reserves".
5. The research consists in building a model of international trade in agricultural commodities in order to make a projection over 10 to 20 years of supply, demand, price, trade and storage of the principal basic food products (grains, oilseeds, livestock products). The model is policy-oriented. It would not be based on assumptions of free trade, but on more realistic restrictive assumptions and would be designed to answer such questions as: what is the most desirable buffer stock policy?
6. The project would appear to be complementary to some of the work now going on in the Bank (e.g. in the Development Research Center and in Economic Analysis and Projections Department). It is possible that, if the Bank supports it, there could be a collaborative effort.

HBChenery:BBKing:gss

OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: August 6, 1974

FROM: B. B. King *BBK*

SUBJECT: International Economic Order Competition
(Ford Foundation)

1. I understand that Mr. McNamara agrees in principle to consider a contribution of up to \$50,000 to the Takayama project.

2. I have now asked Ford (Ruof) to legitimize our interest in the project by formally asking Takayama to release the papers to us. Once this is done, he will inform D. C. Rao. Probably the first step thereafter should be an informal meeting between Duloy and Takayama during August.

3. The results of the competition will be announced on September 2/3, but there will be a period of a month or so of discussions thereafter on the details of some of the projects. If, as expected, the Takayama project is a finalist, we would also have to reach a final view during that period. Waelbroeck will be here on September 1 and obviously should be involved.

cc: Messrs. Balassa
Duloy
A. Ljungh
D.C. Rao
Tims/Waelbroeck

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

J. Sales
Cc: *King*
Wallmark

Notebook

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

11/18 To Dr. Chenery

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 15, 1974

FROM: Hollis B. Chenery

HBC

SUBJECT: Article for Foreign Affairs on "Restructuring the World Economy"

The attached article has been accepted for publication in the January issue of Foreign Affairs and is currently being set in type. I will have the opportunity to make changes in galley through Tuesday or Wednesday (November 20), in case you have any further comments.

Attachment

cc: Members of the President's Council

HBC:di

→ please ask the Secretary to our board to distribute the FD's copies for their information. Rev. ed.

- 1. I continued to believe it to be an excellent article.*
- 2. Note the changes I suggested on pages 1 + 17.*
- 3. On 11/20, when you return the galley proof for Foreign Affairs.*

Distributed Nov. 27

OFFICE MEMORANDUM

initialed

TO: Mr. Robert S. McNamara, President

DATE: November 5, 1974

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Mankind at the Turning Point--The Second Report
to the Club of Rome

11/5
As you requested, I attach a summary and evaluation of the Pestel-Mesarovic volume. It suffers from sloppy analysis, a gross error in the calculations, and a naive presentation of the results. In summary, the final product is not much of an improvement over the seminar that we attended.

cc: Messrs. W. Clark
E. Stern

HBChenery:gss

5/28/75 - Copy given to be better (MCN had mentioned it to him & he asked for copy).
HC said OK. Also referred him to Hag for earlier paper.

OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery

DATE: October 23, 1974

FROM: John H. Duloy

SUBJECT: Mankind at the Turning Point --
The Second Report to the Club of Rome

1. The first report to the Club of Rome, Limits to Growth, was based on the simple proposition that exponential growth rates collide with finite resources. It lead to the simple and unacceptable conclusion that it is necessary to reduce growth rates across the board. The study was mechanistic, simplistic and pessimistic. Although it cannot be taken seriously as a piece of analysis, Limits to Growth had an impact on opinion, particularly in the industrialized countries. It contained a simple idea simply presented.

2. The second report, Mankind at the Turning Point by Mesarovic and Pestel, is more ambitious. The world is disaggregated into 10 regions, and the book examines a number of issues and related policy options -- aid flows, population, energy and food. The basic viewpoint of the authors is supportive of the cause of developing countries. While the book will doubtless be widely publicized, I believe that it will not have much impact -- there is not much new in the book, the presentation is not always clear, and the analysis underlying it is seriously deficient.

(i) Population

3. The population component of the study, although detailed and disaggregated, in some respects reaches extremely pessimistic conclusions largely due to model misspecification. It repeats the basic error of Limits to Growth (and many other population projections) of taking birth rates as purely policy variables unaffected by economic development, while allowing undernourishment to increase death rates. This formulation guarantees catastrophe. Given the misspecification of food production conditions discussed below, the only escape is through "deliberate population policy." Mesarovic and Pestel completely ignore the possibility that fertility might decline with development, thus exaggerating the need for direct control through unspecified government action. Nor would modelling the "demographic transition" make much difference in their model given the misspecification of food production which makes development almost impossible.

(ii) Food

4. The analysis of prospects for food production concentrates on South Asia. The results in the text are alarming: by 2025 South Asia will require annual grain imports of 500 million tons or there will occur massive deaths among children (500 million up to 2025) or massive aid to South Asia (600 billion 1973 dollars up to 2020) will be required. It is

also stated that a policy of diverting investment from industry to agriculture within South Asia will give only short-run relief: this policy leads to disaster by 2025, with the regional gross product being about one half of what it would otherwise have been.

5. I have examined in some detail the characteristics of the model which lead to these results, as a partial test of the model's specification and estimation. To do this, it was necessary to go to the background documentation; information needed to evaluate the study is not contained in the book itself. The manner in which increases in food production is modelled is both unrealistic and pessimistic. For example, the level of investment for the development of land in agriculture (irrigation, clearing and the like) is a policy variable. The cost per hectare of land developed is computed within the model. This cost increases from 1975 to 1979 by a factor in excess of one billion! ^{1/} The effect of this is that land development virtually ceases by 1979, food production expands slowly due to additional fertilizer, but vast resources are absorbed by the land development sink. It is because of this peculiarity of the model that the diversion of investment funds towards agriculture actually worsens the food situation, as well as halving gross regional product. In summary, the model contains a gross error in its specification of agricultural production relations. This means that the results on food production, population (death rates are linked to food availability), the impact of aid flows, and regional product growth rates are without foundation.

6. This should not be taken to suggest that the prospects for food production in the face of rapid population increases in South Asia are otherwise than deeply disturbing. On the contrary, my own view is that this is perhaps the major emerging problem area. But the treatment of the problem in Mesarovic and Pestel illuminates neither the dimensions of the problem nor likely solutions to it.

^{1/} Land is either "developed" or "undeveloped," with land development being a once-and-for-all process (over a 50 year time horizon!). In the case of South Asia, it is assumed that, in 1975, 94% of land is already "developed." The next step in the chain is a relationship between the capital costs of land development per hectare and the fraction of land remaining for development. The relationship included in the model specifies very steeply increasing costs for low fractions remaining, and it bears little or no resemblance to empirical observations. The combined effect of these various errors is that the cost per hectare of developing land increases by 1979 to 1.39 billion times its 1975 level; and about 250 billion 1963 dollars are spent over 50 years to produce about a two percent increase in the area of land which is "developed"!

(iii) Energy and Oil

7. The other major issue addressed by Mesarovic and Pestel is energy and oil. I have not yet examined the technical background papers on this component of the study, relying only on the material presented in the text. The major conclusion drawn is the need for a cooperative strategy among oil-producing and oil-consuming regions and that this strategy offers all parties better conditions than conflict strategies. Once again, however, the analysis is mechanistic and deficient. The major weakness is in the treatment of substitution possibilities -- both in terms of growth paths using less energy in total and direct substitution among energy sources. Equally important is the fact that the grouping of countries is not such as to permit an analysis of the effects upon the most severely affected developing countries -- the Middle East only exports oil, while Nigeria is included with the rest of Africa, Indonesia with the rest of Asia, and Venezuela with the rest of Latin America.

8. The most preferred strategy is defined in terms of the benefits (or costs) accruing to the Middle East and the industrialized countries. Mesarovic and Pestel are naive in considering that this strategy is acceptable in any real sense: it leads to the accumulation by the oil producers of between about 7 and 14 percent of the industrialized countries' total capital stock by 2025! Further, they do not appear to have taken into account the disposition of the earning streams from this stock and their impact upon the relevant regional products and external balances. The mechanism appears to be some variety of costless accumulative recycling!

9. Overall, the model system is not suitable for its intended purpose -- the analysis of policy changes. For such an analysis, it is necessary to include within the system the changes which come about by the usual mechanisms of adaptation, including changes in prices and in technologies. If the objectives call for more radical changes than can be accommodated in the above way then deliberate policy intervention may be needed. Putting all the burden upon the latter and none upon the normal capacity to adjust grossly overstates the realm of international policy intervention. Finally, the study concentrates on global or international policy choices. But if we are concerned with food availabilities, poverty, and fertility rates, intra national and re-distributive policies are of crucial importance.

cc: Mr. W. Clark, External Relations
DPS Directors
DRC staff

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 5, 1974

FROM: Jean Waelbroeck (through Mr. H.B. Chenery)

SUBJECT: Takayama Project

*H.B. Chenery
willing to support
the project but
the \$50,000 should come
out of the Research
Budget. Lm*

As you will remember, Messrs. T. Takayama, S.C. Schmidt, M. Aoki and G.G. Judge have submitted to the Ford Foundation a research project on a model of the grains, meat, and soybeans markets. Mr. Takayama is principal investigator. The proposal was made under the Ford Program of Research in International Economic Order. The grant requested was US\$200,000.

The Ford Foundation judged that the proposal has great scientific merit and decided to finance it. The grant requested exceeded however the amount normally granted under the program. You had indicated earlier that the IBRD might be willing to complement a Ford grant if a project seemed particularly relevant to policy making and that, in principle, the Takayama project was worth consideration.

The project has been examined by a panel of Bank staff members, followed by detailed discussions in which Messrs. M. Balassa, B. King, D.C. Rao and I took part. The conclusion was that the project merits support. We felt that the Bank should finance Takayama's work on estimation of supply and demand functions for 25 regions of the world. This is part of the research initially proposed to the Ford Foundation. During conversations with Takayama it appeared that there was mutual interest in sharing ideas, results, and data while the project was in progress. It is accordingly suggested that the support be given in the form of a US\$50,000 research contract with the Bank. This would be financed out of your Special Fund.

JWaelbroeck:aws

cc: Mr. B. King, VPD
Mr. D.C. Rao, VPD
Mr. W. Tims, EPDDR
Mr. S. Singh, CE
Mr. B. Balassa, DRC DR

Cleared with Messrs. King and Tims

Mr. Robert S. McNamara, President

October 25, 1974

Hollis B. Chenery, VP, Development Policy

Proposed Article for Foreign Affairs

1. I attach a draft of an article that starts from the diagnosis of R#477 but is mainly concerned with the nature of longer term solutions. I plan to get Bill Bundy's reaction while I am in New York at a Ford Foundation meeting on Tuesday and to revise it in the light of his and your comments, assuming each of you finds the general argument acceptable. If so, I will do a thorough revision and check on the figures and add such statistical tables as Bundy feels appropriate (Foreign Affairs rarely carries any). I am aiming at a final version by November 5, which I will clear with William Clark in the normal way.
2. At this point I am merely seeking your authorization to proceed, since if I am going to withdraw the article I should do so immediately. If you want to reach me by telephone, I will be in Virginia at the Meadow (804-994-2222) through Monday and then at the Ford Foundation (c/o David Bell).

Attachment

cc: Messrs. W. Clark
W. Bundy

HBChenery:gss

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President *(MCN kept note)* DATE: October 25, 1974
FROM: Hollis B. Chenery, VP, Development Policy
SUBJECT: The Recycling of Petro-Dollars

10/25
Attached is the short note on recycling which you requested for Mr. Waldheim. It advocates no particular measures since you wanted a general description of the problem and the possible policies which should be pursued.

Attachment

EStern/lis

Mr. Robert S. McNamara, President

October 25, 1974

Hollis B. Chenery, VP, Development Policy

The Recycling of Petro-Dollars

Attached is the short note on recycling which you requested for Mr. Waldheim. It advocates no particular measures since you wanted a general description of the problem and the possible policies which should be pursued.

Attachment

EStern/lr

bcc: ^{Mr} ~~Messrs.~~ Stern

cc and cleared with: Messrs. Tims
Waelbroeck

THE RECYCLING OF PETRO-DOLLARS

The Problem

1. The "recycling of petro-dollars" is the appropriate investment of the surpluses of the oil exporting countries. To the oil exporting countries, appropriate means secure investments, with a reasonable rate of return; from the viewpoint of the rest of the world, appropriate means the investment of the revenue surpluses of the oil exporters in countries in proportion to their oil deficits. One problem is that the larger a country's deficit, the less attractive it is as a secure investment. A second problem is that a recycling mechanism on commercial terms will not be of significant assistance to most of the lower income countries which are not creditworthy for large amounts of commercial capital. They face mounting foreign exchange problems which were exacerbated by the oil price increases but go far beyond them.

2. In strictly economic terms the recycling of the revenue surpluses is not a significant problem for the industrialized countries. The amounts, though large in absolute terms, are only a small proportion of their wealth, no matter how that is measured. Moreover, to the extent that a transfer of real resources occurs, i.e. to the extent that they can increase their exports to the oil producing nations, to that extent the problem of recycling is reduced. However, the recycling problem is a major institutional problem. First, the investment preferences of creditors may not match the needs of the debtors, even excluding the low income developing countries, thus requiring intermediation. Secondly, the private financial channels are not fully capable of handling such rapidly accumulating funds, made available at short maturity, for an extended period.

3. If the private financial systems are not bolstered, and if public intermediation is not expanded to supplement the private markets, there would be a serious danger of the weaker countries having to restrict imports and reduce growth with serious consequences for themselves and a reduction of trade prospects for others.

The Size of the 1974 Problem

4. The current account surplus of the oil exporting countries for 1974 is estimated at \$65 billion. Due to time lags in payments and other technical factors, plus errors and omissions, the actual current account deficits of oil importing countries to be financed in 1974 is about \$50 billion. Of this, approximately \$30 billion are the current account deficits of the industrial and other developed countries; the deficits of the developing countries are estimated at about \$20 billion.

5. In the aggregate, the 1974 deficits are offset by increases in world liquidity and by OPEC deposits, investments and aid. However, neither the increases in liquidity nor the use of OPEC surpluses are evenly distributed among the non-OPEC countries. Individual countries have had to:

- Use reserves. Thus far reserves have declined principally for some industrial and developed countries; the total may reach \$7-8 billion.
- Draw on the IMF regular account and the Special Oil Facility, totalling perhaps \$5 billion.
- Borrow directly from OPEC. Loans to industrial countries and long-term investments may total perhaps \$10 billion; loans to developing countries may total perhaps \$2-3 billion. (This includes amounts notified to UNEO.)

In addition, countries have had recourse to the Eurocurrency market.

6. Thus, during 1974 the private financial system has handled the financial flows, though there are increasing signs of strain. What the financial system does not deal with is the problem of the low income countries. Their deficits include not only the increased cost of oil, but also the rising costs of their increased requirements of food and fertilizer, and the continually rising costs of other imports -- increases which are not offset by either increased aid flows or increased export earnings.

The Principal Issues

7. Both the adjustment to higher energy prices by consumers and the increase in the capacity of oil exporters to invest and consume requires time. For the next several years very large surpluses will be generated annually. The initial resilience of individual countries and the international financial system is no indication of the capacity to deal with these recurrent deficits. The three essential issues are:

- The capacity of the private banking system to handle the rapidly accumulating amounts. This involves intermediation between short-term deposits and medium-term borrowing requirements, and between the country preferences of the depositors and the country distribution of capital requirements.
- The willingness of governments to share in the risks of lending to the less creditworthy of the developed countries and the middle and higher income developing countries.

- The ability of the international community to provide for the increased concessional capital requirements of the low income countries.

8. Because the private financial markets have been able to channel the bulk of the investable surpluses without extraordinary difficulty in 1974 provides no assurance that they can continue to handle the cumulative amounts forecast. Specifically, what is at issue is the increasing unwillingness of the financial markets to lend to those countries whose creditworthiness is being gradually eroded. Although independent banks cannot afford to take the risks of lending to such countries, national governments are obviously in a different position. A number of measures could be taken to strengthen the banking network so that the investment of surplus oil revenues can be handled without disruption, including:

- a) Willingness of national central banks in the principal currency countries to provide discount facilities and/or guarantees to their private banks for lending to oil importing countries.
- b) Expanded arrangements between the central banks to guard against the potential danger of unexpected and large shifts of funds between currencies.
- c) Reducing short-term interest rates to non-residents to accelerate the trend towards longer term investment of oil exporting countries surpluses; this can be done by regulations of the type used by many countries recently to discourage capital inflows. This will enable intermediaries to make longer term commitments and reduce the uncertainty created by financing medium-term investments by very short-term funds.

9. Even a strengthened banking system must be supplemented by public action, at least for the next several years. The projected flow of funds is so large that banks will have problems of adjustment; the risk of lending to some countries will become too large for private financial institutions, or even a single country, to underwrite; and the commercial banking system will not deal with the problems of the low income countries.

10. For instance, if the growth targets of the UN Second Development Decade were to be achieved, the capital flows to the developing countries would have to rise from almost \$20 billion in 1973 to over \$30 billion by 1976 and to over \$50 billion by 1980. Total Official Development Assistance, the concessional capital required by the low income countries, would have to rise from \$9.8 billion in 1973 to \$15.1 billion in 1976 and to over \$24 billion in 1980.

11. To support the private financial system and to meet the capital requirements of the lower income countries, the following measures would be desirable:

- a) Expand the IMF Oil Facility (\$10-\$15 billion). This is already under discussion in the IMF.
- b) Expand intergovernmental borrowing along the lines recently agreed to by the EEC. It might be worth exploring whether the EEC Associated Countries could also have access to the proceeds of such loans.
- c) Substantially expand the World Bank lending program, financed by increased borrowing in OPEC countries. Similar action by the Regional Banks. (The World Bank lending program has already been expanded substantially.)
- d) Renew the effort to establish a facility which would lend on intermediate terms (say 3-4%, for 20-25 years).
- e) Commitment by the industrial countries, at a minimum, not to reduce their aid flows in real terms, i.e. an "aid pledge" analogous to the trade pledge already agreed. This could perhaps be taken up in the Development Committee.
- f) Reallocate bilateral concessional assistance, to the maximum extent feasible, to the lowest income countries. (This is under discussion in the DAC.)
- g) Renew efforts to obtain OPEC contributions of grant financing to IDA, to the Regional Banks or to other development finance institutions.
- h) Increase assistance to new OPEC aid institutions to assure early and effective utilization of the resources already available to them.

12. Two sets of measures are thus necessary. The first, required to strengthen the commercial banking system and to deal with the borrowing requirements of the higher income countries, will be taken most readily. The second, which is urgently needed by the lowest income countries, will attract less attention and may be largely overlooked. It is therefore on that set of problems that emphasis is needed.

*Returned
June 30/75
1. HBC
2. HCN notated*

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, *HBC* VP, Development Policy

SUBJECT: Review of Financial Policies

DATE: October 23, 1974

1. The financial policy paper, scheduled for Board discussion on January 15, will cover the various financial policy issues which were raised in the June discussion. The paper will be seen to serve three major purposes:

- a) To present measures to improve the income position of the Bank;
- b) To discuss what the Bank can do to assist the low income countries;
- c) To review the role of the Bank in the general recycling mechanisms.

2. Although the Bank's income prospects are of serious concern, our financial policy proposals must be set in the context of the major current problems to avoid a divisive Board debate. More important, unless we consider our problems of financial management in the broader context, the Bank will be seen externally as having lost yet another opportunity to deal with what we ourselves have identified on several occasions as the principal problem -- the absolute despair of the absolute poor.

3. Since the rise in oil prices last December, the Bank has made major contributions to the understanding of the immediate problem, to the definition of the long-term context and to the mobilization of additional resources for lending to developing countries. The Bank's assessment of the magnitude of the short-term economic problems with particular emphasis on the impact of these events on the developing countries became generally accepted. Our analysis contributed to the establishment of the United Nations Emergency Operation, to stimulating aid flows from OPEC countries, and to the reorientation of several of the bilateral aid programs. Of equal importance, the Bank has placed these issues in a long-term context, and we have been almost alone in doing so. We have also been successful in establishing working relationships with a number of OPEC countries which enabled us to borrow substantial sums from them with good prospects for continuing this borrowing relationship. In June we proposed a substantially expanded Bank lending program in response to the greatly expanded capital requirements of the developing countries.

4. Although the expanded Bank lending program was as large as politically feasible, it barely offset the estimated impact of inflation and left only a modest rate of real increase. Moreover, it did not deal with the substantially increased requirements for capital of our low income member countries. For those dependent almost exclusively on concessional assistance, we were unable to offer any hope.

5. The capital requirements of the developing countries are estimated to grow rapidly. In R-477 we estimated that total ODA would have to rise from \$9.1 billion in 1973 to \$13.6 billion in 1976 (and to \$22.4 billion in 1980) to permit a 4.5% annual rate of growth in the low income countries. Nothing like the necessary expansion in commitments is in sight. We also estimated that other capital flows would have to increase from \$10.7 billion in 1973 to \$17.1 billion in 1976 to permit an annual rate of growth in other LDCs of about 6.5%. The underlying assumptions on OECD growth rates have been revised downwards since July, at least for the short term, so that the capital flows necessary for these rates of growth probably need to be higher. As we pointed out in R-477, for the next several years the volume of capital flows to the developing countries is more important than the terms on which the capital is obtained, although there are limits to this tradeoff.

6. The effective recycling of oil producer revenues is receiving much attention in the Bank and elsewhere. The matter is of obvious importance to our members since it affects directly the capital flows to the higher income countries and, indirectly through its effects on the OECD economies, the prospects of all developing countries. Nonetheless, the effective recycling of the oil producers' surpluses is not likely to yield a significant amount of concessional capital to the poorest developing countries. To the extent recycling takes place through the Fund, there is some prospect that interest rates for all developing countries will be reduced; but the quotas of the low income countries limit the amount of capital they can obtain from this source. While the Bank obviously must continue to participate actively in the recycling -- by borrowing from the OPEC countries and expanding its lending program as rapidly as feasible -- these efforts should not divert attention from the urgent problem of increasing the flow of capital to the low income countries.

7. The issue of Bank net income is a vital one. The projected net income problem is the result of rapid inflation, the long lead time required to translate new lending rates into income, the declining ratio of equity capital in lending,

and, in the short term, the result of maintaining a low lending rate to higher income countries for too long. There is, of course, nothing that can be done about either inflation or the lag between lending rates and net income. The erosion of equity as a share of Bank lending can only be dealt with over a number of years. This leaves relatively few options. Despite these very serious problems and despite the difficulty of finding a satisfactory solution to them, it would be perverse in light of the capital requirements of the low income countries to seek that solution in the elimination of Bank transfers to IDA.

8. Our proposals to the Board to deal with the problems posed by the current net income projections should deal with them as part of a package which not only seeks to resolve the net income problem but also indicates how we might deal with the urgent concessional capital requirements of the low income countries. Such a package might consist of the following.

On the Bank side:

- a) Interest rate -- There is little doubt that the interest rate should be raised further on Bank lending. Not only will this make an important contribution to future net income, but it is justified by current, and prospective, rates of inflation. However, a substantial increase, say to 9%, might be more easily defended if it is coupled with a promise of a quinquennial review of the rate on these loans or some other approach for flexibility in case interest rates moderate or the net income position improves for other reasons (e.g. substantial additions of equity). Given the volatility of interest rates, and the uncertainty about long-term inflation rates, there is a case for not fixing permanently a high interest rate which may become excessively burdensome in real terms if conditions change over the 20-30 year term of a Bank loan.
- b) Substitute an absolute limit on liquidity for the 40% formula, with a regular annual review of the liquidity level. The arguments presented in June in support of this are now even stronger since short-term rates have declined. Since short-term rates are likely to remain below long-term rates, limiting the liquidity level will increase net income. Depending on the spread between the rates, the difference in net income might be between \$25-35 million per year. We could propose a return to the 40% formula in a year's time if by then we are unable to work out long-term borrowing arrangements with OPEC countries.

Capital for the Low Income Countries:

- c) Indicate the prospect of increased Bank lending to lower income countries. While this needs to be done on a case-by-case basis, with careful attention to long-term creditworthiness, we should seek to move as far as feasible in that direction. The creditworthiness assessment must take into account the impact of inflation on current debt and the terms of alternative sources of capital which these countries may otherwise have to call on to finance their adjustment and maintain growth.
- d) Retain the Bank transfer to IDA. As noted above, reducing the capital flow to the low income countries is not a suitable solution to our continued lending capacity to the higher income countries.
- e) Consider raising the service charge on IDA credits. An increased service charge would enable IDA to meet a higher share of administrative expenses (justified on distribution of actual workload rather than share in total lending) and can be defended as an interim measure -- say for five years. If levied at time of commitment, each 1% increase in the service charge would raise net income by about \$15 million, cumulatively, reaching \$75 million in the fifth year. A slight reduction in the IDA grant equivalent in order to increase the volume of capital will clearly benefit the low income LDCs.
- f) Endorse the establishment of a Third Window, and announce your intention to enter into discussions with potential contributors to raise the necessary grant funds to cover subsidies for an interim period of three years, at \$1 billion a year. We should indicate that a portion of Bank transfers to IDA should be available to fund up to a third of the subsidy requirement.

9. Whatever view one takes on any of the above specific suggestions, I should like to discuss the strategy before the financial policy paper is drafted. The time schedule on which we are operating will not permit major revisions in the approach once the paper is in draft. We therefore need to decide at the outset whether this will be a paper which will deal only with matters of Bank security and of concern to higher income countries or whether we want to take the opportunity to deal more explicitly with the problems of the lower income countries. If we take action on the latter, it will strengthen our hand in urging bilateral donors to increase their concessional assistance and is likely to have an impact far in excess of the concessional resources we ourselves can mobilize.

EStern/lms

cc: Mr. Cargill

OFFICE MEMORANDUM

TO: Mr. Robert S. ~~Mc~~Namara, President

DATE: October 22, 1974

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Award to the Development Research Center

1. You may be interested to hear that a book presenting the results of one of the Bank's first research projects has won a prize given by the Operations Research Society of America for "the best English-language contribution in operations research" published in 1973. The book is Multilevel Planning: Case Studies in Mexico, edited by Louis Goreux and Alan Manne, with contributions by Jack Duloy, Roger Norton and other members of the DRC. The award was made last week.

2. The project was financed under our research program, RPO 216, and the results have been used by the Mexican government.

cc: Messrs. J. Duloy, L. Goreux, R. Norton
Members of Research Committee

HBC:gss



Record Removal Notice



File Title Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1974 (July - December)		Barcode No. 30235161		
Document Date October 3, 1974	Document Type Memorandum			
Correspondents / Participants To: Robert S. McNamara, President From: Hollis, B. Chenery, VP, Development Policy				
Subject / Title Oil Prices				
Exception(s)				
Additional Comments Pending a decision on matters concerning Board of Governors (BoG) records, the declassification and disclosure process set out in the World Bank's Policy on Access to Information cannot be applied to the nonpublic records of the BoG. Please refer to AI Policy interpretation on the "Application of the Access to Information Policy to the Records of the Board of Governors", dated February 27, 2014 which is available on the World Bank Access to Information website.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date 12/30/2014</td></tr></table>	Withdrawn by Bertha F. Wilson	Date 12/30/2014
Withdrawn by Bertha F. Wilson	Date 12/30/2014			

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, ^{HB}VP, Development Policy

SUBJECT: Further Steps on the Energy Paper

DATE: September 7, 1974

In accordance with our discussion at the end of July the following steps have been taken to simplify the analysis in Report 477 and to subject it to professional comment.

9/9

1. A short summary has been prepared by John Hulley that gives the main line of the arguments. The first draft was well received by our staff and is now being revised on the basis of comments by Tims and myself. A second draft should be ready for circulation to you and others for comment by September 13. Further revision should be based on a specification of the primary audience for whom it is intended (e.g. the Development Committee or a wider circulation).

2. We have gone over the new draft of the OECD "Long Term Energy Assessment" and find little change from the preliminary version on which we relied in our analysis.

3. I will be in Paris for the week of September 9-14 to discuss various aspects of our findings with two groups:

- (a) A conference of leading European economists and scientists on themes arising from the "Limits to Growth" debate and the energy crisis.
- (b) A meeting arranged by the OECD secretariat and our Paris office at which Tims and I will discuss report 477 with selected OECD staff and members of national delegations.

I also addressed a group at the Middle East Center of Colombia University last week on the parts of the study dealing with the producer countries. Our background paper on the Producer Countries was quite well received, as well as our conclusions as to likely OPEC behavior.

4. Subject to your approval (which we agreed to defer until your return to Washington) I plan to proceed from Paris to Bellagio for several days of leave, during

Mr. Robert S. Mcnamara - 2 -

September 7, 1974

which I will try a draft of an article for a more general audience on this subject. I discussed this with Bill Bundy after he had looked over our Report and he seemed quite interested in having such a piece. (I applied several months ago to the Rockefeller Foundation for a period of residence to do some writing while our house is being renovated).

I am quite willing to cancel this plan if you would rather have me in Washington and in any case will plan to come back between the 22nd and 25th. Please let me know your preference through Ernie or otherwise.

HBC:gss

cc: Mr. E. Stern
Mr. W. Tims

9/9
[Proced
again
HBC
Lynn
Rec'd. SEP 11 1974
Copy sent to HBC
in Paris with Tims
9/11

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: August 2, 1974

FROM: Hollis B. Chenery, ^{HB}VP, Development PolicySUBJECT: International Economic Order Competition
(Ford Foundation)

1. We have checked into the proposals which Ford has received in the general field of international trade to see if there was any which might in fact be in the area you are interested in. There appears to be one which has considerable merit. Moreover, it presents Ford with a problem, since the cost would amount to 20% of their budget. From their point of view, this is the only thing against it.

2. We have obtained a copy of this proposal on a confidential basis. It has been given a quick screening by two of our most experienced researchers (Waelbroeck and Balassa). Though each has certain reservations, they both regard the project favorably, certainly enough to give it a more thorough review. Before we do this, however, we would like to "legitimize" our possession of the document, i.e. Ford would get the authors' permission to release the document to us.

3. Before approaching Ford again, we would also like to be certain that this is the sort of project in principle that you would be prepared to support from your contingency reserve.

The Project

4. The project is by a University of Illinois team, which includes Professors Takayama and Judge, who have collaborated before and have a high reputation. Its title is "Projection and Evaluation of Trends and Policies in Agricultural Commodity Supply, Demand, International Trade, and Food Reserves".

5. The research consists in building a model of international trade in agricultural commodities in order to make a projection over 10 to 20 years of supply, demand, price, trade and storage of the principal basic food products (grains, oilseeds, livestock products). The model is policy-oriented. It would not be based on assumptions of free trade, but on more realistic restrictive assumptions and would be designed to answer such questions as: what is the most desirable buffer stock policy?

6. The project would appear to be complementary to some of the work now going on in the Bank (e.g. in the Development Research Center and in Economic Analysis and Projections Department). It is possible that, if the Bank supports it, there could be a collaborative effort.

HBChenery:BBKing:gss

8/5
Bob said
OK. up to
\$50,000-
out of
contingency
fund.
B. King
informed
(e)

(Have sent HC in MU)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

To: Culbert
Bailey
J. Chen

Sent 9/5

Baum/Chenery memo of Aug. 2 on
with draft manual attached
Economic Analysis ~~was~~ returned

by McNamara to Baum with not a

mark on it. (Project Evaluation memo)

di from Baum's secy.
Sept. 4

Mr. Chenery
MCN notebook
1974 returned to Baum
12 210 144 1000 9/4

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Warren C. Baum and Hollis B. Chenery *HBC*

SUBJECT: Economic Analysis of Projects

DATE: August 2, 1974

1. The attached set of papers prepared by Lyn Squire, Johannes Linn and Herman van der Tak represents the culmination of an extensive effort to revise and update the general guidelines to be followed by the Bank in its economic evaluation of projects. They raise some important issues and have met with considerable resistance at the staff level. However, we have reached agreement with the Regional Chief Economists along the lines indicated below. The major features of the proposed methodology, as compared with current practice, are discussed in the Introduction (attached).

2. Very briefly, the guidelines seek to:

- (i) clarify current Bank practice with respect to the use of "shadow prices" that are intended to approximate more closely the opportunity cost of resources used, improve estimation procedures for such "efficiency" prices, and ensure more systematic and consistent application of these prices in project analysis.
- (ii) Incorporate concerns with income distribution and fiscal and savings constraints in project evaluation procedures more systematically by attaching appropriate weights to benefits from the project accruing to different beneficiaries, private as well as public.

3. We have agreed with the Regions to introduce gradually the procedures with respect to efficiency prices and to apply them experimentally with respect to distribution weights. After one year we would evaluate the experience gained with implementing the new guidelines.

4. In view of the staff requirements for adopting the proposed guidelines, it is clear that they can be introduced only gradually. Staff will have to familiarize itself with the general framework of the analysis and the suggested approaches to the estimation of shadow prices. Project analysis in accordance with these guidelines can only start after country parameters for shadow prices have been estimated for the country concerned. Staff limitations make it necessary to stretch out over a number of years the initial process of building up national parameters for an increasing list of countries. It should be noted that some of the more time-consuming improvements relate to the calculation of "efficiency" prices (e.g. the shadow exchange rate), rather than to the introduction of income distribution concepts. However, this work should normally be done in connection with the preparation of a basic economic report.

August 2, 1974

5. We have agreed with the Chief Economists that during the Fiscal Year 1975 the Regions will estimate national parameters and shadow prices for at least the following countries:

Yugoslavia and Turkey (EMENA),
Ivory Coast and Ghana (West Africa),
Zambia, Tanzania and/or Ethiopia (East Africa),
Pakistan (South Asia),
Malaysia, and Philippines (East Asia), and
Colombia and Mexico (Latin America),

and apply the new methodology to a total of at least four projects in these countries. The use of distribution weights in project evaluation would be experimental at this stage. The program of implementation in the following years would be decided after review of the experience during Fiscal Year 1975. CPS and DPS will provide as much support as possible during this trial period.

6. We propose to establish a small CPS/DPS team to assist the Regions in implementing the new methodology and applying it in project evaluation. They would participate in country studies to estimate shadow prices and in project appraisals according to the new guidelines, as agreed with the Regions. They would coach Regional staff in the methodology by holding workshops for the staff concerned. They would also be responsible for monitoring the progress made and experience gained in the implementation of the new guidelines. These arrangements would facilitate the introduction of the guidelines and ease the Regions' legitimate concern with the additional burden being put on their staff.

7. Clearly, the introduction of the guidelines involves additional staff costs for the Bank, especially during the period of transition to general use of the new methodology. However, even during the initial stages, additional costs per country are, in Mr. van der Tak's judgment, unlikely to exceed ten man/weeks or, say 150 man/weeks during FY75. Costs per country would be much less in the later years of buildup of the system when staff becomes familiar with the approach and the work becomes an integral part of the regular country/sector work. The cost of "maintaining" the estimates after the original buildup would appear negligible. Additional costs of project analysis itself relate mainly to closer investigation of the distribution of benefits which we are increasingly examining anyway.

8. The benefits expected from application of the new methodology are, in our view, well worth the costs. First, it will result in more systematic and consistent use of the correct economic (shadow) pricing in our project work. Second, the guidelines translate our general concerns with income distribution, fiscal constraints, savings and growth in concrete project decision terms. We think these are moves in the right direction leading to better-informed project decisions. The practical impact on the design and choice of projects will, of course, be greater to the extent that we and the countries concerned apply this type of analysis at earlier stages of the project cycle. This would be highly desirable anyway and CPS is considering what steps the Bank can take to improve our project work in this regard.

9. The Bank is the leading international practitioner of project lending, and adoption of these guidelines for the economic analysis of projects would establish its leadership in an important aspect of its operations. This step is likely to influence significantly the appraisal practice of developing countries and other development agencies.

Conclusions

10. We have agreed with the Regions that:

- (i) With respect to "efficiency prices," the Bank adopt the methodology outlined in the attached papers as its official guidelines, subject, of course, to revision from time to time in the light of evolving experience and understanding.
- (ii) With respect to "social prices," i.e. the use of distribution weights, the Bank further experiment with the proposed methodology and reconsider its introduction after one year.
- (iii) As the methodology is more fully applied, appraisal reports should show returns in terms of both efficiency prices and shadow prices reflecting distribution weights.
- (iv) Estimation of shadow prices in accordance with the new guidelines be implemented gradually, with an initial program as outlined in para. 5 above.
- (v) CPS/DPS establish a small team to assist the Regions with the initial implementation of the guidelines (para. 6).

Attachments

HGvanderTak/WCBaum/HBChenery:lfh

cc: Mr. Knapp

Messrs. Alter, Bell, Benjenk, Chaufournier, Husain and Weiner

DRAFT

HGvanderTak:jlg
July 9, 1974

ECONOMIC ANALYSIS OF PROJECTS

Introduction

1. The purpose of this handbook is to set forth the general approach which the Bank is now introducing in its assessment of the economic merits of projects. It has its origin in a modest attempt to provide a more satisfactory account and rationale of the Bank's appraisal practices, both for the guidance of its own staff and in response to outside demands for an authoritative statement of the economic appraisal methods used by the Bank. This has led to a reconsideration of Bank appraisal practices, and the approach outlined in this paper deviates in some essential respects from that followed thus far.

2. Bank appraisals have until now evaluated projects purely in terms of "efficiency". Shadow pricing has been used increasingly to allow for distortions in factor and product markets and thus to approximate more closely the opportunity costs of resources. But current appraisal methods have not taken into account the effect of the project on the distribution of income, on government revenue or on savings. The economic rate of return used as a measure of the merits of the project does not reflect differences in the distribution of project benefits, whether they accrue to richer or poorer people, or result in higher governmental revenues or savings.

3. The present handbook argues that such effects should be taken into account in project analysis. It shows how shadow prices can be estimated which incorporate these distributional impacts in addition to the customary efficiency components. Based on these "social" values of inputs and outputs, rates of return can then be calculated, here referred to as "social" rates of return, which are considered a more complete and significant indication of the merit of the project than the traditional economic rate of return as derived from "efficiency prices".

4. The traditional Bank approach to project analysis is a special case of the more general approach recommended in these guidelines. Standard analysis applied until now by the Bank implicitly assumes that all value weights attached to income received by different beneficiaries are equal to unity. In that case shadow prices are equal to efficiency prices, and the social rate of return equals the economic rate of return. The present text clarifies the conditions under which the conventional approach is appropriate and defines more clearly the nature of some efficiency prices - for example the shadow exchange rate - and how they can be estimated. However, this part of the discussion does not basically alter the standard practice followed thus far with respect to shadow prices and rate of return calculations: it simply seeks to systematize existing practice into a more consistent methodology.

5. The new guidelines go beyond this concern with efficiency prices and incorporate systematically income distribution and fiscal considerations in the Bank's assessment of the costs and benefits of projects and hence of the return on the projects. Basically, this involves attaching suitable weights to the benefits from the project accruing to different

beneficiaries, private and public. Such weights might be assigned directly, or they may be derived from underlying notions of a utility function as discussed in these papers. The most important issue, however, is not the technical derivation of the weights, which will undoubtedly be refined in due course; but the essential point is that whatever weights are considered to reflect properly the relative value attached to benefits for various higher or lower income groups and to additional government revenue are consistently and systematically applied when evaluating the social/economic merits of a project. Only in this way is it possible to allow in project decisions for the trade-offs between raising consumption levels of the poor, accelerating overall economic growth, and increasing public revenues and expenditures. Project evaluation procedures which neglect these aspects in their decision criterion, as has been the Bank's practice to date, are not responsive to new concerns with the distribution of the benefits of economic growth or to old concerns with fiscal constraints and the fiscal impact of projects. The Bank's project appraisal techniques should be consistent with its general policy concerns with these matters.

6. In order to show the impact of the use of distribution weights on the return of the project, the guidelines recommend that appraisal reports show both the economic return (on the basis of efficiency prices, following modified current practice) and the social return (on the basis of shadow prices incorporating appropriate value weights). The accompanying text should explain the distribution weights used and comment on their relevance for the justification of the project.

7. The use of distribution weights to determine the social return on projects does not mean, of course, that appraisal standards are to be lowered. On the contrary, the methodology outlined in this handbook involves a more rigorous and systematic analysis than normally carried out thus far. The criterion for acceptability of a project is changed, but it is not more lenient. The proposed criterion incorporating distribution weights will make some projects acceptable because of their distribution impact that otherwise would have been rejected. But conversely it will reject some projects because their distribution impact is sufficiently adverse. The criterion certainly does not neglect growth but balances the importance given to savings and investments against that attached to private consumption, with the weight of public income and savings being heavier in relation to consumption by the rich than by the poor.

8. The new approach should be more rigorous than current practice in another respect. It envisages a more systematic assessment and a more consistent application of the traditional efficiency prices, as well as of the recommended shadow prices incorporating distribution weights, than has been customary thus far. With respect to both sets of prices it is important that the Bank use the same estimates in the analysis of all projects in a particular country in order to provide greater assurance that shadow prices are estimated and applied in an objective and unbiased manner. This applies to the consistent use of shadow prices, not only in project analysis but also in project identification and preparation and in sector work. The Regions, and in particular their country desks, should be responsible for the preparation and updating of country sets of shadow prices for this

purpose. Projects staff would be expected to use these national shadow prices for all projects being considered in the country concerned, supplemented where necessary by their estimates of project-specific shadow prices.

Some Possible Objections

9. Although the approach outlined here has been widely accepted as, in principle, an important step forward in improving appraisal techniques and practices, doubts have been expressed with regard to (i) some aspects of the methodology, (ii) its practical significance for project decisions, and (iii) its feasibility in regular Bank operations. There is, of course, ample scope for further improvement in the methodology as set forth in this handbook. The techniques for deriving and estimating shadow prices will undoubtedly evolve with further practical experience. Some elements of the analysis, in particular with respect to the distributional impact, are necessarily rather crude. Others may possibly be further simplified without great loss in practice. In all cases though, it is important both that all major considerations, such as income distribution and fiscal constraints, are included in the analysis albeit in a crude fashion, and that shortcuts such as indicated in these guidelines are made in full awareness of the approximations involved and the conditions in which they are justified.

10. The practical significance of the new methodology for project decisions is, of course, greater as it is applied at earlier stages of the project cycle. It shares this characteristic with all project appraisal methods including the one used until now in the Bank. This underscores the importance of focussing economic analysis on the project at the time

when its design is taking shape and choices are still open rather than when the project has become frozen and rejection may be difficult. But this is not an argument for or against any particular method of project analysis, including the one set forth in these guidelines.

11. In our judgment the methodology detailed in this handbook can be implemented without undue difficulty, although ad hoc adjustments may be necessary to allow for data availabilities in any particular case. As with project analysis generally, no great accuracy should be expected with respect to the necessary value judgments, but this does not mean that the results are "arbitrary". The reliability of the necessary estimates will be improved by systematic crosschecks on the plausibility of the results obtained: we do not believe that inevitable margins of error will be greater than with respect to estimates required for the traditional approach. Although some additional time and effort will be required, it should be noted that some of the more time-consuming computations relate to the more careful analysis of efficiency prices such as the conversion factors corresponding to the traditional shadow exchange rate, rather than to the assessment of distribution weights.

12. The principal burden of estimating the country parameters will fall on the country economist. However, a substantial part of this work is necessary also for the preparation of country economic reports and country program papers; in fact, the estimation of shadow prices would provide an important focus for country economic and sector work, the relevance of which could only be enhanced by the need to pay close attention to such areas as tariff structure, fiscal constraints, employment policy, and income distribution. The results of this work would be synthesized

in country parameters for shadow pricing and relieve the project economist from the present need to make ad hoc estimates, for example of the shadow exchange rate and the opportunity cost of capital. For the project economist the new approach means primarily a greater need to determine the income distribution effects of the project. While this involves additional work, it is essential for any systematic concern with the distribution effects of Bank projects. Information on this point has, in fact, increasingly been collected and shown in appraisal reports in recent years.

13. This does not mean, of course, that the new methodology can be adopted overnight. It necessarily will take time for the staff to become familiar with various aspects of its general framework, the various approaches suggested for estimating shadow prices, and the interpretation of the results. Project analysis in accordance with the new method can only follow after country parameters have been estimated, and, for a large number of countries this can obviously be done only over a period of time. In short, the new approach can only be introduced gradually over the next few years and this will undoubtedly result in some further fine tuning of the specific suggestions made in these guidelines.

14. There can be little doubt that the approach of this handbook is feasible but some may question whether it is desirable, in view of its costs and benefits. As usual in cost/benefit analysis, it is easier to document the costs than the benefits. As argued above, we think the additional cost of estimating shadow prices along the lines of this handbook are relatively small since most of the work is required also for other purposes, and, in particular, the introduction of distribution weights accounts for a small fraction of the work involved. Nevertheless,

the initial cost of transition to the new approach is substantial since staff has to become familiar with the new methodology and initial estimates of country parameters have to be built up. As for the benefits, they are inherent in the earlier discussions. Estimates of efficiency prices, as well as shadow prices incorporating distributional weights, will be derived more carefully and used more systematically than under present ad hoc procedures. Taking account of essential considerations relating to the distribution of benefits and fiscal constraints and savings, even if necessarily in a crude manner, can only improve the quality of project decisions. This favorable impact of the new methodology on the design and selection of projects is, of course, greater if this analysis starts at an earlier stage of the project cycle.

Outline

15. Following this Introduction, the handbook consists of four major parts. The first part ("The Main Text") provides a broad non-technical review of the basic notions of cost/benefit analysis. The second part (the "Annex", supplemented by "Appendix I") gives a self-contained explanation of the nature of shadow prices and how they can be derived, in principle, so as to reflect appropriately a wide range of economic conditions and value judgments concerning basic policy objectives pertaining to growth and distribution. The third part ("Appendix II") reviews various approximate methods that may be feasible and appropriate for estimating these shadow prices in practice, depending on data availabilities and circumstances in a particular country, and the final part ("Appendix III") illustrates the estimation of shadow prices and their use in evaluating some projects in the Ivory Coast.

16. Throughout the discussion the perspective is economic and not financial or technical. The approach followed reflects the evolution of Bank appraisal methods as well as advances in analytical techniques which have occurred in the last decade. While this handbook provides guidelines dealing with a wide range of problems, it does not, in spite of its considerable length, aim to provide an exhaustive treatment of the subject. In particular, it does not deal with sector specific issues. Nor does it provide cookbook-style instructions for the many different situations the analyst will be confronted with in practice. Instead the handbook has concentrated on providing broad understanding and general guidelines which it is hoped would enable the analyst to make sensible adaptations to the specific circumstances of each case. The guidelines are intended as guidelines. They are not meant to be a substitute for good judgment on the part of the analyst.

17. An effort has been made to make the subject accessible to a wide audience and to combine conciseness and clarity of exposition. However, the issues dealt with are intrinsically complex and require a modicum of economic understanding. Some parts are probably "easier" than others and the various parts are addressed to somewhat different readers. The first part should give a good general idea of the underlying rationale and purpose of the analysis to a wide range of non-technical readers. The authors are resigned, however, to complaints that the treatment is both excessively long and overly brief, unnecessarily complicated and grossly over-simplified, too technical and not sufficiently rigorous.

OFFICE MEMORANDUM

Mr Chenery
MCN notebook

TO: Regional Chief Economists
DATE: August 1, 1974

FROM: Hollis B. Chenery and Warren C. Baum

SUBJECT: Economic Analysis of Projects - Implementation Program Fiscal Year 1975

1. During our meeting last Friday we agreed that during Fiscal Year 1975 the Regions would estimate shadow prices in accordance with the new guidelines for selected countries as follows:

EMENA:	Yugoslavia, Turkey
West Africa:	Ivory Coast, Ghana
East Africa:	Zambia, Tanzania, and/or Ethiopia
South Asia:	Pakistan
East Asia:	Malaysia, Philippines
Latin America:	Colombia, Mexico

Each Region would apply the new methodology to a total of at least four projects in these countries. Use of distribution weights would be on an experimental basis at this stage. At the end of Fiscal Year 1975 we would review the experience with the guidelines and draw up an implementation program for following years.

2. CPS/DPS would support the Regions in implementing the new methodology by participating in country studies and project evaluations, and by organizing workshops for Regional staff concerned. The CPS/DPS effort will be coordinated by Mr. Ahluwalia (DRC), Mrs. Hughes (DED) and Mr. Ray (VPSVP). To facilitate planning of CPS/DPS staff assignments for this purpose, it would be helpful if you could inform the coordinating team as soon as possible of:

- (i) the tentative Regional time schedules for estimating shadow prices in the agreed countries,
- (ii) the projects selected for application and the expected timing of their evaluation, and
- (iii) the kind of assistance you are looking for from CPS/DPS.

We would appreciate it if you could give them some preliminary indications on these points by c.o.b. August 9.

3. CPS/DPS will organize a workshop in September primarily for country economists participating in the implementation program. Details have still to be worked out, but we envisage a one-week series of daily sessions of, say, one and one-half hours each, probably in the second or third week of September. Later in the year we intend to arrange a similar workshop for project economists.

HGvanderTak:lfb

cc: Mr. J. Burke Knapp
Messrs. Alter, Bell, Benjenk, Chaufournier, Husain and Weiner
Regional Programs Directors
Regional Projects Directors
CPS Directors
DPS Directors

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: July 29, 1974

FROM: Hollis B. Chenery, *HBC* VP, Development Policy

SUBJECT: Publication of the Paper "Bank Policy on Agricultural Credit"

I suggest that we reconsider the question when the paper on rural development is completed. Perhaps a combined publication would make sense.

cc: Messrs. W. Baum
E. Stern
M. Yudelman

HBC:gss

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: August 1, 1974
FROM: Hollis B. Chenery, WP, Development Policy
SUBJECT: Revised Procedures for Analyzing Creditworthiness

1. As indicated in Mr. Kearns' memorandum to you of July 19, we plan to strengthen the procedures for analyzing country creditworthiness. As Mr. Kearns noted, this analysis is done by the regional economic staff, supported extensively by the DPS. The present practice is for the judgment on creditworthiness to be incorporated in the Economic Reports and CPPs prepared by the Regional Offices. These analyses draw heavily on the data and technical expertise provided by the Economic Analysis and Projections Department. The Policy Planning and Program Review Department reviews these judgments and raises any issues with the Regional Vice President and, if necessary, in the course of the CPP review.

2. Although this division of responsibility should be maintained, the increased importance of creditworthiness judgments at a time of major changes in world prices and increased diversification of the sources and terms of external capital makes it desirable to systematize our procedures to make sure that our best judgments are brought to bear. Accordingly, I have instructed the Economic Analysis and Projections Department to prepare a set of guidelines for the regional economists on country creditworthiness analysis. The guidelines will cover the sources of data and capital flows to be used, the techniques of analysis to be employed, and the creditworthiness issues to which special attention must be paid in the different types of developing country. Within the EPD, the International Finance Division will be responsible for preparing these guidelines in consultation with the Regional Offices and subsequently will be the contact point for the regional economists to consult on sources of data and analytical techniques. The Program Review Division of EPR will continue to be responsible for maintaining comparable standards among regions and identifying unresolved issues in Economic Reports and draft CPPs at each level of review, including bringing them to your attention or that of Mr. Knapp as necessary.

cc: Messrs. J. Burke Knapp
James M. Kearns
E. Stern
M. Haq
S. Chernick
W. Tims
J. Saxe
N. Carter
I.P.M. Cargill
EStern:HBChenery:JWSaxe:gss

JUL 19 1974
5:10p

OFFICE MEMORANDUM

Mr. Kearns

TO: Mr. R.S. McNamara (through Mr. J. Burke Knapp)

DATE: July 19, 1974

FROM: James M. Kearns, Dir., OPD

SUBJECT: Creditworthinesscc: Strom
Hag
Chenich
Tins
SME
Carter
Xerox sent to
above

As requested, I've looked into our organizational arrangements for creditworthiness determinations.

There are two separate, but related, elements which require clear definition.

(1) The first involves the assessment of the risk inherent in the present and planned IBRD portfolio, both in toto and in individual countries. This portfolio risk consideration must be made in relationship to the IBRD's own financial performance and creditworthiness for obtaining needed financial resources.

(2) The second involves the assessment of the economic performance, prospects and debt service capacity of the countries to which we lend.

As you know, a huge and intensive analytical effort goes into making country assessments. Doing so is at the center of the country analytical work of economists and others in the Regional Offices. One of the most important elements of this work is judging the "character" of the borrower -- a political judgment which is best made by the Regional Offices. Similarly, economic judgments are also required -- economic performance and prospects, assessments of the amount, structure and stability of external debt, prospects for obtaining external finances, etc. -- and, again, the Regional Offices do this work.

(3) DPS serves as the central source of data, guidance on methods of analysis and specialized manpower for the Regional Offices in their country economic work. Within DPS, the Debt and International Finance Divisions of the Economic Analysis and Projections Department provide the bulk of the Regional support for the country debt analyses and the projections divisions of that Department supply help on forecasts and projections. The Program Review Division provides general guidance for country economic work and reviews Economic Reports and CPPs prepared by the Regional Offices with the advice and assistance of the Debt and International Finance Divisions.

('CAP
Exports)

While the entire process of country economic work can be improved -- and is continually in the process of being improved -- all the basic elements are present.

(4) However, the Bank lacks a well developed capacity to assess the risk of its loan portfolio and the effect such risk has on its own creditworthiness. Compared to the effort that goes into assessing the economic performance and prospects of individual countries, the way we make our own "banking judgments" and determine our "risk aversion" profile is overly intuitive.

That is not to say that our lending judgments have been wrong, or that our loan portfolio is too risky or risk-free, but only to point out that we lack a strong conceptual and analytical underpinning of risk analysis for the lending judgments we make. Although from time to time we have made special debt studies, we have not given this matter the degree of continuing attention it deserves.

This memorandum proposes the establishment of a new function whose objective would be to define and determine IBRD's overall lending capacity, taking into account the risk of our present and planned loan portfolio in light of its probable impact on the future financial structure and performance of the Bank and the ability to obtain needed financial resources from both traditional and new markets.

Such a function should be organizationally located under the Vice President, Finance, who would establish it as a separate unit reporting to him, called the "Loan Portfolio Analysis Unit". Its suggested terms of reference are attached.

The new function should be understood to be additive to the present functions assigned to the Regional Offices and DPS. Under this proposal, the Regional Offices would continue to be responsible for carrying out country economic work, for assessing country economic performance and prospects for debt service, and for making the initial recommendations as to IBRD lending eligibility and the size of the lending program for each individual country. Similarly, DPS would continue, at the staff level, to be responsible for "functional control" activities relating to country economic work and the economic performance and indebtedness judgments that flow from it. DPS would also continue to support country economic work through its data collection, projection and analyses activities. (Mr. Chenery is sending you a separate memorandum that shows a reorientation of DPS functions and a work program designed to improve the country analyses over the next year.)

*Chenery says
DPS*

You'll note that I've avoided using the term "creditworthiness" in referring to the new work to be assigned to the Vice President, Finance or the existing work carried out by the Regional Offices and DPS. This is in recognition of the fact that a "creditworthiness judgment" is the end result of analyzing both a country's economic performance and prospects, as well as the consequences a proposed set of country lending programs would have on the IBRD's financial performance and ability to obtain financial resources.

Att.

cc (w/att): Messrs. Cargill
Chenery
Chadenet

JMKearns:DW

LOAN PORTFOLIO ANALYSIS UNIT

Primary Objective

Define and determine the IBRD's overall lending capacity, taking into account present and planned: loan portfolio; financial structure and performance; and availability of, and capacity to borrow or otherwise obtain, financial resources in both traditional and new markets.

Functions

- a) Analyze and determine the IBRD's financial risk inherent in the existing and planned (at various levels and composition) loan portfolio with regard to its effect on the Bank's financial performance and creditworthiness for future borrowings.
- b) Propose IBRD policies that will serve to maximize its lending capacity while: i) maintaining its financial soundness and creditworthiness; and ii) supporting its ultimate developmental objectives.
- c) Provide guidance and advice to the Regional Offices, the Senior Vice President, Operations and the President -- including, but not limited to, comments on the CPP -- as to the probable effect that the proposed country lending programs at various levels would have on the Bank's financial soundness and creditworthiness.
- d) Utilize intelligence about and long-range forecasts on the likely sources of IBRD funds to propose the financial policies the Bank would have to follow to have access to such funds.

Relationships with Other Parts of the Bank

- a) The Loan Portfolio Analysis Unit would have to work closely with the Regional Offices, P & B, DPS and the Treasurer.
- b) The Regional Offices would continue to be responsible for country economic studies and assessments. They would also continue to be responsible for initial recommendations on the size of the IBRD lending program -- through the CPP process -- for each of their countries. The Loan Portfolio Analysis Unit should provide useful guidance to the Regional Offices so that their lending program proposals would take account of the probable effect on the Bank's own borrowing capacity, hence ensuring the realism of proposed country lending programs. As such, the Unit would contribute to forming the "banking judgment" and "risk aversion" posture of the Bank managers from the Regional Vice Presidents through the President.
- c) P & B would continue to serve as the central point of review for CPPs within the financial area. As such, the Loan Portfolio Analysis Unit would provide its comments on CPPs through P & B.
- d) DPS would continue to serve as the Bank's central staff office that provides leadership, policies, guidelines, and support to the Regional Offices for the conduct of economic and financial studies and assessments.

- 3 -

Within DPS, the Program Review Division is responsible for the overall "functional control" of country economic work. The Economic Analysis and Projections Department is responsible for providing guidance, data and analytical support to the Regional Offices for country economic work and will also have to provide support to the Loan Portfolio Analysis Unit.

e) The Unit will also need to work closely with the Treasurer's Department as it develops proposed financial policies and develops the rationale and analytical underpinnings of the IBRD's lending capacity.

JMKearns:DW
July 19, 1974

see OMALX 2

OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery, Vice President, DP

FROM: Jo W. Saxe, Chief, EPDIF JWS

SUBJECT: Creditworthiness (and Portfolio) Analysis

DATE: July 17, 1974

1. Here is a redraft of the Kearns draft with a second annex by Syd Chernick.
2. He and I have carefully gone over all of the attached in which are incorporated a number of useful suggestions by him.
3. The heart of the matter is in the term he suggested for the new unit--Portfolio Analysis. This makes our point very clearly.

Attached: redraft of Kearns draft

cc: Mr. Haq, Director, EPR
Mr. McPheeters, EPD
Mr. Chernick, Chief, EPRPR

JWS/ad'A

July 17, 1974

DRAFT-JMKearns/JWSaxe/ad'A

Proposed Memo, Kearns to McNamara

1. There are two separate but related problems which require clear definition. The first is the problem of assessing the risk involved in the Bank's exposure, in toto and in individual countries. This must be done in conjunction with assessments of the availability of and ability to obtain financial resources.
2. To make the first kind of assessment (risk analysis) requires the creation of an analytical unit to serve the Vice-President--Finance which would concentrate on the Bank's exposure (or assets) and which should be closely related to work on the availability of capital (or liabilities).
3. The second is assessing the creditworthiness of the countries to which we lend. Doing so is at the center of the continuing analytic work by economists and others in the Regional Offices and by the DPS. One of the most important elements in their work on creditworthiness is the 'character' of the borrower--a political judgement which is best made in the Regional Offices. With respect to external finance, an assessment of the amount, structure and stability of external debt, the prospects for obtaining development assistance or other forms of external finance, etc. are required. Here a central source of data and guide to methods of analysis exists in the DPS.

4. The Debt Division and the International Finance Division of DPS are improving on the economic and financial aspects of creditworthiness analysis both in respect of analytical techniques and in data sources.
5. More explicit guidance on methods, dissemination of information and specialized assistance to the Regional Offices should be combined with longer-term assessments of the capacity and intentions of other sources of assistance or finance. Work on methods, costs and benefits of debt relief is also in course. This too is being done in the Debt Division and the International Finance Division.
6. The review of draft Economic Reports and CPPs should be scheduled and directed by the Program Review Division with explicit, selective emphasis on creditworthiness. Program Review Division would as in the past draw on the work of the International Finance Division and other units in the DPS.
7. A statement of the functions of the unit to be attached to the office of the Vice-President--Finance appears as Annex 1.
8. Suggestions for improvements in present procedures for the assessment of creditworthiness are attached as Annex 2.

July 17, 1974

DRAFT - JMKeams/JWSaxe/ad'A

Portfolio Analysis UnitPrimary Objective

Define and determine the IBRD's policy with respect to its exposure and capacity to secure resources, taking into account present and planned: loan portfolio; financial structure and performance; and availability of, and capacity to borrow or otherwise to obtain financial resources.

Functions

- a) Analyze and determine the IBRD's financial risk inherent in the existing and planned (at various levels and composition) loan portfolio with regard to its effect on the Bank's financial performance and creditworthiness for future borrowings.
- b) Propose IBRD policies that will serve to maximize its lending capacity while: i) maintaining its financial soundness and creditworthiness; and ii) supporting its ultimate developmental objectives.
- c) Provide guidance and advice to the Regional Offices, the Senior Vice President, Operations and the President as to the probable effect differing levels of proposed lending would have on the Bank's financial soundness and creditworthiness.
- d) Utilize intelligence about and long-range forecasts on the likely sources of IBRD funds to propose the financial policies the Bank would have to follow to have access to such funds.
- e) Assist in developing the position to be taken by the Bank Group on IBRD debt rescheduling.

Relationships with Other Parts of the Bank

a) The Portfolio Analysis Unit would have to work closely with the Regional Offices, DPS and the Treasurer.

b) The Regional Offices would continue to be responsible for country economic studies and assessments. They would also continue to be responsible for initial recommendations of the size of the IBRD lending program--through the CPP process--for each of their countries. The Portfolio Analysis Unit should provide useful guidance to the Regional Offices so that their lending program proposals would take account of the probable effect on the Bank's own creditworthiness, hence ensuring the realism of proposed country lending programs. As such, the Unit would contribute to forming the "banking judgement" and "risk aversion" posture of the Bank managers from the Regional Vice Presidents through the President.

c) DPS would continue to serve as the Bank's central staff office that provides leadership, policies, guidelines, and support to the Regional Offices for the conduct of economic and financial studies and assessments. Within DPS, EPRPR is responsible for the overall "functional control" of country economic work. EPD is responsible for providing guidance, data, and analytical support to the Regional Office for country economic work and will also have to provide support to the P & B Unit. Close working relationships will be required between P & B and DPS in this regard.

d) The Unit will also need to work closely with the Treasurer's Department as it develops proposed financial policies and develops the rational underpinnings of the IBRD's lending capacity.

July 17, 1974

DRAFT MEMO

To: Mr. Robert S. McNamara

From: Hollis B. Chenery

Subject: Procedures for Analyzing Creditworthiness

1. As a matter of current practice, the initial judgement on creditworthiness is made by the Regional Offices in economic reports and country program papers. The analysis underlying these judgements, draws heavily on data and technical assistance provided by various DPS Divisions--Economic and Social Data, International Finance, Comparative Analysis and Projections, and Commodities. The Program Review Division reviews the soundness of judgements on creditworthiness and conveys its findings in comments on draft economic reports or in the course of the CPP review process.

2. These largely informal and ad hoc procedures are no longer adequate. The major changes in world prices and the real terms at which capital assistance is available have significantly altered the economic prospects of many of our borrowers and hence their creditworthiness. To ensure that our analysis of creditworthiness stays abreast of these far-reaching changes in the world economic environment; I proposed to systematize procedures in respect of both analysis and review as follows:

- a) The International Finance Division assisted by the Divisions mentioned in para 1 above will prepare a guideline note for all bank economists on the analysis of creditworthiness covering (i) available data sources, (ii) the best analytical techniques,

- (iii) comparative information suggesting differences in the nature of creditworthiness issues among groups of developing countries; (iv) and when appropriate specific analysis of problems of external debt including measures for debt relief.
- b) At the earliest stage of analysis--whether it be an economic report or a CPP--the responsible Regional economist should be required to consult the International Finance Division on the relevant information about external finance which is available in DPS and the analytical techniques to be used;
- c) The Program Review Division, in reviewing draft economic reports and draft CPPs, will identify those country cases where a consensus judgement on creditworthiness has not been reached and arrange for a discussion between the DPS and the Regional Office.
- d) Any major differences in viewpoint will be reported by the Program Review Division in a special note to the Regional Vice President concerned and to me in the case of economic reports, and to you and Mr. Knapp in the case of CPPs; for the latter, the reporting vehicle will be the briefing note prepared by EPRPR and P & B before your CPP review meetings.

If you agree with these proposed procedures, I will prepare an appropriate memorandum for your (my) signature asking that they be implemented. I would further suggest that these procedures take effect as of the early fall when the CPP review cycle is renewed after the summer vacation break.

* * *

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 12, 1974

FROM: Warren C. Baum

SUBJECT: Publication of the Paper "Bank Policy on Agricultural Credit"

I agree with Mr. Yudelman's recommendation. I think that the Agricultural Credit Paper has in part been misjudged on the grounds:

- a) that it does not give a specific agricultural credit lending program (which it was not intended to do); or
- b) that it does not give black or white answers (in a field where, unfortunately, most issues turn up in varying shades of grey).

It has certainly helped to clarify Bank thinking on the subject, and could serve the same purpose for a wider audience.

WCBaum:rma

cc: Mr. Yudelman

6/14 To Messrs Kennedy
Stern
Clark
What
are
your
views
LH w

3483

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara through Mr. W. ^WBaum DATE: June 11, 1974

FROM: Montague Yudelman *my*

SUBJECT: Publication of the paper "Bank Policy on Agricultural Credit"

1. I understand that the Bank is not proposing to publish the recent paper on Bank Policy on Agricultural Credit.
2. In my view it would be a great pity if the paper is not published. Despite the fact that the paper does not give all the answers we seek, it still represents the most comprehensive piece of work on this subject. In the recent discussions by our Agricultural Advisory Panel Sir John Crawford, Professor Falcon, Dave Hopper and Mr. Sivaraman all described it as the definitive work on the subject under discussion. In the final Minutes of the meeting the Panel as a whole declared the paper to be the most authoritative statement in this field.
3. At the recent Board meeting the United Kingdom Executive Director urged that the paper be published, and be given the widest possible distribution.
4. There is very little other work of quality on this topic; as a result we are beginning to receive numerous requests from a wide range of sources for this paper. Undoubtedly as its availability becomes known more widely, we will receive an increasing number of requests from practioners, academics, people with interests in the development field and others from the developing countries as well as the developed countries.
5. I think that despite its shortcomings the paper - along with the paper on Land Reform - has the merit that it shows the Bank's record. They illustrate that we mean to work towards the objectives of the Nairobi speech. The papers also indicate the changes in emphasis in Bank policy.
6. In view of the above I strongly urge that we reconsider and publish the paper on Agricultural Credit as a companion to the paper on Land Reform.

MYudelman:lkt

OFFICE MEMORANDUM

more N. Edwards

TO: Mr. Robert S. McNamara, President DATE: July 24, 1974

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Publication of "Prospects for the Developing Countries"

main question
or not

1. Since the Board has largely completed its discussion of this paper, I would like to reach some agreement with you as to the revision of this paper and its background material for wider use. In the discussion, you mentioned several uses of the paper, including submission to the Development Council and providing information to the bilateral and multilateral lenders as to the needs for additional lending. For both of these purposes it is important to make available sufficient technical analysis so that users can test the effects of alternative assumptions on the conclusions that we have reached. This argues for making available an edited version of the present paper and its annexes in a form similar to the Population paper or a "Type II" country report; its main use will be in affecting opinions and other analyses over the next 6 - 12 months.

ok

2. The shaping of world opinion on this subject requires quite a different type of publication aimed at a wider and less technical audience. Here the first and most important statement will be your speech to the Governors. If you approve, I would like to try an article for Foreign Affairs or a similar periodical that would go into some of the aspects that are not central to your speech. Finance and Development has asked to publish an article based on the OPEC part of the analysis, and there may be other opportunities of this sort to reach a wider audience. *(No)*

No

3. I have discussed these possibilities with William Clark and he supports this approach. We would not try to get wide circulation of the basic analysis because of its technical character, but would make it available on request as we have done with the Interim Report and other technical studies.

✓

4. It is important to reach a decision on this matter as soon as possible because several of the key people involved in making revisions will have to take some leave during August. I think that we can produce an edited version suitable for this form of distribution within about two weeks. It could then be printed internally and made available by the latter part of August.

5. I would appreciate a meeting with you and William at your convenience.

HBC:gss

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
Mr. J. Burke Knapp, Sr. VP, Operations

FROM: Hollis B. Chenery, VP-DP *HBC*
S. Shahid Husain, RVP-East Africa *SH*

SUBJECT: Techniques of Program Lending

DATE: July 22, 1974

1. We have been discussing some of the lessons which have been learned from the Bank's recent experience with program lending in Zambia. Whilst this discussion has arisen in the context of our consideration of program loan applications received from Kenya and Tanzania, it has a more general implication in view of the proposed extension of program lending by the Bank.

2. By definition, program lending is made in support of a program of development expenditures and of development policies which the Bank judges worthy of support and which cannot be effectively supported through more conventional project lending. If there is to be a central focus on these program and policy issues by the government and by the Bank, then we feel that there is a strong argument for tying disbursements directly to these programs. The two-step arrangement involved in financing imports and using the counterpart funds for financing development expenditure is in danger of diluting the emphasis on the policy and program issues. This has been the experience in Zambia. We are concerned that the same dilution of focus will occur in Kenya, Tanzania and other countries where we intend to link program lending to major policy and program issues. Your review of the Kenya CPP next Wednesday, July 24, might provide an opportunity to discuss this matter.

cc: Messrs. Haq and Chernick
Messrs. Lejeune, Please and Hansen

SPlease:di



Record Removal Notice

File Title Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1974 (July - December)		Barcode No. 30235161		
Document Date July 18, 1974	Document Type Memorandum			
Correspondents / Participants To: Robert S. McNamara, President From: Hollis, B. Chenery and R. A. Clarke				
Subject / Title Appointment of Senior Advisor, Development Research Center				
Exception(s) Personal Information				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date 12/30/2014</td></tr></table>	Withdrawn by Bertha F. Wilson	Date 12/30/2014
Withdrawn by Bertha F. Wilson	Date 12/30/2014			

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Issues Posed by the India SPP

DATE: July 18, 1974

1. This is an excellent paper. I have discussed it at length with the Region and it has been revised to reflect the discussion during the RVP meeting. I fully concur with the main recommendations, namely:

- (a) That we approve the proposed IDA lending program--which is the same as the level tentatively decided in May; and
- (b) that we approve the proposed IBRD lending program subject to continuing evaluation of performance on export policies and on import substitution, particularly in energy.

IDA Eligibility

2. At the CPP review meeting last year, we concluded that little would be gained, and a good deal might be lost, by making IDA lending to India contingent on broad policy improvements. Since then India's need for concessionary finance has greatly increased for reasons largely outside its control. As a result, its eligibility for IDA on the criteria of poverty and limited creditworthiness has, if anything, been increased. In respect of the performance criterion, India is probably above average in some key respects--e.g. its savings rate. However, even if overall performance were judged to rank somewhat below average of IDA recipients, any reasonable discount on this ground from a comprehensive scale of poverty-size norms would almost certainly produce a higher per capita allocation than the \$1.0 per head proposed by the SPP. The increase in the IDA allocation seems fully justified by the worsening terms of trade.

IBRD Lending and Performance Conditions

3. The proposal to increase IBRD lending to \$1,300 million in 1975-79 requires a hard look at India's performance as it affects the country's creditworthiness; we can only justify such an increase if there is a reasonable prospect that India's creditworthiness will improve. The SPP concludes that "on balance, India's creditworthiness for conventional borrowing has been adversely affected" by the deterioration in its terms of trade. This conclusion is based on the increased amounts that have to be borrowed, which offset the reduced burden of servicing old debt. While the magnitude of these increased

requirements raises a very real question of whether enough capital can be raised by India, some new possibilities of additional funds are emerging, and it is plausible that the projected residual gap of about 1.0 billion annually during 1975-79 could be largely filled. But it is quite implausible to assume this large a gap could be financed on very soft terms, or to assume that an even larger gap lasting through most of the 1980's could be covered on any terms--as would be required under the 4% export growth variant shown in the SPP projections. 1/

4. Given the outlook for terms of filling the residual gap, the export growth rate will clearly be the crucial variable determining India's creditworthiness--and its ability to raise capital in the magnitude required. This is illustrated by the longer term projections in the SPP--particularly by the difference between the two variants showing export growth at 5% and 4% on medium financing terms for the residual gap (Variants 4 and 5 in the Annex). At 4% export growth the debt service ratio would remain at around 25% throughout the 1980's--on the assumption of continued inflation at 6.5%, but it would become clearly unmanageable if the inflation rate were to drop substantially after 1980 (see addendum to the SPP of July 17). On the other hand, the ratio on the 5% export growth variant would still remain manageable even on the reduced inflation assumption.

5. On the basis of these considerations, I support the Region's position that any sizeable increase in IBRD lending to India be made conditional upon progress in the formulation and implementation of policies designed to enhance export growth and high priority import substitution, especially in energy. I also agree with the two practical suggestions for getting this process started: first, that we obtain agreement from the Government to undertake in-depth studies of the possibilities for accelerating exports and energy production; second, that we modify our lending program to ensure more direct involvement in both areas. I fully support the Region's proposal to mobilize additional resources for these studies.

6. Given agreement in principle on both points, we could proceed with IBRD lending during the next 18-24 months on the scale proposed in the Paper. A continuation of lending on

1/ In the past, some countries such as Korea and Taiwan have had capital inflows this large--or larger--relative to imports for a decade or more; and they were able subsequently to achieve balance through accelerated exports. However, a key factor in their ability to obtain the required capital inflow was the rapid growth of their export earnings over a sustained period.

July 18, 1974

that scale beyond 1976 should be dependent on satisfactory progress in increasing the volume of exports and domestic energy supplies, as well as in implementing the policy recommendations which emerge from the studies and from experience in the development of projects in these areas. This would imply giving conditional approval to the proposed lending program for the next two years and leaving the remainder as merely illustrative, along the lines of the recent decision on Egypt.

cc: Messrs. Knapp
Baum
Cargill
Adler
Goodman
Haq
Chadenet
Weiner
Diamond
vander Meer
Picciotto
Baneth
Lav
Karake
Mrs. Hamilton

HBChenery:JAEdelman:gss

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 10, 1974

FROM: Hollis B. Chenery *HBC*SUBJECT: The Policy Mechanism

1. After approximately a year's experience with the Policy Review Committee system, I thought it desirable to review the functioning of our policy system and to consider where improvements might be made.
2. Policy work has included the first paper on IDA Allocation of March 1973; the discussion of Primary Exporters, which led to the policy papers on Tea and Cocoa; the initial paper on Nutrition. Other papers recently presented to the Board included World Beef Prospects, Agricultural Credit and Land Reform. These papers have served a useful purpose at several levels. They have involved the staff in consideration of policy questions, they have prepared management for decisions on major issues, and they have permitted a better participation of the Board on these subjects. Staff involved in policy work have improved their ability to focus on operational issues facing management, and they have gained valuable experience in the preparation of Policy Papers. They have also served a general information function for Bank operating staff.
3. The experience in the first year has also identified several problem areas. These are: (a) the method by which subjects are selected for policy review, (b) the organization of staff work in preparing the paper, (c) review at the PRC Staff Committee, (d) the presentation of issues to the Policy Review Committee itself, and (e) the preparation of Issues Papers. We have developed guidelines which will deal with each of these problems. The instructions will place more responsibility on the Policy Planning Division for assuring that the present system is streamlined, as discussed below. I have discussed this memorandum and the guidelines with Messrs. Baum and Kearns.

Selection of Policy Subjects

4. When the system of policy planning was established, we received suggestions from all parts of the Bank about issues to be covered. These were listed with limited screening as to content or as to a reasonable time schedule for preparation. Some Policy Papers have had little policy content and might have been better described as "state-of-the-art" papers or technical guidelines. After such experience, we are now issuing instructions which considerably tighten up the selection of Policy Papers for the Inventory. We now require that the Department proposing the issues submit a brief outline in support of its suggestion and identify the policy decisions which should be presented to management. These outlines are reviewed by the Policy Planning and Program Review Department, in consultation with other Departments as necessary, before the item is proposed for your approval.

Preparation of Papers

5. The first set of Policy Papers has involved considerable slippage, partly because of lack of experience, partly because deadlines were established at too early a stage in their preparation, and partly because of the inherent difficulty of producing Policy Papers on complex subjects according to any pre-determined schedule. The principal improvements will involve: an early and more precise identification of issues to be covered in a Policy Paper so that the analysis can be focussed more sharply; guidelines as to the format and content of the paper to reflect this focus; more precisely defined sequencing and timing of the several steps in the review process; Policy Planning Division involvement in the review of these papers at an early stage.

PRC Staff Discussion

6. Bank papers traditionally advocate one approach rather than outlining alternatives. For some major issues, it may be necessary to state alternatives with supporting arguments so as to inform management of the different staff views or different options which they face. We have also agreed that the Policy Planning and Program Review Department, in consultation with the Department preparing the paper, should prepare a brief covering memo stating the major issues for management consideration, as is the case in the CPP reviews.

The Policy Review Committee

7. To make management discussions more effective, papers have to be more focussed than they are at present. To facilitate management review, they should not exceed 25 pages. Additional material in the form of annexes can be provided if necessary. The analysis should highlight the operational questions for the Bank, particularly those issues requiring management decision or clearance, or bring out new policy approaches.

Issues Papers

8. Two types of Issues Papers are needed. First, an interim paper to seek management's guidance on the range of issues to be covered in a planned Policy Paper and the scope of preparatory work to be carried out for it (e.g. the interim paper on Bank activities in the field of health). Second, to provide information on important policy subjects in the form of "state-of-the-art" papers describing the current knowledge on a particular issue (e.g. rural electrification, rural water supply, nuclear power), or guidelines on aspects of Bank operations (e.g. cost recovery and pricing of

July 10, 1974

public services, criteria for employment of departmental forces (Force Account) in Bank-financed civil works). Most of these papers should be reviewed at the staff level and circulated to the PRC for information. When completed, Policy and Issues Papers can be issued in a variety of forms depending on their subject matter and quality, as Board papers, monographs, Bank Staff Working Papers, or guidelines, in accordance with standard procedures established for such papers.

cc: Mr. Baum
Mr. Stern
Mr. Haq
Mr. van der Tak
Mr. Kearns
Mr. Vibert

POLICY REVIEW COMMITTEE (PRC)

Papers and Procedures

The Policy Review Committee* (PRC) was established in April 1973 "to ensure the appropriate internal review of selected policies and to advise the President as to their quality and adequacy prior to his approval." The Policy Planning and Program Review Department was designated to serve as secretariat to the PRC and to manage the flow of documents to it. This memorandum restates the objectives and procedures of the Policy Review process in the light of the experience during its first year.

Policy Review Committee (PRC)

The purpose of the PRC is to review papers concerned with development and operational policy. As a general rule it discusses all policy recommendations requiring the approval of the President and/or the Board as well as such other papers as may be selected by the Chairman. To assure that the policy recommendations are based on adequate analysis and that views from all relevant parts of the Bank are taken into account, each paper is first reviewed at staff level in order to give Departments concerned with a particular issue an opportunity to comment on the analysis and the policy recommendations.

Types of Papers

Two types of papers are prepared for the PRC and are included in the monthly Inventory:

- (1) Policy Papers, which are prepared when some significant aspect of Bank Group operations (other than individual country lending programs) or procedures requires review and/or decision by management.

* The members of the PRC vary depending on the subject matter of the policy paper. Normally membership includes: President (Chairman); Senior Vice President, Operations; Vice President, Development Policy; Vice President, Projects Staff; Regional Vice Presidents; Vice President, Organization Planning and Personnel Management; Director, Development Policy; Director, Programming and Budgeting; Director, Policy Planning and Program Review; Director, Projects Advisory Staff; and the Director of the Department responsible for producing the paper.

- (ii) Issues Papers, which provide background information to management on significant policy issues or guidelines on important aspects of Bank operations and/or define the topics and scope of further study and analysis needed in the preparation of a subsequent policy paper.

Policy Papers

A. Identification

Some requests for Policy Papers will originate from management, but identification of policy issues is a responsibility of all Departments of the Bank. To propose a topic for analysis, a Department submits a short outline defining the issue and proposing a time schedule to the Policy Planning and Program Review Department. After consultation with the Department concerned, the policy paper is added to the monthly Inventory of Policy Papers submitted to management for approval.

B. Content and Format

The diversity of subject matter precludes prescribing a uniform format. However, all policy papers should include:

- (i) Summary and Conclusions. This should not exceed five single spaced pages. It should summarize the analysis and state the policy issues and recommendations.
- (ii) Analysis. This section should contain a diagnosis of the issues, provide data placing the issues in context, and analyze the impact of the proposed policy conclusions. Background materials, if any, should be supplied in technical annexes.
- (iii) Recommendations. For some major issues, it may be necessary to state alternatives with supporting arguments so as to inform management of the different staff views or different options which they face.

A policy paper should not normally exceed 25 single spaced pages, excluding the summary and conclusions. The technical data appended to the Board version should be limited to those directly relevant to the analysis.

Issues Papers

Issues Papers are normally prepared at the initiative of the Department concerned. They are listed in the Inventory with a target date for circulation to the PRC (staff level) established in consultation with the Policy Planning and Program Review Department. Issues Papers are prepared when more information is required to define a policy issues(s) and to indicate the nature of the work to be undertaken in preparation of a subsequent Policy Paper. In general such Issues Papers should be brief; they should define the proposed issue, summarize the state of current knowledge bearing on the issue(s) and describe the analysis to be carried out. Issues Papers may also be prepared as a vehicle for providing useful background information to management and staff on important policy concerns, or for providing guidelines on important aspects of Bank operations. Issues Papers of this kind have a flexible format depending on the nature and scope of the subject. Papers exceeding ten single spaced pages should always provide a self-contained summary.

Preparation of Papers

The Department preparing a Policy or Issues Paper has the full responsibility for its contents and its timely completion according to the schedule established in consultation with the Policy Planning and Program Review Department and shown in the Inventory. The staff of the Policy Planning Division is available for any help required by the concerned Department in the preparation of the papers.

The deadline for the submission of the Policy Papers to the PRC (and, in some cases, to the Board) should be established by the Departments concerned in consultation with the Policy Planning and Program Review Department. For a typical paper, the following times are required in the review process:

- (i) A working level review with the interested and concerned Departments of the Bank, organized in consultation with the Policy Planning Division, should normally be held about one month before circulation for PRC staff review; thereafter the intervals are:-
- (ii) Two weeks between circulation of the paper for the PRC staff review and the review meeting;
- (iii) One week to allow for changes after the PRC staff review;

- (iv) One week between circulation to PRC until the meeting; and
- (v) The timetable should also reflect careful assessment of manpower requirements and availabilities. After a timetable has been agreed upon and shown in the Inventory, it should not be changed without good reasons. In each case of significant delay in a Policy Paper a memorandum should be sent to the President indicating the reasons for the delay.

Review Procedures

About four weeks before a Policy or Issues Paper is scheduled to be reviewed at the PRC staff level, a working level review should normally be organized, in consultation with the Policy Planning and Program Review Department.

The Policy Planning and Program Review Department arranges for a PRC staff level review of the paper, normally four weeks before the PRC review. Staff level reviews will normally be chaired by the Director, Development Policy, for papers originating in the DPS; and by the Director, Projects Advisory Staff, in the case of papers originating in the CPS; or, exceptionally, by the respective Vice Presidents. The panels for staff reviews will be selected by the Policy Planning and Program Review Department in consultation with the concerned Department.

Following the staff level PRC, necessary revisions should be incorporated by the responsible Department and the revised paper sent to the Policy Planning and Program Review Department for distribution to the Policy Review Committee. PRC meetings will be held only on selected Policy Papers on the advice of the Chairman. Issues papers will normally be circulated for information and comments, but not reviewed.

Meetings of the PRC will be scheduled about a week in advance. The Policy Planning and Program Review Department will be responsible for circulating copies of the paper, along with minutes of the staff level review and an agenda for discussion. The Policy Planning and Program Review Department, in consultation with the Department preparing the paper, will also prepare a covering memorandum stating the major issues for management review. Following the review process, Policy and Issues Papers can be issued in a variety of forms depending on their subject matter and quality, as Board papers, monographs, Bank Staff Working Papers, or guidelines, in accordance with standard procedures established for such papers.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 1, 1974

FROM: Hollis B. Chenery *HBC*Eugene H. Rotberg *ER*SUBJECT: Report on Eurocurrency Markets

1. Attached is the first of the reports you requested on Eurocurrency (and other) capital markets. It consists of an account of recent developments in world capital markets prepared by the Treasurer's Department. An attachment to it prepared by the International Economy Division consists of Statistical Annexes and a short analysis of finance flowing from the Eurocurrency market to developing countries.

2. We recommend that the Statistical Annexes be prepared quarterly because of the irregular timing of these operations which make month to month changes misleading (they will be described in general terms in the monthly report of the Treasurer's Department). In any case we suggest a date ten days after the end of the period.

Attached: Treasurer's Department Report with attachment

JWSaxe/ad'A

at least for the next few months I would like to see a monthly report.
ER

JUL 10 1974

*(Xerox below for Saxe - 2)
HBC gone
Saxe with
Xerox of
the attached
report.
7/10*

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: July 1, 1974

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Mr. Haq's Report on the Meeting of the
Dag Hammarskjold Foundation

1. As you requested I called Haq in Geneva to get a report on the meeting. He will cable you the highlights tomorrow and submit a full statement on his return. } done.

2. Apparently the meeting was at the initiative of the Foundation and not a continuation of the Tidewater Group. The Ministers from Germany, Netherlands and the United Kingdom did not attend, so it was primarily a Nordic gathering.

3. Mr. Haq tells me that he discussed his participation at this meeting fully with Messrs. William Clark and Merriam before his departure.

HBC:gss

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Attendance at Meeting Sponsored by
Dag Hammarskjold Foundation

DATE: June 26, 1974

Attached is the letter of invitation from Mr. Michanek to Mr. Haq. You will note that (a) it was a private meeting and (b) Mr. Haq was invited as an "outstanding representative of the Third World." He was not asked to represent the Bank. There would seem to be no objection to his making a contribution to a discussion of this sort.

Attachment

EStern/lm

1. Please keep and

inform of invitation
such as this.v. It would be helpful
if Haq would

prepare a memo
summarizing
the discussion
under each of the
headings on pg 3.

EStern