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Washington, D.C.

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Liaison - Organization for Economic Cooperation and Development [OECD] / Developer Assistance Committee [DAC] - Volume 01

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895

This volume closed with effect from
August 31, 1960 See Vol. II

For records of DAG meetings and papers
presented by countries, see Research
files.

OFFICE MEMORANDUM

TO: Files

DATE: August 30, 1960

FROM: S. R. Cope

SUBJECT: D.A.G. - Second Meeting July 5-7, 1960

I attach copies of memoranda submitted to the ad hoc working group in preparation for the above meeting, by representatives of the following governments:

Canada*
France*
Germany*
Japan*
U.K.*
U.S.

*Send to
Research Files*

Those marked * have attached to them a summary of their contents, prepared in the Bank.



Attachments

SR Cope: mmr

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TO: INTBAFRAD
PARIS

DATE: AUGUST 22, 1960

CLASS OF
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COUNTRY: FRANCE

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REURLET AUGUST 18 WP 2 OF AUGUST 6 NOT RECEIVED STOP PLEASE FORWARD

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MESSAGE AUTHORIZED BY:

NAME S. R. Cope
DEPT. Operations - Europe, Africa and
Australasia

SIGNATURE _____
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

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SRCope:mmr

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(IMPORTANT: See back of yellow copy for guide in preparing form)

Checked for Dispatch: _____

726
August 18, 1960

Mr. Andre Giraud
Opera Mundi Europe
100, Avenue Raymond Poincare
Paris XVI^e, France

Dear Mr. Giraud:

Mr. Black, who is absent at the present time,
has asked me to thank you for your letter of July 28.
We were interested to read your ideas for assisting
underdeveloped countries but do not feel that we are
in a position to make any comments on them at this
time.

Sincerely yours,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

SR Cope : AKamarck/nmr



DAG

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

~~TELEPHONE BABYLONE 1710~~
TÉLÉPHONE KLÉBER 25-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO

~~PARIS OFFICE: 67, RUE DE LILLE~~
~~PARIS (7^e) FRANCE~~

PARIS OFFICE : 4, AVENUE D'IÉNA
PARIS (16^e) - FRANCE

August 18, 1960

Mr. S.R. Cope
Director of Operations - Europe,
Africa and Australasia
International Bank for Reconstruction
and Development
Washington, D.C.

ma
[Signature]

Dear Raymond:

Many thanks for your memo of August 12 about DAG.

I stopped in London on the way to Ireland to find out what Denis Rickett and Pliatsky thought of it. (As the Working Party finished at 1.20 and I had a lunch date at 1.00 I did not have time to talk to Pliatsky then.) They were very satisfied with the progress. According to Pliatsky the French intervention over untied loans (which I have since discovered to be the bright idea of an individual and not part of his instructions) was the only worrying moment. As it failed I think we can forget about it.

My reason for bringing up the Economic Reports at this moment was that if a bibliography is to be compiled it should not contain material which cannot be made available - at least without a cautionary note.

The Working Party appears to intend to report to the October 3 meeting - or at least to be ready to do so. You will probably have received their draft paper (WP2 of August 6) which will, according to their ideas at the last meeting, be considered at the meeting on September 8 and then circulated ready for October 3.

not rec'd ←

1960 AUG 25 11:11 AM
Yours ever,

[Signature]
RECEIVED

John Duncan Miller
Special Representative in Europe

SECRETARY REPRESENTATIVE TO DIRECTOR
JOHN DANIEL MURPHY

RECEIVED
BANK MAIL ROOM

1960 AUG 22 AM 11:22

September 9 and then continued work for October 3.
at the year meeting, he continued at the meeting on
(MBS of August 9) with Mr. Murphy according to the
as. The Mr. Murphy will be called to the meeting before
the October 3 meeting - as it is said to be said to go
the meeting will be called to the meeting to be held to

re made available - at year meeting a committee was
conducted to study the committee members with a view
this committee was that it is particularly to be
in a session for the meeting in the committee before

meeting I think we can follow from it.
The committee was the only committee. As the
meeting was of the committee and was held on the
the meeting (Mr. Murphy will be called to be the
according to the meeting the meeting will be held
then.) The meeting will be called to the meeting.
The meeting will be held at 1:30 and I will be
only after the meeting and the meeting of it. (As
I should be in London on the way to the meeting to the

will be called to the meeting of August 15 and will be
held in London.

Secretary, D.C.
and Delegation
International Bank for Reconstruction
and Development
Director of Operations - Europe
Mr. G.H. Cook



August 19, 1960

BANK OF AMERICA - BRITISH
BANK OF AMERICA - BRITISH

~~SECRETARY OF THE BOARD~~
~~SECRETARY OF THE BOARD~~

TELEPHONE NUMBER 32-10

SECRETARY OF THE BOARD

WASHINGTON 25, D. C.
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL BANK FOR




DAG

Mr. John Duncan Miller

August 17, 1960

S. R. Cope

I thought you ought to see the attached if you have
not already done so.

 letter of July 20 No. RS-3086

Attachment

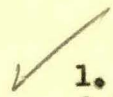
SR Cope :mmr

Mr. John Duncan Miller

August 12, 1960

S. R. Cope

D. A. G.



1. Mr. Knapp has asked me to reply to your memorandum to him dated July 29, 1960, which gives an interesting account of the working party's activities.

2. I am glad to note the progress on credit reporting. As to the request in your paragraph #4, we do not feel that we should make economic reports available to D.A.G. or to the D.A.G. secretariat, although we recognize that D.A.G. members, other than Portugal and the Brussels Community, have access to these reports, since they can get them through their Executive Directors.

3. The present task of the working party, I gather, is to prepare a bibliography rather than to study reports on individual countries, and we think that the working party should accept an appraisal prepared by you and OEEC of the scope of these reports and their usefulness for DAG's purposes. Isn't this really all that is needed? Our general position is that we are reluctant to see a new channel of distribution of Bank reports set up and, in any case, could hardly do so without going to the Executive Directors.

4. Perhaps I should add that thus far the IMF gives its consultation papers only to the secretariats of OEEC and GATT, and then only when they deal with members of those organizations and the executive director~~s~~ concerned does not object.

5. You will, I know, continue to keep us informed. Am I right in thinking that the formal report of the working party is not due before early next year and that the target date of September mentioned in your paragraph #4 is only an interim one?

SRCope:mmr

cc: Mr. J. Burke Knapp
Mr. L. Rist

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From					

DAG

Messrs. J.B. Knapp, R.H. Demuth & S.R. Cope

August 8, 1960.

George R. Young.

Some Techniques of Development Lending.

Attached is a copy of the DAG paper, as revised. I hope it will commend itself to you. A copy of this revise has been sent to Mr. Black.

GRY/ljs

P.S. Mr. Knapp.

I thought your footnote to the Title belonged better as an opening paragraph of the Introduction, since it is an important part of the definition of the paper. I hope you will agree that it seems to fit there very well.

Mr. Eugene R. Black

August 8, 1960.

George R. Young

Some Techniques of Development Lending.

Attached is a revise of this paper, originally prepared for the Development Assistance Group, taking into account comments received in the Bank.

We shall now be going forward with the printing of the paper, with a view to distribution in September.

GRY/ljs

DAG

OFFICE MEMORANDUM

TO: Messrs. M.L. Lejeune/L. B. Rist

DATE: August 2, 1960

FROM: J. Burke Knapp



SUBJECT: DAG



I would be inclined to give Johnnie Miller the full set of our latest economic reports for inspection by the DAG Working Party. I don't think this would set a precedent for regular distribution of such reports in the future to the Secretariat of DAG or the ~~old~~ ~~OECD~~ ~~OECD~~. What do you think?

Att.
JBKnapp/jb

Mr Rist

Could we have a word together on this? Johnnie seems to be in a hurry.

Mr Lejeune

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Dr. Kamarck,

I have inquired at the French Embassy, where neither "Opera Mundi" nor Mr. Giraud are known. I would, therefore, suggest a short reply along the following lines:

Dear Sir:

Thank you for your letter of July 28, 1960 and the attached material addressed to Mr. Black. I was interested to learn about your ideas for assisting underdeveloped countries.

As you may know the coordination of the assistance to underdeveloped countries through DAG is still in ^{an} early stage of discussions and we are therefore not in a position to comment on the views expressed in your weekly letter.

Yours sincerely,

Kamarck

JMJentgen:mp

ROUTING SLIP

Date

Aug 2

OFFICE OF THE PRESIDENT

NAME

ROOM NO.

~~Mr. [unclear]~~

Mr. [unclear]

What's all this

about?

Action

Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers

Information

X

Recommendation

Initial

Signature

Remarks

I don't know whether
this is worth having
translated.

C.L.

From

opera mundi europe

RAPPORTS HEBDOMADAIRES SUR L'ÉCONOMIE EUROPÉENNE

TÉLÉGRAMMES : PERAMUNDI-PARIS

CHÈQUES POSTAUX : 3235-50

TÉLÉPHONE : KLÉBER { 34-21
54-12
POINCARÉ 28-67

100, Avenue Raymond Poincaré
PARIS XVI^e

Paris, le 28 juillet 1960

Mr. Eugène BLACK
President
International Bank for Reconstruction
and Development
1818 H. Street
Washington 25, D.C.

Acc. Aug 1960

Monsieur le Président,

Je vous prie de trouver ci-inclus les deux derniers éditoriaux publiés par "Opera Mundi Europe". Nous y avons abordé le problème de l'aide aux pays sous-développés et ce faisant, il nous semble avoir apporté notre modeste contribution à la solution d'un problème qui vous préoccupe tout particulièrement.

Dans le premier, nous avons rappelé à nos lecteurs les données fondamentales de ce problème, et dans le second nous avons esquissé les lignes principales d'un plan susceptible, à notre sens, de lever quelques-unes des objections majeures formulées par les dirigeants des pays industrialisés.

Nous serions heureux si vous consentiez à nous faire part de vos observations : elles nous permettraient dans de prochains articles de compléter notre schéma sur certains points, de le perfectionner sur certains autres, voire de le modifier profondément en fonction de vos critiques.

Veuillez agréer, Monsieur le Président, l'assurance de nos sentiments les plus distingués.

André Giraud

André Giraud

L A L E T T R E D E L A S E M A I N E

La nécessité d'une aide aux pays sous-développés est universellement reconnue, mais nous sommes loin de l'élaboration d'une doctrine unie en la matière. La question est, en principe, à l'ordre du jour de la conférence des ministres qui discutera cette semaine (les 22 et 23 Juillet) de la transformation de l'OECE en OECD, c'est à dire en un organisme dont les Etats-Unis et le Canada seront membres de plein droit. Mais les ministres se borneront sans doute à ce sujet à prendre connaissance des résultats très peu concluants de la récente session à Bonn du Development Assistance Group (DAG) qui réunit actuellement dix pays plus la Commission de la CEE, organisme spécialisé créé par la conférence économique des pays atlantiques de Janvier dernier pour l'étude permanente des modalités de l'aide aux pays en voie de développement.

La multiplicité des points de vue qui se sont manifestés à Bonn n'a pas facilité la cristallisation d'une philosophie commune dans ce domaine. Même deux nations aussi proches dans leurs vues quant à l'avenir économique de l'Europe que la France et l'Allemagne, ont à ce sujet des idées divergentes. Le gouvernement de la République Fédérale songe avant tout à une expansion de son système existant de garantie à ses exportateurs (méthode " HERMES "), tandis que la France, la Grande Bretagne et les Etats Unis sont davantage préoccupés par le problème des crédits à long terme et seraient en faveur de l'élaboration de solutions multilatérales à ce sujet. Nous nous trouvons là, en somme, en présence de thèses correspondant à des raisonnements de base différents: le gouvernement allemand semble être mû surtout par des considérations commerciales, alors que les USA, l'Angleterre et la France insistent sur les aspects politiques du problème sur un plan mondial et, sans négliger pour autant leurs lointains intérêts commerciaux, préfèrent envisager ces derniers à la lumière de la politique générale.

La répartition des tendances n'a pas été la même sur le chapitre des conditions attachées à l'aide aux pays sous-développés. L'Angleterre a pris nettement position en faveur de l'octroi de crédits " with no strings attached ", c'est à dire sans engagement par les pays bénéficiaires d'utiliser les sommes obtenues pour des achats dans le pays prêteur. L'Allemagne représente le pôle opposé: pour elle, l'altruisme bien compris doit sauvegarder aussi les intérêts du pays qui en fait preuve; elle estime donc qu'il est normal que l'argent prêté contribue à stimuler également le commerce d'exportation du pays prêteur. Les positions américaine et française ont été moins nettes à ce sujet: théoriquement plus proches de la thèse britannique, elles ne peuvent guère négliger la situation concrète de leurs pays respectifs. Ainsi les crédits accordés par le gouvernement français dans le cadre du FAC (Fonds d'Assistance et de Coopération) servent pratiquement surtout pour des achats en France, et on sait que les Etats Unis accordent certaines garanties de crédit à l'exportation par l'Export-Import Bank et ont introduit l'an dernier la clause " Buy American " pour les sommes distribuées par leur Development Loan Fund. Mais cette dernière mesure, dictée par la détérioration de la balance des paiements américaine, a été

vivement critiquée aux USA mêmes comme étant inspirée de considérations trop mercantiles, allant donc à l'encontre des buts politiques visés, et l'opposition dans les pays bénéficiaires se manifeste surtout en raison du fait que l'acquisition des biens d'équipement ou de consommation dont ces nations ont besoin est souvent plus onéreuse dans les pays où les sommes accordées doivent être obligatoirement dépensées qu'ailleurs. La Banque Internationale (BIRD) qui, avant la création du DAG, se considérait comme habilitée pour centraliser l'étude de l'aide aux pays sous-développés et en cours de développement est, de son côté, en faveur du système de prêts non liés à des conditions d'achat. Dans les milieux proches de la BIRD, on cite par exemple l'acquisition récente par le Viet-Nam de locomotives fabriquées aux USA, grâce à des fonds accordés par le Development Loan Fund, alors que les mêmes locomotives auraient pu être obtenues ailleurs, parait-il, à des conditions beaucoup plus avantageuses. Une telle façon de procéder peut donc être considérée comme anti-économique. Quelques jours à peine après la réunion du DAG, chargé, comme nous l'avons vu, d'étudier la possibilité d'une coordination internationale de l'aide aux pays qui en ont le plus besoin, le Président Eisenhower vient de lancer à Washington l'idée d'un plan de soutien économique et social inter-américain réservé à l'hémisphère occidental. Il est d'ailleurs vraisemblable que la plus grosse part des charges de ce plan - qui sera définitivement soumis à la réunion des ministres économiques des républiques américaines le 5 septembre prochain - reposera sur les épaules des contribuables des USA; dans ce sens, il constitue donc une dérogation à la " mondialisation " de l'aide aux pays en cours de développement, ce qui est compréhensible en raison de la portée politique de cette initiative: le Président Eisenhower est pressé de la mettre en route, de façon à ce qu'elle engage son successeur et, comme il est peu probable que Cuba en profite, elle doit servir en même temps d'object lesson au peuple cubain, lui démontrant en quelque sorte les inconvénients du rôle de cavalier seul que le gouvernement Castro lui a assigné.

La création d'une voie unique entre les pays en mesure d'exporter des capitaux et ceux qui doivent en importer - sous forme d'aide ou de crédit - n'étant pas pour demain, il n'est pas étonnant que des initiatives comme celle du Président américain ne puissent pas attendre jusque là. D'où un certain éparpillement des efforts allant le plus souvent au détriment de l'efficacité. Une multiplicité d'organismes internationaux interviennent, en ordre plus ou moins dispersé. Ainsi la Banque Internationale, l'Association de Développement International (IDA), l'ONU, la Banque Européenne d'Investissements, le Fonds de Développement des Pays et Territoires d'Outre-Mer de la CEE, ou encore des organismes nationaux comme l'Export-Import Bank et le Development Loan Fund aux USA, le FAC en France, etc.. Leur façon de procéder est fréquemment empirique; ils vont au plus pressé. Quant aux organismes nationaux, ils satisfont souvent en premier lieu les besoins des territoires avec lesquels des liens politiques unissent le pays exportateur de capitaux: c'est en obéissant à des considérations de ce genre que la France, au cours de ces dernières années, a consacré à l'aide aux régions sous-développées

un pourcentage beaucoup plus considérable de son revenu national que n'importe lequel de ses partenaires de la CEE ou que la Grande Bretagne ou les USA - les pays de son actuelle Communauté étant, bien entendu, avant tous autres les bénéficiaires de ces largesses. Tout règlement mondial du problème de l'aide devra donc sans doute tenir compte des compétences et des intérêts particuliers des différentes nations fournissant des capitaux, quoiqu'il soit bien entendu possible qu'un groupe de nations épouse, à partir d'un certain moment, les préoccupations traditionnelles d'un de ses membres. Ainsi, les rapports économiques de la France avec sa Communauté trouveront vraisemblablement bientôt une base naturellement élargie au sein de la CEE; quant à la Grande Bretagne, elle a déjà préconisé elle-même un élargissement international de l'aide envers une partie de son Commonwealth; le Pakistan et l'Inde, considérant sans doute comme trop lourde la tâche pour ses seules épaules.

Malgré des données apparemment aussi disparates, il serait peut être plus facile qu'il n'apparaît à première vue de trouver un dénominateur commun parmi les nations à haut développement qui s'intéressent à la question d'aide aux pays sous-développés. Avant d'aborder le fond du problème, qu'il nous soit permis d'esquisser ici quelques considérations d'ordre général:

1) Il y a peut être moins de contradiction entre les positions en faveur des prêts " liés " et " non liés " qu'on ne le croit.

2) Les partisans de la première thèse peuvent invoquer que le " self-interest " ne peut guère être exclu d'un raisonnement correct en matière économique. " Charité bien ordonnée commence par soi-même ", traduit en langage concret, pourrait vouloir dire que des relations économiques saines avec les autres pays ne peuvent se développer que si des motifs d'intérêt mutuel ne sont pas exclus, et qu'on ne crée rien de durable si ce n'est sur une base d'affaires bilatérale ou, de préférence, multilatérale; toute aide simple - sauf à titre de palliatif dans les cas d'urgence - établissant des situations d'exception qui ne conduisent pas vers un assainissement permanent. Les peuples, comme les individus, n'ont que trop tendance à s'habituer à leurs béquilles.

3) Mais même si l'on négligeait ce dernier raisonnement, on doit constater sur le plan pratique que les plus généreux programmes d'aide sont insuffisants, car aucun pays ne dispose de réserves assez larges pour pouvoir continuer sans dommages pour sa propre économie, à remédier indéfiniment et sans contre-partie à toutes les pénuries du monde. C'est ainsi que les USA se sont créés des difficultés sur le plan de leur balance des paiements, sans parvenir pour autant à mettre en route un plan d'assistance vraiment satisfaisant sur une échelle mondiale.

4) Les critiques du système de prêts " liés " lui reprochent surtout l'aspect anti-économique provoqué par l'obligation de dépenser les sommes avancées dans certains pays particuliers, que les

prix qui y prévalent pour les marchandises dont il s'agit soient avantageux ou non. L'objection est valable mais pas insurmontable. Dans notre n° 29, du 9 décembre 1959, nous avons préconisé une formule qui pourrait être appliquée pour des prêts " liés " sans que les pays bénéficiaires soient obligés de faire des achats anti-économiques. Nous comptons y revenir bientôt.

5) Si l'on introduit, sans hypocrisie, dans le raisonnement concernant l'aide aux pays sous-développés une conception "donnant-donnant" sauvegardant ainsi le principe bien compris du " self-interest ", sans diminuer toutefois en quoi que ce soit l'aspect altruiste du plan général, on lève du même coup l'objection formulée par certains pays à l'égard des préoccupations particulières d'autres gouvernements, dirigées vers certains territoires auxquels ils s'intéressent traditionnellement: l'inclusion de tout territoire sous-développé dans le grand circuit des échanges du monde libre étant avantageuse pour tous.

6) Le problème de l'aide aux pays sous-développés a dépassé le stade du Marché Commun. La Commission de la CEE peut toutefois efficacement contribuer à la solution du problème général en cherchant à établir un consensus aussi large que possible dans ce domaine parmi les six gouvernements participants.

En cherchant à esquisser les contours d'une aide multilatérale aux pays sous-développés, aide à fournir par l'ensemble des nations atlantiques, nos considérations de la semaine dernière ont mis en lumière un certain nombre de prémices : I) Il serait temps d'abandonner le système de l'aide sans contrepartie - sauf dans des cas exceptionnels où des situations d'urgence l'imposent - car on ne bâtit rien de durable à coups de subventions. Pour habituer les pays "économiquement faibles" aux méthodes saines qui ont fait leurs preuves dans les nations hautement développées, le principe du "donnant-donnant" devrait trouver, sans fausse honte, son application; II) Il faut éviter de créer pour autant des situations anti-économiques, obligeant les nations secourues à faire **leurs** achats dans les pays fournissant les crédits, même si les prix qui y sont demandés pour les biens d'équipement ou de consommation dont elles ont besoin sont moins avantageux que ceux pratiqués ailleurs; III) La question de l'aide étant, à une époque où les distances se rétrécissent à vue d'oeil, un problème mondial, elle ne peut être résolue que par l'ensemble des pays à haut développement économique du monde libre - en attendant qu'un dialogue de bonne foi devienne un jour possible à ce sujet avec les pays industrialisés du bloc "socialiste" également - et des groupements limités, comme la CEE, ne peuvent l'attaquer de front tout seuls. Toutefois, les Six devraient se hâter d'élaborer une philosophie commune à ce sujet; IV) Les pays qui abordent la question de l'aide en fonction de considérations principalement commerciales devraient s'efforcer de tenir compte des intérêts politiques que leurs partenaires ont traditionnellement dans certaines parties du monde, surtout les USA, la Grande-Bretagne et la France, car il serait vain de vouloir en faire abstraction quand on envisage le problème sur un plan global. Les uns sont inséparables des autres, l'assainissement économique des territoires sous-développés contribuant à leur assainissement politique, et ce dernier à son tour contribuant à rendre ces territoires "commerciallement valables". En élevant ainsi le débat, les préoccupations traditionnelles de certains pays deviennent les préoccupations de l'ensemble du groupe, correspondant dès lors aux intérêts économiques bien compris de tous les participants.

Partant de telles prémices, les lignes de raisonnement suivantes semblent se dégager : 1) Si l'ensemble des nations atlantiques - avec la participation éventuelle du Japon - s'engageait dans une action d'aide concertée, elles pourraient décider d'accorder à chaque pays choisi pour une telle aide - à travers un organisme de distribution commun - un plafond de crédits à utiliser exclusivement dans le pays dont le crédit émane, pour des achats de biens d'équipement ou de consommation. "Il ne serait alors plus question - disions-nous dans notre N°29 du 9 décembre 1959 - de forcer la main des nations bénéficiaires de ces prêts pour l'acquisition de marchandises ne correspondant pas exactement à leurs besoins, ou payées trop cher, puisque ces nations pourraient choisir dans un large éventail pour chaque achat le pays fournisseur le mieux placé. Les pays participants, en procédant ainsi, ne déséquibleraient pas leur balance des comptes, les montants des crédits accordés par eux étant versés à leurs propres industriels ou agriculteurs, et leur économie intérieure profiterait de la transaction. Les nations bénéficiaires n'auraient bien entendu aucune obligation d'utiliser l'ensemble des crédits qui seraient à leur disposition - elles ne les emploieraient qu'autant qu'ils serviraient effectivement à couvrir des achats utiles à leurs propres nationaux - et les crédits non-utilisés profiteraient, après

un certain délai, à d'autres territoires sous-développés, à nouveau par le truchement de l'organisme de distribution commun".

2) Ces crédits pourraient être à court, moyen ou long terme, selon les besoins des pays et des entreprises privées qui en bénéficieraient. Pour autant qu'ils seraient appliqués aux besoins du secteur privé, on pourrait prendre en considération, pour leur distribution et amortissement, l'utilisation d'un réseau de banques locales - y compris les succursales des grandes banques étrangères - qui se chargeraient du travail, moyennant une commission minime, et prépareraient l'avenir en habituant les entreprises bénéficiaires à satisfaire aux exigences de régularité commerciale normalement imposées par les banques et en hâtant ainsi l'insertion du territoire en question dans le marché libre du crédit.

3) Il n'y a aucune raison d'envisager que les différents gouvernements fassent eux-mêmes les avances de fonds nécessaires en grevant leur budget normal. Il s'agit là de besoins-types pour lesquels le marché financier de chaque pays pourrait fort bien être mis à contribution, sous condition bien entendu que le risque de l'emprunt soit assumé par le gouvernement. Celui-ci, de son côté, serait ré-assuré sur un plan international par l'organisme de distribution créé, c'est-à-dire par l'ensemble des gouvernements participants, pour un certain pourcentage - par exemple 80 ou 90 % - des risques assumés. Les fournisseurs dont les marchandises seraient commandées par les pays sous-développés en vertu de ce plan ne courraient aucun risque, car leurs factures seraient automatiquement réglées par leur gouvernement, comme l'étaient celles des industriels américains faisant des livraisons en Europe sous le régime du plan Marshall.

4) Les nations participant au Plan devraient soutenir une politique de taux d'intérêt bas pour les crédits accordés. Même dans les pays à haut développement économique, la théorie d'une augmentation des taux d'intérêt destinée à juguler l'inflation est sujette à caution et est susceptible d'être révisée un jour; mais il est indiscutable que dans les pays à économie primaire, c'est la généralisation de taux d'intérêt bas qui est un facteur important de stabilisation. Tout en rompant délibérément avec la formule de la subvention, le côté altruiste du Plan se manifestera ainsi avant tout par le fait que les taux d'intérêt appliqués seront nettement plus bas que ceux que les règles de l'offre et de la demande imposeraient pour des prêts en devises locales très peu consolidés et à des entreprises participant à des circuits économiques encore labiles. C'est dans ce sens que les nations atlantiques devront "huiler la machine", agir "tout comme" si l'assainissement des nations secourues était déjà un fait accompli - afin d'aider à rompre le cercle vicieux qui consisterait à prêter aux taux élevés correspondant normalement aux conditions encore instables du marché et retarder ainsi son assainissement en raison du caractère prohibitif desdits taux. Leurs propres emprunts à cet effet devraient donc être émis aux taux les plus bas, ce qui pourrait être facilité par le fait que les transactions avec les pays secourus devant être négociées de préférence en une monnaie unique, aussi stable que possible, s'effectueraient donc, vraisemblablement, en dollars. Dans ces conditions, pouvant compter en principe sur le remboursement en dollars des dettes contractées, et ce remboursement étant par ailleurs garanti

dans des proportions importantes par une ré-assurance internationale, on pourra donc envisager que les différents gouvernements émettent leurs emprunts de ce type avec garantie de change, ce qui devrait accroître encore la possibilité de placer ces titres dans le public à un taux réduit. Ces efforts pour obtenir des capitaux importants à des taux bas seront d'ailleurs largement stimulés par une saine compétition entre les nations prêteuses : en effet les intérêts demandés par chacune de ces nations - pas nécessairement identiques - seront bien entendu connus dans les pays secourus et figureront, avec les catalogues chiffrés des marchandises disponibles, dans les calculs de prix de revient comparatifs qui feront se tourner les acheteurs - gouvernements ou firmes privées - de préférence vers les exportateurs de tel ou tel pays pour leurs acquisitions.

5) L'organisme de distribution central serait chargé de coordonner l'aide technique indispensable (y compris la diffusion des "know-how") pour assurer, à l'aide des banques habilitées, la bonne utilisation des crédits accordés et devrait se montrer par ailleurs beaucoup moins timide que ne l'étaient les USA à l'époque du Plan Marshall, pour appuyer de toute sa force les stabilisations monétaires et l'accession à la convertibilité des devises dans lesquelles les pays participants disposeraient de fonds de contrepartie. Ce n'est qu'en procédant ainsi d'une façon systématique qu'on éviterait de considérables blocages locaux de fonds de contrepartie, qui risqueraient de provoquer pour la trésorerie du Plan des déficits nécessairement répercutés sur les gouvernements participants. L'utilisation locale des fonds de contrepartie, par exemple pour des achats de matières premières par les pays atlantiques intéressés, ne serait pas une solution satisfaisante, car de tels achats ne favoriseraient nullement la balance des paiements des territoires en question et ne contribueraient donc pas à l'assainissement économique desdits territoires.

6) L'application d'un tel Plan par l'ensemble des pays atlantiques limiterait la contribution financière de chacun d'entre eux à trois têtes de chapitres : a) participation aux frais de "formation technique et financière"; b) pertes résultant de déficits éventuels pour la partie des crédits non-réassurée; c) participation - si besoin est - au Fonds commun de réassurance. - Une relative incertitude de départ n'existerait que sur les deux derniers points; et si les résultats obtenus dans ce domaine n'étaient pas satisfaisants, cela ralentirait inévitablement l'exécution du Plan; mais, de toute façon, la contribution budgétaire des pays participants serait beaucoup plus faible que cela est prévu dans les principaux projets mis en avant pour l'aide multilatérale aux pays sous-développés. En outre, et c'est là un aspect qui n'est pas à négliger, ce Plan constituerait un puissant stimulant pour les industries des pays qui s'y associeraient.

7) Indépendamment d'un grand Plan de solidarité tel que celui que nous venons d'exposer schématiquement, l'initiative privée devrait garder sa pleine liberté d'action pour s'attaquer aux mêmes problèmes. Les deux courants pourraient fort utilement se compléter. Signalons à ce sujet les propositions suivantes faites récemment :

A) Xénophon Zolotas, gouverneur de la Banque de Grèce, l'un des quatre "Sages" chargés de préparer les nouvelles institutions économiques des pays atlantiques, préconise la création d'un Office international de garantie pour les crédits à l'exportation, couvrant en échange de primes plus basses que celles qui sont appliquées actuellement des risques comprenant : l'insolvabilité de l'acheteur, les décisions politiques unilatérales des pays emprunteurs, et les cas de force majeure, y compris les guerres, les révolutions et les catastrophes naturelles. Par ailleurs, ce projet comporterait une amélioration par rapport aux dispositions restrictives de la convention de Berne en matière d'assurance-crédit, celle-ci limitant la garantie à 75 % du montant emprunté et la durée du crédit à 5 ans, limites jugées trop étroites par M. Zolotas. B) Formule préconisée notamment en République Fédérale : les pays atlantiques devraient permettre sur le plan fiscal l'amortissement à 100 % des montants investis à long terme dans des firmes de pays sous-développés; une telle mesure constituerait un puissant stimulant de l'esprit d'entreprise dans ce domaine. C) Un banquier suédois, Hans Langenskiold, vient de créer en Suisse une organisation "sans but lucratif", le Bureau International de Coopération, destiné à servir de trait d'union entre des entreprises de pays hautement industrialisés qui seraient disposés à remplacer leur équipement encore très valable par un autre, possédant les derniers perfectionnements, pour transférer l'outillage rendu ainsi disponible à des firmes installées dans des pays en cours de développement, où le coût de la main d'oeuvre n'impose pas l'emploi d'un équipement à haute productivité. Ces transferts seraient généralement accompagnés d'aide technique et pourraient être effectués soit à crédit, soit à titre d'investissement. L'idée directrice est certainement saine, car, tout en contribuant à l'extension d'une économie de marché, elle permet en même temps d'améliorer les conditions de productivité dans les pays prêteurs, les mettant ainsi à l'abri de trop fortes secousses que risquerait de leur causer la concurrence de territoires qu'ils auraient aidés à assainir économiquement.

Point commun de tous ces projets, du Plan d'ensemble esquissé sous 1. à 6. et des initiatives citées sous 7. : ils n'excèdent pas les moyens des pays atlantiques et ne constituent pas un danger pour leur balance des paiements.

DAG

July 23, 1960

Dear Dr. vom Hofe:

Now that I am back at my desk in Washington, I should like to send you a few lines to express my warm thanks for the courtesies you showed to the Bank delegation during our attendance at the recent DAG conference. In particular, my wife and I greatly appreciated the honor which you extended to us by arranging the dinner at that beautiful countryside inn during one of the evenings of our stay in Bonn. My wife was very much taken with the sparkling burgundy, and I am sorry we did not have room to carry a few bottles back with us.

Would you please be good enough to convey my best wishes to Dr. Reinhardt, as well as to Dr. Henckel, who I hope has enjoyed his rest and is now back with you in full strength.

My wife joins me in sending our best regards to you and Mrs. vom Hofe.

Sincerely yours,

J. Burke Knapp
Vice President

Dr. Ernest vom Hofe
Ministry of Finance
Rheinderfer Strausse No. 108
Bonn
Federal Republic of Germany

JBK/js





INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

~~TELEPHONE BABYLONE 17 10~~
TÉLÉPHONE KLÉBER 25-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO

~~PARIS OFFICE: 67, RUE DE LILLE~~
~~PARIS (7^e) - FRANCE~~

PARIS OFFICE : 4, AVENUE D'IÉNA
PARIS (16^e) - FRANCE

July 29, 1960

Mr. J. Burke Knapp
Vice President
International Bank for
Reconstruction and Development
Washington, D.C.

Dear Burke:

I enclose a rather gloomy account of the D.A.G. Working Party's deliberations. If I have concentrated my attention on the more unfortunate episodes and made explicit things which were implicit it is because I see real danger.

Will you let me know about the Economic Reports by cable if you can? I will have to get together with OEEC next week.

Could you also let me know about the Indian consortium as soon as it is settled? Many months ago when I surveyed my engagements for the summer (Tour de France, D.A.G., Gene's Nordic trip, etc.) I found only one period when I could get away and when I thought there was no danger (because of preparations for the Annual Meeting) of something cropping up - the first two weeks of September. So I rented a house in Sardinia for that time. It is too late to change it but I would like to make plans for getting back on the 11th as soon as I know that I have to.

Yours ever,

Encl.

John Duncan Miller

1960 VNC-1 BW 1:22
BANK FOR RECONSTRUCTION
AND DEVELOPMENT
RECEIVED

RECEIVED
BANK MAIL ROOM

FOR THE DIRECTOR

SECRET

1960 AUG -1 PM 1:59

CONFIDENTIAL

As I know that I have to
time to make plans for starting back on the job as soon
as possible. It is too late to change it now I would
like to see you in the week of September. So I thought I would
attend meeting) of something about it - the fact
there was no change (because of the situation for the
one being much I could get away and when I could
please, D.V.C. case, a month later etc.) I would only
when I could get my arrangements for the summer (both of
concerning as soon as it is settled. Much would be
could you give me the name of the person

SECRET next week
I will have to be together with
I will have to be together with

see how things
arrange things with me in the future if it is possible I
will arrange on the whole situation about the and the
working party, a representative. If I have any suggestions
I would be glad to discuss them with you of the D.V.C.

Best regards:

Washington, D.C.
Responsible for and Development
International Bank for
Africa President
Mr. J. Blake King

AUG 20 1960

SECRET
SECRET OFFICE
~~SECRET OFFICE~~
~~SECRET OFFICE~~
SECRET OFFICE

TELEPHONE NUMBER 33-10

WASHINGTON 25, D.C.
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL BANK FOR

SECRET OFFICE



OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: July 29, 1960

FROM: John Duncan Miller *JDM*

SUBJECT: D. A. G.

1. The Working Party of the Development Assistance Group (set up by a resolution of the D.A.G. Meeting in Bonn and dated July 7, 1960 - Annex A) met in Paris on July 27 and 28 under the Chairmanship of Mr. Stedtfeld. Its agenda is attached as Annex B and the list of those attending as Annex C.

2. What happened on Items 1-4 I do not know as the usual D.A.G. performance was re-enacted. I was first invited to attend at 10.30 on the first morning. Then I was told that, as the IBRD was not a member of D.A.G., it would be better to wait until the meeting had opened and it could agree officially to invite us. I was asked to be ready at 11.00 to go when summoned by telephone. At 11.00 I was told very apologetically that some members felt that the IBRD should only be invited to attend during discussion of Items 5 and 6 which might come up late in the afternoon or next morning. Discussion of Item 4 finished apparently at 7.30 p.m. on the 27th so I was summoned for the morning of the 28th. Item 6 was then taken before Item 5.

3. On various points in Item 6:

a) It was decided that all grants and all credits exceeding 5 years and all private capital investment which carried a government guarantee should be reported if over \$1 million. Consolidations which had the effect of making a total credit period of more than 5 years are to be included.

b) Mr. Cope's Form A (Report on a Specific Operation) was taken as a model. Of his 12 headings all were accepted as points that should be reported except:

(2) Some countries did not want to report the Recipient Agency and the point was left for further discussion at the next meeting. It will probably be decided that it shall not be reported.

(5) In the case of private transactions (whether credit guarantees or investment guarantees) only the names of the guaranteeing agency is to be reported.

(8) This was left over for further discussion. I was asked whether the IBRD expected one country to report the details of another country's transactions. I replied that we did not but that it was important to know how the total cost of a project was to be met. There might be some credits of less than 5 years or a loan from the IBRD;

the country itself might be providing some of the funds, some might be coming out of counterpart funds; and in the case of international consortiums other countries participating could be mentioned in order to make reference easy. I am writing to the Chairman to explain this more fully.

(10-b) Discussion got bogged down in trying to find out what "period of repayment" meant. (The Bern Union's mystical definition in which a period of repayment of 5 years can mean 10 years was dragged out.) I suggested that "dates of payments" was what was wanted and that appeared to be accepted.

(10-d) Revision, refinancing or conversion at a later date was added.

- c) It was decided that reports should be made currently but to whom was left for decision later - probably at the next D.A.G. meeting. A central office in O.E.C.D. seemed the most popular suggestion.

4. Discussion of Item 5 was an almost complete muddle because most people seemed to think Item 2(b) of the Resolution only referred to the "bibliography" that O.E.E.C. had been asked to prepare with the Bank's help. In the end, with the clock at 1.15 and nobody wanting to come back after lunch, it was left to the O.E.E.C., in consultation with the I.B.R.D., to see what it could do before September. ?

*Fourth meeting
will be around
turn of year*

It seems likely that the most useful documentation for the group would be our Economic Reports and perhaps the Fund's Consultation Reports. I would like to have a decision as soon as possible whether we can make our Economic Reports available to D.A.G. Each individual country represented (with the temporary exception of Portugal) will of course get them anyway but that seems to me to be rather different from making them available to a D.A.G. Secretariat. (Some delegations - French and Japanese particularly - gave a warning against D.A.G. going to the underdeveloped countries themselves for information which, they felt, would be an unpopular procedure.)

5. Generally I found the attitude of the Working Party very disturbing. Before I had been there very long the French suggested that there was no need to report untied loans because they were unlikely to include features to which other members would have any objection. This idea seemed to be getting some support so I intervened. I said that, as I had not been present the day before, I was perhaps going over old ground but I would like to know what the Working Party believed the objectives of D.A.G. to be. The I.B.R.D. had understood them to be to increase the amount and effectiveness of the assistance given to underdeveloped countries. If that was so it was just as important to report untied loans as any other kind of assistance. If the Bank, as it hoped, received these reports they would be

valueless unless they included untied loans because they would not give the full information about the indebtedness of the underdeveloped countries.

The Chairman either misunderstood me, or affected to misunderstand, replying that if I had been there the first day I would understand and that he thought everyone in the room realised the Bank's interest in untied loans. The U.K. then came to my rescue and said that they thought my point relevant - that untied loans affected a country's credit-worthiness just as much as tied loans. And then Maddison (OECEC having been there from the beginning and suffered longer than me) put what I had in mind very bluntly, saying that although he had had the advantage of being present the day before he was as much in the dark as I was about what the objectives were. Was the only interest of the members of the group in policing each other?

And that looks like being the question. With a few exceptions (notably the U.S., U.K., and Italy) the Working Party seemed to think that the reason for instituting a reporting system was to allow each country to find out what the others were doing and tell them to stop it. As far as this particular meeting is concerned everything came out all right (e.g. untied loans are to be reported). But if yesterday's attitudes did not merely represent the feelings of officials who had not been properly briefed D.A.G. could be not merely useless but actively dangerous.

cc: Mr. S.R. Cope
Mr. L.B. Rist

The German Delegation to the
Second Meeting of the
Development Assistance Group

Bonn, 7 July 1960

D R A F T

of a Resolution relating to the improvement
of information on financial assistance to
the developing countries

(Item 7 of the Agenda)

1. The Members of the Development Assistance Group agree that it is of benefit for their work to obtain a continuous survey regarding financial assistance to the developing countries embracing the following three sectors:
 - a) financial development assistance rendered by the individual Members and by international organizations;
 - b) financial development assistance received by the individual developing countries;
 - c) agreements concerning financial assistance concluded, to the extent that they are of general interest because of their scope and character.

2. The Members of the DAG resolve to institute a Working Group having as its mission:
 - a) to assist the Secretariat of the OEEC in supplementing and complementing the Report submitted by it concerning the development assistance rendered;
 - b) to look into the question of how the surveys covering the financial development assistance received by the individual developing countries can be made more complete and comparable, and to report to the Fourth DAG Meeting on this matter;

c) to make proposals to the Fourth DAG Meeting concerning continuous mutual information of Members in regard to agreements on financial assistance concluded by Member Governments severally or jointly, or with their assistance, and of general interest on account of the size of the amounts, their term or other conditions (interest, tie-ups, etc.).

3. The chair of the Working Group shall be taken by who will determine the place and time of its meeting. All interested Members of the DAG may take part in the activities of the Working Group. Representatives of international organizations may be called upon as experts.

DEVELOPMENT ASSISTANCE
GROUP

DAG/WPL

RESTRICTED TO PARTICIPANTS

Paris, 21st. July, 1960.

WORKING PARTY OF DEVELOPMENT ASSISTANCE GROUP

1st. Meeting

to be held at the Château de
la Muette on Wednesday 27th
and possibly Thursday 28th
July, 1960, beginning at
10.30 a.m. on the first day.

AGENDA

1. Adoption of the Agenda.
2. Mandate and procedure of the Working Party.
3. Suggestions for a revision of the report submitted to D.A.G. by the O.E.E.C. Secretariat concerning development assistance. (para. 2(a) of the D.A.G. resolution dated 7th July, 1960 by which the Working Party was set up).
 - a) Statement of the Intentions of the O.E.E.C. Secretariat.
 - b) Suggestions by Members of the D.A.G.

4. Discussion on the content and procedure for a future system of regular reports to be made by the O.E.E.C. Secretariat to Members of D.A.G. on the flow of development assistance. (second part of para. (a) of D.A.G. resolution dated 7th July 1960 containing a request to the O.E.E.C. Council).
5. Exchange of views about surveys of financial development assistance received by individual areas in process of development. (para. 2(b) of the D.A.G. resolution dated 7th July 1960 by which the Working Party was set up).
6. Proposals on the form and content of reports on specific financial transactions of Member Governments. (para. 2(c) of the D.A.G. resolution dated 7th July 1960 by which the Working Party was set up).
 - a) Criteria for the transactions to be reported.
 - b) Details of the transactions to be given in the reports.
 - c) Form of the reports.
7. Other business.

lère Réunion

27 et 28 juillet 1960

Liste des Participants

M. STEDTFELD, Président

<u>ALLEMAGNE</u>	<u>M. Sonnenhol</u>	Délégation Perma- nente OECE	5, rue Léonard de Vinci
	M. Matthias	" "	" "
	M. Mez	Ministère des Af- faires Etrangères	Bonn
	M. Abramowski	Ministère des Af- faires Economiques	Bonn
	M. Schubert	" "	"
	M. Helmstädter	Ministère des Fi- nances	"
	M. Kullar	Banque Fédérale	Frankfurt/M.
<u>BELGIQUE</u>	M. Hertens .	Ministère des Fi- nances	Bruxelles
	M. P. Gaudy	Délégation perma- nente auprès des Communautés Euro- péennes	62, rue Belliard Bruxelles
	M. Jamar	Délégation perma- nente OECE	14, rue Oct. Feuillet, Paris
<u>CANADA</u>	M. P.M. Towe	Délégation perma- nente OECE	Place du Maré- chal de Lattre de Tassigny
	M. M. Haffey	" "	"
<u>FRANCE</u>	M. <u>Claude Pierre- Brossolette</u>	Ministère des Fi- nances	93, rue de Rivoli Paris
	M. Chatillon	" "	"

<u>ITALIE</u>	<u>M. Marco Favale</u>	Délégation Per- manente OECE	50, rue de Varenne (7e)
	M. Mario Magliano	Ministère des Af- faires Etrangères	Rome
	M. Edgardo Valle	Délégation Per- manente OECE	50, rue de Varenne (7e)
	M. Ossola	Ambassade d'Italie	Paris
<u>JAPON</u>	<u>M. Kensuke Sato</u>	Ambassade du Japon	24, rue Greuze Paris 16e
	M. Shigeto Nikai	" "	" "
	M. Yoshihiko Morozumi	" "	" "
	M. Kohichi Inamura	" "	" "
	M. Takeshi Kanematsu	" "	Bonn
<u>PAYS-BAS</u>	<u>M. E.A. Lieftrinck</u>	Délégation Per- manente OECE	12-14, rue Octave Feuillet (16e)
	M. de Groot van Emden	" "	
<u>PORTUGAL</u>	M. A.F. Lopes	Ministère des Fi- nances	Délégation por- tugaise, 7 rue Adolphe Yvon 16e
<u>ROYAUME-UNI</u>	<u>M. Downie</u>	Treasury	Great George St. London SW 1
	M. Mitchell	"	" "
	M. Pliatsky	"	" "
	M. G.C. Drown	"	" "
	M. G.C.M. Mason	Foreign Office	King Charles St. London SW 1
<u>ETATS-UNIS</u>	<u>M. George Gardener</u>	Délégation Per- manente OECE	2, rue St- Florentin
	Miss Leocade Leighton	NATO	2, rue de la Faisanderie
	H. G. Mallett	"	" "
<u>CEE, COMMISSION DE LA..</u>	<u>M. Boyer</u>		23-26, av. de la Joyeuse Entrée, Bruxelles
	M. Segre		"
	Mme Weil		"

July 23, 1960

Dear Dr. van Scherpenberg:

I have now returned to my desk in Washington after some further travels in Europe subsequent to the DAG meeting. I should just like to drop you a few lines to congratulate you again on the excellent manner in which you conducted the meeting, and especially to thank you for the consideration and courtesy shown to the delegation from the Bank. I understand the difficulties which our presence created on one or two occasions, and I found that you were very adept at achieving solutions to them.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Dr. Albert Hilger van Scherpenberg
Permanent Secretary
Ministry of Foreign Affairs
Bonn
Federal Republic of Germany

cc: Messrs. Lejeune
Miller

JBK/js



DAG B

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FROM: The Secretary

July 21, 1960

DEVELOPMENT ASSISTANCE GROUP -
SECOND MEETING

Attached for the information of the Executive Directors is the Press Communique issued at the end of the Second Meeting of the Development Assistance Group which took place in Bonn, July 5-7, 1960.

At the meeting of the Executive Directors to take place on Thursday, July 28, 1960, Mr. Knapp will make a statement regarding this meeting.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads
Secretary, International Monetary Fund

DEVELOPMENT ASSISTANCE GROUP - SECOND MEETING

Bonn, July 7, 1960

PRESS COMMUNIQUE

The second meeting of the Development Assistance Group took place in Bonn on 5th - 7th July, 1960. The Federal Republic of Germany acted as host Government and Dr. A.H. van Scherpenberg, State Secretary of the Federal Foreign Ministry, took the chair.

The meeting approved and warmly welcomed an application for membership of the Group made by the Netherlands, whose representatives then took part in the further proceedings. The membership of the Development Assistance Group is now as follows:

Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Portugal, United Kingdom, United States and the Commission of the European Economic Community.

Representatives of the International Bank and the O.E.E.C. Secretariat, on the invitation of the Group, participated in the discussion of certain subjects in which their cooperation was considered to be helpful to the work of DAG.

In accordance with the procedure adopted for these meetings, the delegation representing the host Government made a comprehensive statement on the policies and existing institutions and financial arrangements of the Federal Republic in the field of development assistance. They gave a detailed account of the activities of the German Reconstruction Bank (Kreditanstalt für Wiederaufbau) and arrangements for providing technical assistance. They referred to the increasing interest in this subject on the part of the German people and Parliament and to the active consideration being given by the Government to ways and means of giving further practical effect to this positive attitude.

Other delegations made brief statements on recent progress and activities as regards their own contributions to development assistance.

In view of the increasing requirements for financial and technical assistance in many developing areas of the world, the Group welcomed the statements made on behalf of various of the participants in the Group as regards increasing the flow of development assistance. They reaffirmed their objective of cooperation in increasing the effectiveness of bilateral development assistance. There was general agreement on the importance to developing countries of the forms in which assistance is provided. As one aspect of this question, it was agreed, after a discussion on tied loans, that countries should move in the direction of providing assistance without tying it to their own exports to the extent it was feasible, having regard among other things to their balance of payments situation and the international payments position. It was recognized, however, that no general rules could at present be framed on this point.

The Group also reaffirmed its original intention that it should not discuss amounts of financing for particular regions, countries or projects.

The Group emphasized the need for fuller and more comparable data on the amounts and types of assistance being extended by the members and agreed on further studies looking toward improved reporting in this field.

At the invitation of the Government of the United States it was agreed that the next meeting of the DAG should be held in Washington in autumn 1960.

DAG

Mr. Harold N. Graves

July 21, 1960.

George R. Young

DAG paper on development lending.

Attached is a revise of this paper, taking into account the comments of those who volunteered them - Messrs. Adler, Cope, Demuth, Lejeune and Rosen. Copies of the revise have been sent to each of them.

I am also sending a copy of the revise to Mr. Knapp, with a copy of this memorandum.

Attach.
GRY/lc

C O P Y

ORGANIZATION FOR EUROPEAN
ECONOMIC CO-OPERATION

2, rue Andre-Pascal
Paris XVI^e

20th July, 1960

Ref: RS-3086

Dear Mr. Black,

*See memo from R. C. G. to Mr. Miller
of Aug 17/60*

I have been instructed by the Council of the OEEC to express our sincere thanks for your co-operation in the preparation of our report on Aid to Countries in Course of Development which was also presented, in a modified form, to the D.A.G. at its meeting in Bonn this month.

We particularly appreciate the fact that you gave us such prompt and complete answers to our enquiries about the Bank's operations. The information was of very great importance to us in preparing the chapter of our report on the flow of multi-lateral aid. We recognise that the preparation of some of these data must have caused very considerable additional work to the Bank.

We shall be preparing a revised edition of our report after consultation with various bodies within the OEEC, and after receiving the comments of governments on the sections of the report which concern them. We should be glad to have detailed comments from the Bank on particular points in the report which you feel may require modification.

We shall be getting into touch with John Miller in order to work out with him how we shall proceed to carry out the task that the D.A.G. has asked us to undertake jointly, namely, in the words of Mr. Upton,

"to compile a report on all the regular sources of information which were available on the flow of funds from the capital exporting countries and international institutions to developing countries and territories; the compilation to cover, if possible, reports prepared by existing international organisations and certain countries to indicate to what extent they showed the source and destination of these flows, and to make any pertinent comment on their completeness, reliability and other essential factors."

I understand that the Working Group, which the D.A.G. set up at its last meeting, will meet at the end of this month in Paris under the chairmanship of Mr. Stedfeld of the German Foreign Office.

We look forward to close collaboration with you in this Group,
and will do our best to ensure that our co-operation is as fruit-
ful as possible.

Yours sincerely,

s/s Rene Sergent

Rene Sergent

Born DAG meeting

TO: INTBAFRAD
PARIS

DATE: JUNE 27, 1960

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COUNTRY: FRANCE

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Cable No.: ONE

FOR KNAPP

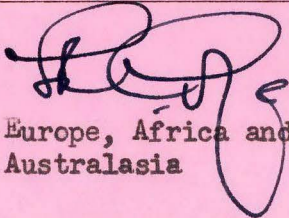
DUE TO AIR FRANCE STRIKE LEAVING TOMORROW TEN OCLOCK NEWYORK TIME
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NAME S.R. Cope
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*DAG mostly
Bonn
Germany*

TO: MR. J. BURKE KNAPP
ABOARD BREMEN
VIA AMAGANSETTNY

DATE: JUNE 21, 1960

CLASS OF
SERVICE:

COUNTRY:

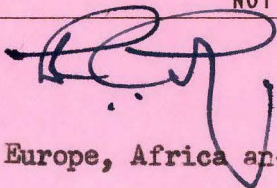
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ON ILIFF'S INSTRUCTIONS AM LEAVING NEWYORK MONDAY LATE
AFTERNOON ARRIVING PARIS TUESDAY STOP WILL ADVISE
ARRIVAL TIME LATER STOP UNLESS I HEAR FROM YOU TO
CONTRARY WILL CANCEL MCIVER APPOINTMENT FOR MONDAY
1130 HOURS WITH VIEW TO ARRANGING LATER MEETING YOUR
CONVENIENCE

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MESSAGE AUTHORIZED BY:



NAME S. R. Cope
DEPT. SRCope:mmr
Operations - Europe, Africa and Australasia

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DAG

June 17, 1960

Dear Dr. Henckel:

I thought I ought to let you know the names of the World Bank representatives who will be in Bonn for the DAG meeting from July 5 - 7. The group will be headed by Mr. J. Burke Knapp and, in addition to myself, will consist of Mr. L. B. Rist, Director of Economic Staff, and Mr. J. D. Miller, the Bank's European Representative.

I look forward to seeing you again and to the meetings themselves: the agenda should provide the opportunity for some lively discussions.

Yours sincerely,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

Dr. Hans Henckel
Ministerialrat Direktor
Ministry for Economic Affairs
Bonn
Germany

SRCoep :mmr

cc: Mr. L. B. Rist
18 bis rue du Parc de Clagny
Versailles
Seine and Oise
France

Mr. J. D. Miller
Paris Office

Mr. J. Burke Knapp

June 17, 1960

Martin M. Rosen 

Comments on the Paper "Some Principles of Development Lending"

My comments on the paper are mainly of a drafting variety, although they do, to some extent, affect the basis of the Bank's philosophy on project appraisal.

Paragraph 34 is, I believe, stated in somewhat too broad terms. The general concept, that a regulated utility should be self-supporting, is undoubtedly applicable in most circumstances but certainly not in all cases. It may well be government policy to provide low rates for particular types of services (e.g., movement of commodities either of a type or to or from a depressed area where there should be support from general revenues of the government; the provision of electric power to particular areas or to particular consumers at rates below those charged other areas and consumers). It cannot automatically be said that a subsidy in connection with a revenue-producing service is always bad, whereas a subsidy (or no charge at all) for a non-revenue-producing, such as education, is good government policy. Whether such a policy is wise or not depends on the contribution made to the "general welfare" and to the cost in terms of what alternative contributions might have been made to "general welfare" by an equivalent expenditure. Each case needs to be considered on its merits. In other words, whereas this paragraph is probably correct in most instances, I think it is too sweeping as presently drafted.

My comment on Paragraph 40 is largely a question of drafting. The second sentence combines technical questions of load system balance with the economic question of how rigorous a capital-output ratio test needs to be met to justify relatively heavy investments for hydro power. The first is properly a technical question; the second certainly is not.

In Paragraph 63, I believe that the last few words "reserves for future expansion" discusses an issue on which there might be a difference of opinion. The financial appraisal of a project properly takes account of the ability to meet charges and to establish reserves. Beyond this point, however, the concern is one of profitability rather than with reserves for expansion. Whether a company, which is sufficiently profitable, should retain its profits for expansion, or whether it should distribute them and attempt to raise new money as needed, can be appropriately decided only in the circumstances in each case. I fully accept the argument that in underdeveloped countries, with shortage of capital, profits from public utility enterprises are one way of increasing savings but it does not necessarily follow that these savings should be reinvested in that particular enterprise or necessarily even in the same sector of economic activity.

All these points are rather fine refinements and do not affect the usefulness of the paper as it has been prepared for DAG.

June 16, 1960

My dear Fay:

Many thanks for your letter of June 9. I was most interested to hear about the reporting system you are planning. As you may have heard, the Bank has been under some pressure from D.A.G. to produce its ideas on "information, consultation and coordination" and we accordingly produced some tentative proposals on the first of these matters and I am enclosing a copy which you might be interested to see.

As you will see from my covering letter to Geber, the suggestions are made more as a basis for discussion than as a finished plan which could only be worked out after much detailed discussion among those concerned.

I very much appreciate your note and I look forward to reading the paper you are preparing for the next D.A.G. meeting. If I do not see you before, we shall no doubt meet in Bonn.

Yours sincerely,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

Enclosures

Mr. J. D. Fay
Deputy Director of Economics and Statistics
Organization for European Economic Co-operation
2, rue Andre-Pascal
Paris XVI^e, France

SR Cope 

cc: Mr. C. deBeaufort

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Date

July 28

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Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers

Information

Recommendation

Initial

Signature

Remarks

Dr. Hans Henckel,
Departmental Director
Ministry of Economy

*rec: sent to
Mr Knapp in
Bonn* 344

Bonn, June 15, 1960.

Mr. J. Burke Knapp,
Vice President
I. B. R. D.
Washington 25, D. C.

Dear Mr. Knapp:

Thank you for your letter of June 7, 1960 which I received only today. At present we are busy preparing for the DAG meeting. I am very sorry that I will not see you there. I am not going to take part in the meeting myself, but will be represented by Mr. vom Hofe. I have had a reservation for early July at a heart sanatorium for some time. On account of my health I should not like to postpone this cure. However, I hope to see you again in September at the Annual Meeting of the World Bank.

I wish you and your wife a pleasant stay in Germany.

Sincerely yours,

s/ Henckel

JUN 23 1960

DAF

Dr. HANS HENCKEL

MINISTERIALDIREKTOR

IM BUNDESWIRTSCHAFTSMINISTERIUM

BONN , den 15. Juni 1960

Mr. J. Burke Knapp
Vice President
International Bank for Reconstruction
and Development
Washington 25, D.C.

TRANSLATED

JUN 27 1960

I.B.R.D.

Sehr geehrter Herr Knapp !

Haben Sie herzlichen Dank für Ihr Schreiben vom 7. Juni 1960, das ich erst heute erhielt. Wir sind hier zur Zeit eifrig mit der Vorbereitung der DAG-Tagung beschäftigt. Ich bedaure aber sehr, daß ich Sie während dieser Tagung nicht sehen werde. Ich werde an der Tagung selbst nicht teilnehmen, sondern mich durch Herrn vom Hofe vertreten lassen. Ich hatte schon seit längerer Zeit für Anfang Juli einen Platz in einem Herz-Sanatorium belegt. Diesen wegen meiner Gesundheit notwendigen Kuraufenthalt möchte ich nicht verschieben. Ich hoffe aber sehr, daß wir uns im September auf der Jahrestagung der Weltbank wiedersehen werden.

Ich wünsche Ihnen und Ihrer Gattin einen angenehmen Aufenthalt in Deutschland und verbleibe

mit verbindlichen Grüßen

Ihr sehr ergebener



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1960 JUN 17 PM 4:39

OFFICE MEMORANDUM

TO: Files

DATE: June 14, 1960

FROM: J. Burke Knapp

SUBJECT: Development Lending

At the Board Meeting on May 31 Mr. Nehru said that he was concerned about some of the aspects of the paper which had been prepared by the staff of the Bank for submission to the Development Assistance Group on the subject of "Some Principles of Development Lending." Mr. Nehru did not elaborate his views at that time, but in accordance with a request which I made to him subsequently, he has sent me the attached paper to express his ideas on the subject, making clear that this is a rough draft somewhat hastily prepared. Mr. Nehru has since left town but I understand that his office has circulated copies of this paper to at least some of our Executive Directors.

Mr. Nehru's paper does not explicitly criticize any of the observations or views expressed in the Bank paper. However, it does express a rather different point of view.

In the first place, Mr. Nehru's paper is addressed to a somewhat different subject, namely, how to administer a massive assistance program primarily on a grant-in-aid basis, to a country with a highly organized development program and great "absorptive capacity." The Bank paper, on the other hand, was focused primarily upon normal Bank operations emphasizing the project approach and the limitations of credit-worthiness.

Mr. Nehru begins with some declarations regarding the obligations of the creditor countries "to forego a part of the increase in their annual consumption for the sake of the developing world" and says that once they reach this policy decision they ought to develop institutions designed to accomplish a transfer of resources to the undeveloped world on the order of 1% of their GNP or some \$9 billion annually.

He then argues that this requires major inter-governmental transactions, that the project approach is wholly inadequate for operations on this scale and that the correct method is to treat the entire development program of the country as the objective of financing and to defer repayment of aid (at least on any net basis) until the country has reached a stage of self-sustaining economic growth. The final aim of development assistance, according to Mr. Nehru, should be to achieve "the point at which the internal rate of saving enables development to proceed at a politically acceptable rate, internal resources thereafter being supplemented by external resources purely on a commercial basis, e.g., private foreign investment."

It should be added that Mr. Nehru lays down very stiff conditions to be satisfied by the developing country. He says that such a country

June 14, 1960

"must demonstrate to the outside world before it can legitimately ask for external assistance:

- (i) that it has made every effort to raise all the resources that it possibly can from within the country, e.g., that its taxes are as high as the country will stand;
- (ii) that it has taken steps to ensure that as much of the foreign finance that it needs comes from the private investor;
- (iii) that its own capital is not permitted to escape abroad; and
- (iv) above all, that its investment program is based on economic priorities and not on prestige and other non-economic criteria."

He calls upon the undeveloped countries for a "measure of sacrifice which should fall just short of the point of collapse of the social system." And he advocates "an annual review of performance by the providers of development assistance, acting not by bilateral but through international institutions." "That this can be done without creating too much friction has been shown by the Annual Missions of the International Monetary Fund and the International Bank."

Comment:

All of this bears little relation to the more or less technical paper which the Bank has prepared for the DAG meeting, although it is, of course, a statement of views which are very relevant to the DAG proceedings. The main difficulty which I have with it, aside from a few points, is that it generalizes far too much about the proper approach to the undeveloped countries. The case of India is almost unique. Very few if any other undeveloped countries are in a position to present development programs for financing along the lines that Mr. Nehru's paper suggests as the model. Indeed, very few undeveloped countries could really satisfy the basic requirements that Mr. Nehru lays down for eligibility for development assistance.

cc: Messrs. Black, Iliff
Aldewereld Broches
Cavanaugh Cope
Demuth Hoffman
Rist Rosen
Rucinski Schmidt

JBK/js

*As Knapp has
indicated 4 to yellow
copy.*

Principles for the grant of foreign assistance for economic development.

Foreign assistance for economic development is of two kinds - (a) technical and (b) capital. This note deals only with the latter.

OBJECTIVE

There must be a definite objective towards which economic assistance should be directed; to pick up odd projects here and there, no matter how large or beneficial they may be, is to tinker with the problem.

The objective should be to give to each developing country the assistance it needs, whether technical or capital, in order that it should get to the point, as rapidly as possible, at which it can then stand on its own legs, or in other words, to the point at which the internal rate of saving enables development to proceed at a politically acceptable rate, internal resources thereafter being supplemented by external resources purely on a commercial basis, e.g. private foreign investment.

Conditions in the under-developed countries vary considerably. Some have so little technical know-how (including managerial, administrative and organisational know-how) as to make capital assistance almost futile. Others have got to the point at which they have all the essentials of growth but are lacking in capital. Between these two extremes lie most of the countries in the under-developed world; they require both kinds of assistance but in varying proportions.

PLANNING FOR ECONOMIC ASSISTANCE

The first step is to get a clear picture of how, over the long-term, resources should be invested in order to get the country to the take-off point, where exactly in each particular case the shortage of resources lies and how it can best be met. In other words, there has to be a long-term programme for economic development which need not necessarily, however, go into great detail but which must be able to satisfy the outside world that the resources (whether in manpower or in money) it is being asked to provide, will be used for the highest developmental priorities and will not be frittered away.

Some countries are sophisticated enough to be able to draw up developmental plans of this kind themselves; most countries are, however, not so well-placed. The first action required to be taken in the case of the latter is, therefore, the drawing of a developmental programme with the help of an outside authority which must be international and which can perhaps be the International Bank.

In the case of countries which are capable of drawing up plans of this kind or by whom plans have already been drawn up, it is

still ...

still necessary that the prospective lenders should be satisfied that what the country proposes to do is sensible. As each individual creditor country has neither the personnel nor the technical ability to examine these developmental plans, this function should again be assigned to an international authority, preferably the International Bank.

Such an examination should give a not-too-indefinite picture of how long the country concerned will need foreign aid and in which sectors it will need it. It will also give a fairly clear picture to the country concerned as to what action it is required itself to take and what sacrifices that action will entail.

QUANTUM OF EXTERNAL ASSISTANCE

If the capital needs for external assistance of the developing world are thus realistically assessed, the figure that is likely to emerge is substantial but very manageable. The gross national product of the industrialised countries is about \$ 900 billion per annum. The annual increase in the gross national product is about \$ 36 billion. It is most unlikely that the annual sums which can be absorbed by the developing world, if the latter were to mobilise its own resources to the full, would be more than 1% of the gross national product of the developed world or 25% of the annual increase in their income. In fact, it is likely to be considerably less.

SOURCES OF EXTERNAL FINANCE

The basic decision which the developed countries must take - and it is much too late in the day either for them or for the developing countries to camouflage this issue any longer - is whether or not they are willing to forego a part of the increase in their annual consumption for the sake of the developing world. The moral, political and commercial reasons which make such a decision desirable are well-known; but the decision must be taken in principle before the techniques for the transference of capital are discussed. In other words, if the decision is taken, the standard excuses that the budget is unbalanced, that the balance of payments is adverse and that there is no money in the capital market, lose all their validity. If nations are determined that the capital must be transferred, then new institutions must be created or old institutions so worked as to cause this transfer to take place; otherwise, the position arises that the under-developed world is dependent on the accidental conjunction of a surplus budget, of a surplus in the balance of payments and excess liquidity in the money market for obtaining the funds it needs.

The wealth that is transferred from the rich countries to the poor countries can belong either to (i) the investor or (ii) the tax-payer. It is desirable that the compulsion required in the latter category of transfer should be kept to the minimum possible. This requires action not only on behalf of the under-developed countries as is generally supposed but also by the developed countries for it

is ...

is clear now beyond the shadow of a doubt that no matter what the latter may do, private capital, without public guidance (with the unique exception of oil) will flow almost wholly from one developed country to another instead of from the developed countries to the under-developed. The reasons for this are that the former offer greater safety and security and familiarity with conditions than the latter and the profit differential (if any) is not high enough to counteract these advantages, in an age in which venture has disappeared from "venture capital" because of the change in the character of its ownership. Investment in a sky-scraper in New York attracts capital from London; investment in a power house in Kathmandu would not, though the social need for the latter is infinitely greater than for the former.

In order to reduce the disadvantages which the under-developed world has by its nature in the attraction of direct foreign investment, the developed world can do three things. It can

- (i) guarantee compensation in the event of its expropriation;
- (ii) guarantee convertibility of profits, dividends and of capital, if capital has to be repatriated; and
- (iii) enter into double-taxation agreements which will ensure that any tax incentives given by the receiving countries will not be frustrated by action on the part of the tax authorities of the country of origin of the investor.

The model for action on (i) and (ii) above is that adopted by the United States in its ICA programmes. (The original model of requiring recipient countries to enter into elaborate treaty arrangements binding themselves to be of good behaviour will not work.) These ensure to the investor that in the event of expropriation or lack of convertibility, he will get his money from a U.S. Government agency, with the U.S. Government left to press its claims with the government of the country concerned. The model for (iii) is the Double Taxation Treaty between the U.S.A. and India (now before the Senate of the United States for ratification) Even if all this is done, the fact remains that not more than a very small proportion of the funds available for private investment abroad will ever go to the developing countries and the total amounts will be much smaller than the minimum required for the purpose. It is only after a country has reached the point of take-off (and as a consequence of the resultant stability and confidence in its competence) that these funds will begin to flow in any appreciable measure.

The second source of investors' money is the capital market. No under-developed country can at present float a public issue basically because of the lack of confidence of prospective investors in its ability to fulfil its obligations, due partly to a lack of knowledge of its conditions but largely because of the poverty of the countries seeking to take on these obligations. No developing

country ...

country can hope to use this source of funds (which throws no burden on the tax-payer) unless the country in which the borrowing takes place assumes the risk of the borrowing country defaulting on its obligations as a result of lack of foreign exchange. In other words, to make use of this source of finance, it will be necessary for the government of the lending country to guarantee convertibility. This means a contingent liability on the tax-payer which is, however, better from the point of view of governments than having to raise taxes immediately. A programme of this kind could result in large transfers of capital without burden on the tax-payer; but it will have to be used with care and governments will have to be prepared for the contingency of a default if one arose.

PUBLIC ASSISTANCE

This has three forms -

- (1) Direct loans by one Government to another;
- (2) Loans by the Central Bank to Governments or other Central Banks; and
- (3) Loans through international institutions.

From the point of view of the under-developed countries it does not make much difference which of these three particular techniques is adopted. Techniques (1) and (3) have been adopted with varying measures of success but technique (2) is available for those governments who plead poverty while the Central Bank has vast accumulations of gold and foreign securities. The finance provided by the under-developed world of the British Empire to the United Kingdom during World War II was wholly on this basis.

What is much more important from the point of view of the under-developed world are the terms and conditions on which the money is made available to them and here a great deal of confusion has been caused by applying the criteria suitable for internal financing to international lending. Loans from a lending institution to a producing concern are usually linked to the period of amortisation of the project for which the loan is made. In the case of international lending, this criterion has no significance whatsoever for the debt has to be paid not from the earnings of the project financed but the earnings of the entire economy. To say, therefore, that a loan for the purchase of trucks should be repaid in three years and for the purchase of a power house in 15 years though wholly meaningful in terms of intra-national lending becomes completely meaningless in terms of international lending. Neither the truck debt nor the power house debt will be paid from the earnings of the trucks or the power house; both will be paid from the exports of the economy which bear only an indirect relation to the transport of goods or the generation of power. In this context, the rules of the Berne Union and the efforts of national export promotion organisations which tempt foreign purchases with the use of the word "credit" are not only meaningless but positively

harmful ...

harmful because in so far as foreign countries fall prey to the temptation, they eat into their creditworthiness at a very rapid rate.

The proper way to approach this problem is to regard each individual country as a PROJECT of which individual projects power houses, trucks and the rest are merely component parts. What has to be assessed is, therefore, at what point of time the PROJECT, i.e. the country, will breakeven and at what rate thereafter it will make a profit. Till the breakeven point is reached, there can be no net repayment of debt. This does not mean that there should be no repayment of debt prior to the breakeven point but this can only happen if other loans are in the mean time forthcoming in a manner which enables them to be utilised for the repayment of existing obligations, i.e. if they are made available in the form of free money.

The most important point in regard to financing under-developed countries is, therefore, the period for which money is lent to them. Those countries which are nearer the take-off point should be able to begin to repay earlier than those which are much farther removed from this point. But while the latter category do not require large sums of money, the former do and if all the money that is necessary to help these countries to achieve the point of take-off is made available to them, the indebtedness will be so great that a very long period of time will be required to discharge it. Consequently, there are three alternative methods of handling this situation. One is to make loans repayable in foreign currency over a period of 40 to 50 years; the other is to make them repayable in local currency, the conversion, if any, being subject to negotiation at such time as the country concerned begins to throw up a surplus in the balance of payments after making provision for the maintenance of the economy and its development at a satisfactory rate; the third is to make grants instead of loans and this, if the Parliaments of both the developed and under-developed countries are sophisticated enough to take it, is probably the best method of approach. Genuine long-term loans as above defined or loans repayable in local currency come very near grants; but till such time as the concept of large-scale grants becomes generally acceptable, these devices can be used with advantage.

If the device of loans repayable in local currency is used, it must be clearly understood that the only sensible use to which counterpart funds can be put is for them to be made to vanish through some respectable process. Why this is the only use for them does not need to be laboured; but the grievous error that counterpart funds represent real resources which are capable of use for economic development is unfortunately so widely held in political as well as administrative circles that it creates a constant source of friction and irritation which is capable of breeding major political misunderstanding. Education on the true nature of counterpart funds is, therefore, highly necessary.

THE PROJECT APPROACH

The fashion set by the International Bank, that they would lend money

only for identifiable isolatable projects which normally themselves give an economic return has been followed by the USSR and then by the U.S. Government and threatens to become the fashion among other lending countries as a result of the high prestige in which the International Bank is held. As long as there was no clear philosophy of the objectives of foreign aid and when countries did not have well-worked out programmes of economic development, the test which the International Bank applied, which was designed basically to ensure that the money made available was in fact spent for economic development, was as good a test as could have been devised. But if it is agreed that the PROJECT is the country and the country has a regular developmental programme accepted by the lending countries as generally satisfactory, the project approach becomes a limiting factor in the use of funds and does not ensure that they are used to the best advantage. When the project approach is coupled with financing tied to purchases in particular countries, the use of resources becomes demonstrably uneconomic because, even in markets otherwise competitive, higher prices have sometimes to be paid for parts of equipment which can be more cheaply bought elsewhere. When, however, the lending country is a high cost country, the effect is to divert funds meant for foreign economic development to a subsidy for native industry.

Another and additional hindrance to the effective use of funds is the ideological conditions that are sometimes attached to project lending, namely, that if it is for industrial activity, that activity must be in the private sector. There is no economic justification for this at all. On the contrary, as in most under-developed countries the alternative is not between the private and public sectors but between the State creating an industry and the industry not being created at all, the effect of such limitation is to deny economic development. If the objective is to bring pressure on under-developed countries to change the pattern of their thought, that objective is hardly likely to be achieved particularly in democratic countries, because of the natural resentment against the adoption of policies under pressure from outside authorities. Refusal to finance a project because it may be inefficiently managed or uneconomic, is understandable; refusal to finance it because of ideological objections to certain kinds of ownership is neither economically justifiable nor politically wise.

THE PROGRAMME APPROACH:

The correct approach, at least for countries which have a well-worked out programme for economic development - and it has been argued that unless there is such a programme major capital aid can hardly be required - is that of financing the requirements of the programme in such a manner that enough flexibility is left to the country being aided to make it possible or to squeeze the maximum economic benefit from the funds that are made available to it. This requires first the commitment of funds over a long period of time

or at least the assurance to the country concerned that the funds needed for the fulfilment of the agreed programme will be made available as and when required up to the amounts agreed. Secondly, while the project approach need not be ruled out provided that global purchases are permitted, a substantial sum of money must be made available for purchases of developmental goods (which may sometimes not conform to the usual definition of capital goods) which the borrowing country may use with full flexibility, it being understood, of course, that it will be used for purposes within the programme.

THE MECHANISM OF CONTROL

End-use supervision of a project ensures that the money has been spent for the purpose it has been borrowed. If the approach is changed to the financing of a programme for economic development, what mechanism can be devised to ensure that the money has been actually used for the purpose of the programme? As the country concerned will have much greater flexibility in the use of its resources, it will at the same time be able, if it is so minded or if its administration is inefficient, to waste it. The answer to this lies in an annual review of performance by the country concerned. This is a much more delicate and difficult task than end-use supervision of a project. It is delicate because sovereign nations do not like to have their accounts examined by outsiders; it is difficult because programmes, if they are sensibly administered, must undergo much greater changes even during the course of 12 months, than projects. It follows that the agency for satisfying the outside world that the money being lent is used for the purposes for which it was represented that it was wanted, must be an international agency; it follows also that the individuals assigned to the task must be of great understanding and tact. That this can be done without creating too much friction has been shown by the annual missions of the International Monetary Fund and the International Bank. This would become even more acceptable to the under-developed countries if the policy decisions of these institutions could be demonstrated to be truly international in the sense of being influenced equally by the thinking of the under-developed and the developed parts of the world.

THE OBLIGATIONS OF THE BORROWING COUNTRIES

The borrowing country must demonstrate to the outside world before it can legitimately ask for external assistance -

- (i) that it has made every effort to raise all the resources that it possibly can from within the country, e.g. that its taxes are as high as the country will stand;
- (ii) that it has taken steps to ensure that as much of the foreign finance that it needs comes from the private investor;
- (iii) that its own capital is not permitted to escape abroad; and

- (iv) above all, that its investment programme is based on economic priorities and not on prestige and other non-economic criteria.

Every dollar that an under-developed country raises from its own resources represents a sacrifice in human terms infinitely greater than the dollar made available to it by the developed world. If an equality of sacrifice were to be aimed at, practically the entire burden of developing that part of the world which is not yet developed would be thrown on the richer countries. There is, however, no question of an equality of sacrifice both because such a concept is impracticable but even more importantly because such a concept would destroy the greatest asset required for economic or any other development, namely, self-confidence and self-respect. Furthermore, too much money being as evil as too little, it is desirable that the under-developed countries should attain their economic independence through a measure of sacrifice which should fall just short of the point of a collapse of the social system. If economic independence is attained at this cost, it will, like political independence, have a much greater chance of being cherished and preserved than otherwise.

It is impossible to say in quantitative terms what fraction of the cost of any developmental programme should be borne by the country concerned. This will naturally depend on a variety of factors, of which the most important will be the per capita income, the lower the income the less necessarily being the burden the country can bear. Generally speaking, however, countries with similar per capita incomes should be expected to bear similar proportion of their developmental costs.

SUMMARY:

To summarise, the theory and practice of economic aid that might with advantage be developed by the world is somewhat as follows:-

- (i) Each under-developed country should be looked upon as a project.
- (ii) The objective for each should be to bring it to the point at which its further economic development can take place from its own resources.
- (iii) A project report should be prepared for each country - either by the country itself or with the aid of an international agency; the results will vary and will indicate varying requirements of technical and capital assistance for varying periods of time.
- (iv) The developed countries must decide as a matter of principle to lay aside 1 per cent of their national income (as a basic rate), for the benefit of the under-developed countries, i.e. they must ensure that capital flows out at this rate to the under-developed world, whether through private or governmental channels.

(v) There should be variations from the basic rate of 1 per cent in either direction based on variations in the per capita income of the developed countries.

(vi) The capital may flow both through bilateral agreements and through international agencies.

(vii) This outflow of capital must be sharply distinguished from activities of export promotion and surplus disposal which should be excluded from computation of the 1 per cent. Private investment, whether direct or through the capital markets, should not, however be so excluded because though it results in a return to the lending country which might sometimes be substantial, it does, when it flows out, reduce the rate of growth of consumption within the capital exporting country.

(viii) The programme for aid for under-developed countries should be on a continuing basis without regard to the vicissitudes of budgets or balance of payments or capital markets.

(ix) The aid should be made available on the basis of either (i) grants, (2) loans for 50 years at a non-commercial rate of interest, or (3) loans repayable in local currency. In the case of the last, it should be ensured that counterpart funds are sterilised.

(x) The borrowing country must ensure (a) that it is raising as much resources required as it possibly can, (b) that its programme of economic development makes sense to the lending countries whose agent for this purpose must be an international organisation and (c) that it is taking all possible measures to attract private investment.

(xi) The aid made available should be on a united basis; foreign aid should not be made an instrument for the subsidization of high cost home industry.

(xii) While some aid may be on a project basis, a substantial part of it should be on the basis of programmes so as to permit of its most economic use.

(xiii) The borrowing countries must assure the lending countries that the aid being given is used for the purpose for which it was meant and that the other conditions of the programme, e.g. the raising of local resources, are being fully met.

(xiv) This assurance can be given through reviews by the International Bank and the International Monetary Fund.


(xv) Action is urgent and should not be held up till a world-wide survey of all the countries of the world has been made.

306
June 14, 1960

Dear Mr. Seeliger:

At request of Mr. Gorn I am sending you 100 copies of the Bank's memorandum entitled "Some Principles of Development Lending" which was prepared for the meeting of the Development Assistance Group to be held in July, 1960.

Yours sincerely,


J. H. Collier
Department of Operations
Europe, Africa and Australasia

Mr. Karl-Gerhard Seeliger
First Secretary
German Embassy
1742 R Street, N.W.
Washington, D. C.

HHC:vmc

INCOMING MAIL ROUTING SLIP			Date JUN 13 1960	
Mr. Black	1024		Mr. Perry	513
Mr. Broches	1113		Personnel Div.	207
Mr. Cargill	614		Mr. Poore	801
Mr. Clark	1113		Mr. Prasad	716
Mr. Cope	813		Mr. Ramm	A313
Mr. Demuth	506		Mr. Reamy	A318
Mr. Doucet	1017		Research Files	822
E. D. I.			Mr. Rist	716
Mr. Goor	705		Mr. Rosen	614
Mr. Hauenstein	101		Mr. Rucinski	600
Mr. Howell	801		Mr. Schmidt	513
Mr. Iliff	1003		Mr. Stevenson	600
Mr. Knapp	1024		Technical Op.	309
Mr. Lejeune	813		Translation	804
Mr. Mendels	1017		Treasurers	700
Mr. Nurick	1121		Mr. Worthington	A316
Office of Info.	228			
Office Services	111			
Remarks: <i>Reply mailed</i>				
From: Communications Unit - Room P-106 (Ext. 3630)				

D.A.G.

ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE

ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION

Tél. TRO. 32-20 - Télég. Europeconomie
TRO. 46-10

2, RUE ANDRÉ-PASCAL
PARIS XVI^e

N/Référence : JDF/JC

June 9th, 1960

H. Cope Esq.,
International Bank for Reconstruction & Development,
1818, H. Street, N.W.,
Washington 25, D.C.

My dear Cope,

Acc: June 10/60

Mr. de Beaufort has been in touch with Mr. Maddison about the possibilities of setting up a more regular reporting system to keep track of governmental loans and grants to underdeveloped countries.

This is a question which interests us very much at the moment, and which certainly ought to be discussed at the next D.A.G. meeting. Our thoughts, which I think are not greatly at variance with your own, are that there ought to be a system under which the developed countries reported, at the end of each month, on the governmental loans or grants in respect of which they had assumed commitments during the month, this report including details as to the terms of loans. There ought also to be a regular system of reporting, on the basis of a questionnaire, whereby at longer intervals (quarterly, half-yearly or yearly) countries reported on their disbursements and repayments; for this purpose something like the recent O.E.E.C. questionnaire would be appropriate, but by the time we have finished our present study we shall have a number of improvements to make to that particular questionnaire. The fruits of both the monthly reporting and the longer-period reporting would of course be made available by the receiving agency to all reporting countries.

We are intending to include a suggestion to this effect in our forthcoming study (which should be available well in advance of the next D.A.G. meeting at Bonn).

I am sending a copy of this letter to de Beaufort.

Yours sincerely



J. D. Fay.
Deputy Director of Economics & Statistics

1220 70M 13 BN P: 38
BANK NATION BOON
RECEIVED

We are intending to include a suggestion to this effect in our forthcoming study (which should be available well in advance of the next D.A.G. meeting at Bonn).

I am sending a copy of this letter to de Beaufort.

Mrs. Green

J. D. Fay

J. D. Fay.
Deputy Director of Economics & Statistics

RECEIVED
BANK MAIL ROOM
1960 JUN 13 PM 4: 38

✓ D.A.G.

* Exchange of Info on
M-T Debt

OFFICE MEMORANDUM

TO: Mr. P. S. N. Prasad

DATE: June 8, 1960

FROM: Leslie G. Butcher

SUBJECT: Development Assistance Group

*Sent to
Personal
Files*

Referring to the attached memorandum SecM60-100, I think the proposed reports by DAG members and the reports to be made by the participants in the Bank's revised plan for the Exchange of Information on International Indebtedness are hardly comparable. Important differences are:

Reports by DAG Members

Reports by Participants under Revised Plan for Exchange of Information on International Indebtedness

- | | | |
|--|---|----------------|
| 1. Would be made both before and after loans are made | Would be made only after debtor had incurred indebtedness | |
| 2. Would include grants | Would not include grants | |
| 3. Would include assistance to dependent territories | Would not include assistance to dependent territories | |
| 4. Would not include suppliers' credits | Would include suppliers' credits guaranteed by national credit guarantee organizations | |
| 5. Would be made in considerable detail | Would not generally include details | |
| 6. Would not include military, educational, cultural, and technical assistance | Would include such assistance if on a loan basis | |
| 7. Would be made by: | Would be made by: | |
| Belgium | Austria | Japan |
| Canada | Belgium | Netherlands |
| France | Canada | Norway |
| Germany | Denmark | Sweden |
| Italy | France | Switzerland |
| Portugal | Germany | United Kingdom |
| United Kingdom | Italy | United States |
| United States | | |
| Perhaps Japan and IBRD also | | |
| 8. Would be made on aid given by DAG members to any country other than category I countries of IDA | Would be made on indebtedness of any country of free world except on indebtedness of a dependent territory to its metropole | |

I understand that the forms A and B attached to the memorandum were designed to focus attention on various matters rather than to suggest how they should be **handled**. To be useful the forms should be specific and provide for more details.

Attachment

LGButcher/ns

cc: Mr. Rist (2)

DAG

June 7, 1960

Dear Henry:


Just a brief line to tell you that I am planning to attend the DAG meeting in Bonn from July 5 thru July 7, accompanied by my wife, and that I hope I'll find you in again during this visit. I remember with great interest the talk we had a few months ago, and should like to renew my touch with what is going on in Germany.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. Henry J. Tasca
Consulate General
c/o American Embassy
Bonn
Federal Republic of Germany

 BK/js

DAG

June 7, 1960

My dear Dr. Henckel:

We are very much looking forward to our forthcoming visit to Bonn in connection with the DAG meeting, and especially to hearing the presentation regarding Germany's intentions and expectations in the field of development assistance. I read with great interest a newspaper story which appeared in the press here last weekend indicating the formation of a DM 2 billion fund for long-term development lending through the Kreditanstalt. This sounds like a good step in the right direction.

I look forward very much to resuming talks with you. I am happy to say that my wife will be accompanying me, and we plan to spend a few days around in Germany after the meeting.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Dr. Hans Henckel
Ministerialrat Direktor
Ministry for Economic Affairs
Bonn
Federal Republic of Germany

JBK/js



248
June 7, 1960

Dear Weir:

This is just a brief line to tell you that I shall be visiting Bonn, accompanied by my wife, to attend the forthcoming DAG meeting. I daresay those will be very busy days, but I hope that we will get to see you and Vivien while we're there.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. Weir Brown
U.S. Treasury Representative
c/o American Embassy
Bonn
Federal Republic of Germany

JBK/js



June 6, 1960

Dear Lou:


Burke has asked me to thank you for sending along the copies of the Canadian memorandum on Exchange of Information, Consultation and Co-ordination which has been prepared for the Development Assistance Group.

Yours sincerely,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

Mr. L. Rasminsky
Deputy Governor
Bank of Canada
Ottawa, Canada



JHCollier:fgs



DEPARTMENT OF STATE
WASHINGTON

X
Mr. [unclear]
Collins

Dag

June 6, 1960

Dear Mr. Knapp:

Ad Hoc Group

Sent to Research
Files

At the request of the Canadian Representative on the DAG Ad Hoc Group, I am forwarding a copy of the Canadian submission for the information of the staff of the Bank, subject to the same restrictions as the papers previously transmitted.

Sincerely yours,

Anthony Geber

Anthony Geber
Secretary
DAG Ad Hoc Working Group

Enclosure:

Canadian Paper.

Mr. J. Burke Knapp,
Vice President,
International Bank for
Reconstruction and Development,
Washington 25, D. C.

June 6, 1960

Dear Carel:

Many thanks for your letter of May 30 about the work of OEEC. I fully agree with your cautious approach. However, we were under some pressure to produce something and, rather than add yet another paper containing only vague generalizations, I decided to produce a memorandum proposing a fairly concrete plan for the exchange of information. I enclose a copy of this paper together with a copy of the covering letter.

"Fools rush in where angels fear to tread."

Sincerely yours,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

Enclosures

Mr. Carel de Beaufort
International Bank for
Reconstruction and Development
4, avenue d'Iéna
Paris (16^e)
France

SR Cope:mar

Daq

June 6, 1960

Dear Grady:

As promised on the telephone, I enclose
copy of my letter to Mr. Geber dated June 3,
together with the enclosures referred to therein.
Copies are being distributed to the Executive
Directors.

Sincerely yours,

R.

S. R. Cope
Director of Operations
Europe, Africa and Australasia

Enclosures

Mr. T. Graydon Upton
Assistant Secretary
U. S. Treasury
Washington, D. C.

SR Cope:smr

yellow

June 3, 1960

Dear Mr. Geber:

We have been giving some thought to the way in which we could respond to the invitation of the interim working group of DAG to present the views of the Bank "on ways and means of exchanging information, consultation and coordination."

We would hope to have the opportunity in due course to present our views on all of these matters. Coordination of development assistance, and even consultation, involves important issues of principle and without knowing more than we do at the moment about the wishes of the governments concerned we do not feel that we can make practical suggestions beyond those made by Mr. Black to members of DAG on March 9, 1960.

We believe, however, that it is not too early to propose the immediate introduction of a system of reporting development aid. Although hardly controversial, it presents a number of difficult technical questions. These questions need to be discussed between representatives of the agencies concerned before any plan can be presented formally for the acceptance of DAG. We thought it worthwhile, nevertheless, to draw up a tentative plan which could provide a basis for further discussion. Out of these discussions we would hope an agreed plan would emerge.

Attached is a paper outlining the tentative plan referred to above.

Sincerely yours,

S. R. Cope
Director of Operations
Europe, Africa and Australasia

Attachment

Mr. Anthony Geber
Secretary
DAG Ad Hoc Working Group
Department of State
Washington 25, D.C.

Sag

Coordination of Economic Assistance with World Bank

I. Action with a single country

1. Assistance to be given only after consultation between creditor country and the World Bank concerning advisability, size and purpose of such aid.
2. Joint operation by World Bank and creditor country (separate loan agreements) for specific projects, in one of the two following ways:
 - (a) World Bank loan to be given simultaneously with (short or long-term) loan from financial institution in creditor country (loan for Kariba made jointly with C.D.F.C.)
 - (b) World Bank loan to be given simultaneously with a bond issue placed in creditor country (examples: Italy, South Africa, Austria, Denmark etc.).
3. Placing funds at disposal of World Bank for lending to specific country or area not tied to purchases in any country
 - (a) as a loan to the Bank
 - (b) as a fund to be administered by the Bank.

II. Action with several countries

1. Refinancing operations (consolidation of short-term debts); multilateral agreement on bilateral action (example: India).
2. New Credits.
 - (a) Consultation between World Bank and creditor countries with a view to coordinating bilateral assistance (India, Third Five-Year Plan).
 - (b) Contributions of specific amounts for a specific country, the fund thereby established to be administered by the World Bank (similar to the procedure previously envisaged for the administration of the U.S. and U.K. contributions to the Assuan dam).

III. Action with other international lending agencies

World Bank loan jointly with regional development agencies such as

European Investment Bank
European Overseas Fund
Inter-American Bank
proposed Arab Development Bank.

IV. Channeling of general funds into the World Bank

1. Credits to replenish World Bank resources: Placing of World Bank bonds and other (e.g. Bundesbank) credits.
2. Participation in World Bank loans:
 - (a) in the customary way (participations or portfolio purchases after signing of loan agreement)
 - (b) arranging participations prior to signing of loan agreements (example: loan for a road project in Iran).

June 5, 1959

DAG

*Circulated as Sec M60-100
in forward files*

June 3, 1960

Dear Mr. Geber:

We have been giving some thought to the way in which we could respond to the invitation of the interim working group of DAG to present the views of the Bank "on ways and means of exchanging information, consultation and coordination."

We would hope to have the opportunity in due course to present our views on all of these matters. Coordination of development assistance, and even consultation, involves important issues of principle and without knowing more than we do at the moment about the wishes of the governments concerned we do not feel that we can make practical suggestions beyond those made by Mr. Black to members of DAG on March 9, 1960.

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Attached is a paper outlining the tentative plan referred to above.

Sincerely yours,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

Attachment

Mr. Anthony Geber
Secretary
DAG Ad Hoc Working Group
Department of State
Washington 25, D. C.

SR Cope/pnn
cc Mr. Knapp

International Bank for Reconstruction and Development

EXCHANGE OF INFORMATION

Memorandum prepared for a Meeting
of the Development Assistance Group
to be held in July, 1960

1. At the meeting of the Development Assistance Group in Washington in March 1960, proposals were put forward in general terms that members of DAG should obtain more information about the development assistance each of them was giving to the less developed parts of the world and that there should be consultation on and coordination of their development work.
2. The logical first step in this direction is the collection, collation and dissemination among members of DAG of accurate and up-to-date information about their current development assistance activities. This step seems desirable in itself irrespective of whatever decisions may be taken about consultation and coordination. An exchange of information can be done most effectively if there is a central office to handle it, and the present paper assumes that there is such an office.
3. The exchange of information will not achieve its full purpose unless all members provide information promptly in a standard format and unless the central office disseminates it promptly. To avoid the need for translation being a cause of delay in reporting each member would be allowed to give information in his own language.
4. The system would cover all development aid given by DAG members to the less developed parts of the world which might for convenience be defined as anywhere except in the seventeen category I countries of IDA. Assistance given by DAG members to dependent territories would be included. The information would cover all grants and loans by DAG member governments or their agencies other than military, educational, cultural and technical assistance. Export credits of the type coming under Berne Union rules and the operations of the IMF, IMA and SIS would not be included, since they are essentially short-term. Private long-term loans guaranteed by an agency of a member of DAG would, however, be included.
5. Each member government would be responsible for seeing that each of its agencies provided information promptly about its own activities. To avoid delay, however, the agencies would report directly to the central office.

6. Each operation would be reported separately immediately it was agreed in principle, without waiting for formal signature or for ratification or whatever other steps were necessary for it to become effective. If at this stage publicity was undesirable the reporting agency would indicate that the operation was to be treated as confidential and was not to be disclosed outside DAG membership.

7. Information would be passed by the central office to each DAG member government within two working days of its receipt. It would be passed on in the same form as received except that

- (a) it would be translated into English or French;
- (b) amounts would be shown in, say, U.S. dollars as well as in the currencies in which the agreement was made, so as to facilitate the preparation of consolidated statements;
- (c) the operation would be given a reference number for use in subsequent correspondence or reports.

Form A attached shows the kind of information to be prepared.

8. In addition to this information about specific operations, member governments or their agencies would file with the central office at regular intervals, for example, quarterly, a summary statement which would show:

- a. All new operations entered into during the reporting period.
- b. All operations becoming effective during the period, including amounts committed under lines of credit previously reported.
- c. Disbursements, operation by operation, during the reporting period, in respect of operations previously reported.
- d. Repayments of loans, loan by loan, during the reporting period, in respect of loans previously reported.

9. This summary information would be passed by the central office to each DAG member after being checked with reports of individual operations and with the addition of information covering previous periods, so as to present a continuous record of each member's development activities. Form B attached shows the kind of information to be prepared.

10. It is recommended that the system be put into effect forthwith and that members provide information in a standard form, going back to January 1, 1960.

Attachments.

Washington, D.C.
June 3, 1960

Report on a Specific Operation
Country X

1. Receiving Country:
2. Recipient Agency:
3. Amount:
4. Type of Operation: State type of operation, e.g., grant, loan, line of credit, guarantee of private financing or equity participation.
5. Name of Donor or Lender: State name of agency making grant or loan.
6. Legislative Authority: Describe the particular aid program, if any, of the reporting country of which this operation forms a part, (e.g., P.L. 480; C.D. and W., etc.)
7. Purpose: Describe the project or program for which the grant or loan will be used.
8. Financial Arrangements: Give details of the various sources of finance, other than the present operation, which are required to meet the total cost of the project.
9. Disbursement Conditions: Give any conditions attached to the use of the proceeds of the grant or loan, e.g., for expenditures in foreign exchange only, for imports from lending country only, etc.
10. Payment Provisions:
 - a) Interest rate, service charge, etc.
 - b) Period of repayment.
 - c) Currency of repayment. If more than one currency is involved give amounts payable in each one. Details of any currency options and conversion rates if fixed in the original or subsequent agreements. Details of any arrangements to make repayments in commodities.
 - d) Details of any provision for a waiver of interest or repayment in special circumstances.

11. Security:

Guarantees by government of recipient country or pledges of revenues or assets, etc.

12. Date of Agreement:

Draft June 3, 1960

DAG - Report by Country X Quarter Year Ending

	Receiving Country	Recipient Agency	Date	Original Amount	Of which Effective	Disbursements		Amount re- paid dur- ing Quarter	Amount Cancel- led at End of Quarter	Outstanding [✓] at end of Quarter
						During Quarter	To end of Quarter			
Operations agreed prior to start of quarter	Country P	A		200	200	-	200	25	-	175
	"	B		175	175	35	85	-	90	85
	Sub-total			375	375	35	285	25	90	260
	Country Q	C		150	100	10	80	-	-	80
	"	D		50	-	-	-	-	-	-
	Sub-total			200	100	10	80	-	-	80
Total as of start of quarter				575	475	45	365	25	90	340
New operations agreed upon dur- ing quarter	Country E	E		75	75	10	10	-	-	10
	Country F	F		100	-	-	-	-	-	-
Total as of end of quarter				750	550	55	375	25	90	350

Notes: 1/ Excluding un-disbursed amounts.

Draft June 3, 1960

June 3, 1960

Dear Mr. Geber:

Thank you very much for your letter of June 1 enclosing the U.K. and Japanese Governments' submission to the Development Assistance Group. As requested, this will be treated as confidential and restricted to the staff of the Bank.

Sincerely yours,

J. Burke Knapp
Vice President

Mr. Anthony Geber
Secretary
DAG Ad Hoc Working Group
Department of State
Washington 25, D.C.

File to: Mr. Cope
JBKnapp/jb





DEPARTMENT OF STATE
WASHINGTON

June 1, 1960

Ack June 3/60

Dear Mr. Knapp:

Research files I am sending you at the request of the U. K. and Japanese representatives on the DAG ad hoc Working Group their Governments' submission on aid coordination. It is the request of these representatives that the papers be treated as confidential and be restricted to the staff of the Bank. They also expressed the hope that the Bank's paper on aid coordination will not contain matter which would identify their views as expressed in these papers.

Sincerely yours,

Anthony Geber
Secretary
DAG Ad Hoc Working Group

Enclosures (2)

Mr. Burke Knapp,
Vice President,
International Bank for
Reconstruction and Development,
Washington, D. C.



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

~~TELEPHONE BABYLONE 17-10~~
TÉLÉPHONE KLÉBER 25-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO

~~PARIS OFFICE: 67, RUE DE LILLE~~

~~PARIS (7^e) - FRANCE~~

PARIS OFFICE : 4, AVENUE D'IÉNA
PARIS (16^e) - FRANCE

May 30, 1960

Mr. S.R. Cope, Director of Operations -
Europe, Africa and Australasia
International Bank for
Reconstruction and Development
Washington, D.C.

*4336 State
New South Wales
300 Victoria Ave
Ack: June 6/60*

Dear Raymond:

I talked to Maddison about the paper which might be prepared for the DAG describing how the exchange of information should be set up. According to Maddison OEEC had not planned to draft such a paper. They have been concentrating on a report describing past assistance to the underdeveloped countries. In preparing this report many statistical problems have arisen. On the basis of this experience he feels that the organization of the reporting system would not be an easy matter. His first reaction was that it might be better to have the DAG study their paper first and agree on the definitions used for the different sorts of assistance.

Maddison will discuss the matter with Fay who is absent this week. Since I will be leaving for Sevilla to attend the Bern Union Meeting and Johnnie is away too I suggested that Maddison or Fay would write you as soon as they have had their talk.

Our experience with the setting up of the Exchange of Information on Medium Term International Indebtedness indicates that it is hardly possible to draft a system without having had preliminary discussions with the participants. I would therefore be inclined to agree with Maddison that it would be better to wait until their report on past assistance has been studied.

With best wishes,

Sincerely yours,

Carel de Beaufort



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

CABLE ADDRESS: INTBANKPARIS PARIS

TELEPHONE: KLÉBER 25-10

PLEASE REPLY TO

PARIS OFFICE: 8, AVENUE DIENA
PARIS (16^e) - FRANCE

May 30, 1960

Mr. S.R. Cope, Director of Operations -
Europe, Africa and Australasia
International Bank for
Reconstruction and Development
Washington, D.C.

Dear Raymond:

I talked to Maddison about the paper which might be prepared for the OAC describing how the exchange of information should be set up. According to Maddison OAC had not planned to draft such a paper. They have been concentrating on a report describing past assistance to the underdeveloped countries. In preparing this report many statistical problems have arisen. On the basis of this experience he feels that the organization of the reporting system would not be an easy matter. His first reaction was that it might be better to have the OAC study their paper first and agree on the definitions used for the different sorts of assistance.

Maddison will discuss the matter with Fay who is absent this week. Since I will be leaving for Seville to attend the Latin Union Meeting and Jamaica in way too I suggested that Maddison or Fay would write you as soon as they have had their talk.

Our experience with the setting up of the Exchange of Information on Medium Term International Indebtedness indicates that it is hardly possible to have a system without having had preliminary discussions with the participants. I would therefore be inclined to agree with Maddison that it would be better to wait until their report on past assistance has been studied.

JUN 2 9 47 AM 1960

With best wishes,

Very sincerely yours,
GENERAL MANAGER

RECEIVED

Gavel de Besenfort

May 27, 1960

Dear Johnnie:

If you have seen them, you will have been struck by the vagueness of the papers sent in for the next DAG meeting. It may be of course that this vagueness is deliberate, DAG members preferring to withhold their fire so as to reserve their more impressive salvos for the meeting itself.

However, there is a feeling among certain members that it is time DAG got down to something practical. I therefore feel that we should be prepared at the next meeting with a paper which would describe exactly how information on loans and grants made by DAG members to the underdeveloped world could be collected, collated and disseminated. All this supposes, of course, that the OECD is not preparing a similar paper. It would be silly if the Bank and the OECD presented papers on the same subject without at least prior consultation. We of course are not seeking the limelight and if OECD is putting up a good paper, we would wish to keep quiet. The next step therefore is to find out what OECD is doing in this field. Could you make discreet inquiries and find out what, if anything, is cooking.

My own idea is that there should be a system, run probably by OECD, under which DAG members report all governmental loans and grants to underdeveloped countries, including those made by their agencies, as they are made. The receiving center would pass on this information to all DAG members immediately. The center would also distribute monthly a consolidated list of all loans and grants made by DAG members during the month, and, quarterly or half yearly, a statement of disbursements and repayments.

I should very much appreciate any information you can get.

Best wishes.

Yours sincerely,

R.

S. R. Cope
Director of Operations
Europe, Africa and Australasia

Mr. John D. Miller
Special Representative in Europe
International Bank for Reconstruction
and Development
4 Avenue d'Iena
Paris 16e, France

SRCope/pnn

STAFF LOAN COMMITTEE

P. 100
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MEMORANDUM TO THE STAFF LOAN COMMITTEE

Development Assistance Programs

The attached Memorandum from the U.S. to the DAG Ad Hoc Working Group on the exchange of information, consultation and coordination with respect to development assistance programs is distributed for information.

Herbert G. A. Woolley
Secretary
Staff Loan Committee

May 26, 1960

U. S. Submission to the DAG Ad Hoc Working Group on Exchange
of Information, Consultation and Coordination with Respect to
Development Assistance Programs

I

As an introduction to certain specific suggestions on the question of improved exchange of information, consultation and coordination, some general remarks are presented below.

The need for coordination is closely related to the governmental nature of the operation. It stems from the fact that the resources available for assistance, although increasing, are limited in relation to objectives, both of a political and humanitarian nature, and in relation to the urgent and growing needs of less developed countries; that, therefore, there exists a stringent requirement for making the best possible use of these limited resources; that the magnitude and the nature of the resources required is such that private capital alone cannot do the job; that public concern for the use of public funds reinforces the demand for maximum effectiveness; and that in the area in which government aid functions, the automatic coordinating mechanism of market forces functions only very imperfectly.

Development assistance of the type most suitable to today's world is based on relatively new techniques with which there has been limited previous experience; as such, it requires for its most efficient application, a process of education and coordination among capital exporting countries, as well as in the LDC's.

Implicit in this rationale for aid coordination are also some qualifications. It is difficult to achieve coordination in large and unwieldy groups. An excessive drive toward coordination through some monolithic super-organization would result in less rather than more efficiency. United States experience suggests the need for many different techniques and approaches in operating a development assistance program. In this connection it needs to be kept in mind:

1. That while the magnitude of the task relative to the available assistance demands efficiency in the use of this assistance, there are also some factors which reduce overlap and duplication in the provision of developmental capital assistance. Old-established commercial and other ties between some countries indicate that traditional channels are likely to continue to predominate in the foreign economic relations of some areas for some time.
2. That important as external assistance is to less developed countries, it can only supplement their own efforts and policies

and will have to be fitted in and coordinated with them as well as outside of them.

Exchange of information, consultation and coordination of aid activities is taking place daily through a multitude of existing channels and organizations. These include the regular diplomatic intercourse, communications and contact between various governmental organizations, the agencies of the UN, the IBRD, the IMF, etc. The task is not to substitute for these or to regiment the flow of and procedures for information exchange and coordination through these existing channels, but to intensify these activities and to cover gaps which may exist. The exchange of information, consultation and coordination of aid activities covers a wide range of topics and subjects related to such activities extending from some broad policy questions to narrower operational problems.

The dividing line between these categories cannot be drawn easily in practice. Nor can there be a clear-cut distinction between exchange of information, consultation and coordination activities. Therefore it is not possible to establish hard and fast rules and assign firmly defined roles to the various institutions through which coordination might be effected.

Firm and hard rules should also be avoided because the development of the information exchange, consultation and coordination activities should be geared to the growth of development aid activities and should evolve on the basis of experience of the coordinating machinery and institutions.

II

Now turning to the more specific suggestions concerning the exchange of information, consultation and coordination of aid matters, we envisage that it could probably best be dealt with in two categories:

1. Board policies, over-all principles, ways of mobilizing capital resources, problems of aid techniques.
2. More operational aspects of coordination, such as exchange of information and coordination of specific programs and projects.

The functions of DAG, i.e., of an organization of a group of countries which are able to furnish a significant amount of aid to the less developed countries, relate primarily to the first type of consultative and coordinating activities. But it is also DAG's function to consider general techniques of coordination of information and financing, review problems of a general nature and suggest improvements in procedures.

The actual operational functions rest with the existing national and

multilateral institutions and organizations. Generally, the preliminary, informational activity would take place in the field, i.e., in the territories of the less developed countries, between the local representatives of the industrialized nations, and multilateral agencies, in cooperation with the authorities of the aid receiving country. Problems emerging from the initial consultative activities in the field, decision making and formation of combined efforts, such as lending consortia arrangements, can best be handled through contacts among the central organizations of the interested governments and international agencies. The increased emphasis on exchange of information in the field would not limit any initiative as regards the exchange of information among the central organizations themselves, and coordination of the operational aspects of particular projects or programs will remain the responsibility of the respective operational organizations.

A fuller discussion of these functions and activities follows:

III

The highest level of coordination would comprise the functions which we hope could be handled by the Development Assistance Group and eventually the Development Assistance Committee. It would concern itself with the broad, over-all aspects of development assistance and it would promote among its members a greater recognition of the identity of interests in the task of assisting the LDC's, a fuller sense of the relevant responsibilities, and a sense of urgency to increase the capital resources for development and to improve the application of these resources.

The Group would not concern itself with operating details, individual projects, regional questions, or burden sharing. It would rather be a forum for the exchange of information and ideas about those aspects of bilateral development assistance programs which are of direct interest to them as capital exporting countries, such as general principles of appropriate economic development assistance and lending, techniques and national institutions for the mobilization of capital resources and their channeling to less developed areas, techniques for avoidance of overlapping efforts, and such questions as export financing versus development assistance, etc., new amounts of money being sought or mobilized by such Member, through appropriations requests to its Parliament or otherwise, for providing development assistance, bilateral and multilateral, to less developed countries, commitments of public funds made by such Member in the form of grants, loans or guarantees for financing of development projects.

Within the province of such Group would be discussion of the techniques of technical assistance, with special emphasis on the preinvestment type of technical assistance--i.e., resource surveys, economic priority surveys and technological surveys of specific projects. These questions would be dealt with in close cooperation with such existing and multilateral organizations

which are engaged in this field, such as the appropriate agencies of the United Nations, the International Bank, the International Monetary Fund, the Inter-American Development Bank, etc.

Such a Group should encourage fuller and more uniform statistics on the various kind of aid extended to less developed countries.

In addition to encouraging the general review and explanation of their existing development assistance activities and programs, the Group should encourage each Member to provide a more detailed review and explanation of its existing activities and programs.

Such a Group should encourage frequent direct contacts between its members both on policy and on operational matters. Representatives of the operational institutions of the member countries should be encouraged to exchange visits for the purpose of familiarizing themselves in detail with each other's operations and to develop close personal relationships and understanding.

The functions of such a Group could be best performed by a small number of countries meeting informally and on a high official level. It should not be encumbered by excessive formalities, outside observers, undue publicity, or other factors that would tend to limit frank discussion.

IV

In the area of operational type of coordination one of the important parts would be that which would take place in the field, i.e., in the territories of the LDC's. Generally, this would consist of initial, information exchanging functions. Such exchange would be mostly on an entirely informal level amongst the local representatives of individual interested nations or multilateral organizations, often in collaboration with the LDC's themselves. It is hoped that, although DAG would not itself be engaged in the foregoing activities, it would develop general suggestions on activity on this level and encourage its members to take appropriate steps looking toward the intensification and improvement of the exchange of information through their field representatives.

Among the topics that might properly be covered on this level is preliminary information concerning:

1. Preparation by the LDC of any new major development program or project.
2. Major changes by the LDC in the nature of existing development programs or projects.
3. Information from private sources about the possibilities for investment in particular projects in the LDC.

4. Planned or actual capital or technical assistance projects.

It is understood that many of these activities are already being carried on in a number of countries.

It is difficult to distinguish entirely among the topics which would be coordinated on this level and those which are mentioned in Sections III and V. Some of the latter topics, therefore, will be applicable to coordination in the field also.

V

When specific action is required to deal with problems, often discovered on the basis of information gathered in the field, coordination carried out through the central organizations of the interested countries or international organizations would be desirable. This coordination would be within the framework of international institutions or through direct contacts on an ad hoc basis among individual countries directly involved. This level would concern itself primarily with the action phase of coordination such as consortia for the financing of specific development projects within the over-all development program of a specific country or in connection with situations where emergency measures of support are required. On this level members would also gather to give consideration to entering a consortium for the financing of a particular development project in a LDC when such project is recommended to them by another member as suitable for joint financing in light of the development financing policies of the members, and on payment terms appropriate for the project. Exchange of information on credit or other conditions in specific countries could also be exchanged on this level when a developing crisis seems to make it appropriate.

Members would avail themselves of the opportunity to review with the International Bank for Reconstruction and Development or other appropriate institutions at their request the development needs and possibilities and the economic position and prospects of a less developed country or countries.

VI

The United States feels that the ideas enumerated above constitute the basis of a program for the development of improved and increased exchange of information and coordination among its members. As stated initially, these tasks are expected to evolve on the basis of experience of the coordinating machinery and institutions. It is hoped that the meetings of the DAG and later the Development Assistance Committee will be the forum to keep these matters under continuous and vigorous review and to produce recommendations and guidance to individual governments and multilateral institutions in their work in this field and will lead to an increasing overall volume of development aid.

May 19, 1960

May 26, 1960

Dear Mr. Geber:

Thank you very much for your letter of May 24 enclosing two copies of the United States submission to the Development Assistance Group. We shall read this paper with great interest.

Sincerely yours,

J. Burke Knapp
Vice President

Mr. Anthony Geber
Secretary
DAG Ad Hoc Working Group
Department of State
Washington 25, D.C.

File to : Mr. Cope
JBKnapp/jb



May 25, 1960

Dear Johnnie,

I enclose a copy of the memorandum which we have just sent along to the Interim Working Party of DAG. If the Working Party makes any comments we may incorporate them before the paper is formally submitted to the July meeting. However, I don't think this is very likely; if we do make any changes I will send you a revised version.

Yours ever,



S. R. Cope

Enclosure

Mr. John D. Miller
International Bank for Reconstruction
and Development
4 Avenue d'Iéna
Paris 16^e
France


JHCollier:vmc

(not for public use)

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FROM: The Secretary

May 25, 1960

DEVELOPMENT ASSISTANCE GROUP

Attached for information is a copy of a memorandum entitled "Some Principles of Development Lending". This memorandum was prepared by the Bank at the request of the Development Assistance Group for a meeting to be held in Bonn early in July, 1960.

Attachment

Distribution:

Executive Directors and Alternates
President
Vice Presidents

International Bank for Reconstruction and Development

SOME PRINCIPLES OF DEVELOPMENT LENDING

Memorandum prepared for a meeting of
the Development Assistance Group to
be held in July, 1960

- I. Introduction
- II. Creditworthiness
- III. The Selection of Projects
- IV. The Appraisal of Projects
 - Economic Aspects
 - Technical Aspects
 - Managerial Aspects
 - Organizational Aspects
 - Commercial Aspects
 - Financial Aspects
- V. The Supervision of Projects

International Bank for Reconstruction and Development

SOME PRINCIPLES OF DEVELOPMENT LENDING

I. Introduction

1. To assist economic development in underdeveloped countries requires more than the mere provision of capital funds. The use to which the capital is put is equally important and this requires selection between the various possible projects and measures to ensure that selected projects are carried out as efficiently as possible. In addition, if capital is provided in the form of loans, it is necessary to make sure that the burden of repayment does not lead to difficulties for the borrower. This paper therefore begins with some observations on the question of "creditworthiness." This is followed by a discussion of some of the wider problems involved in determining the purposes for which development loans may be used and finally, there is a more detailed analysis of the techniques for the appraisal of individual projects.
2. It should perhaps be emphasized at the outset that the principles and ideas set forth in these pages must not be regarded as a definitive corpus of techniques which can be applied immediately and straightforwardly in any situation. All underdeveloped countries have their own peculiarities which must be taken into account and a thorough knowledge of local conditions is essential. Moreover, statistical data are often incomplete so that the appreciation of economic problems and of the changes which are taking place in an economy requires judgment as well as technical analysis. The selection of projects and the devising of policies for economic development is not yet an exact science.

II. Creditworthiness

3. The problem of creditworthiness must be considered both in connection with the project itself and in connection with the economic situation of the borrowing country. This is because the repayment of international loans requires both the accumulation of local funds and -- except in certain so-called "soft" loans -- their transfer into foreign exchange. If a country encounters severe foreign exchange difficulties, the repayment of all its external debt may be endangered even though many of the projects for which loans were originally made may have been sound.
4. The borrower carries the responsibility for providing the local funds necessary for the service of the loan. If the project itself earns revenue, the creditworthiness of the borrower in local currency must be judged by an appraisal of the project and the financial situation of the borrower as is described later in this paper. If the project does not earn revenue directly, the servicing of the loan in local currency must depend upon some other

source of revenue usually tax revenue of the government or of a government agency. But in every case the transfer of the debt service back to the lender depends upon the availability of foreign exchange which is itself determined by the general balance of payments situation of the country.

5. Sometimes a project may itself earn foreign exchange directly, for example, the development of a new mineral resource for export. In such a case it may be possible for the lender to obtain specific security by a lien on the foreign exchange earnings of the project itself. However, although this obviously benefits the lender concerned, it is a disadvantage for the borrowing country since the unpledged earnings available for other lenders are reduced and they may therefore be reluctant to lend. But in the majority of cases, even where the project does lead to increased exports, it is not possible to segregate specific foreign exchange income to provide security for the lender and he must depend upon the adequacy of the country's overall foreign exchange earnings.

6. Clearly therefore the prospects for export earnings are of major importance in assessing creditworthiness. It is true that a project may also improve the balance of payments by reducing imports rather than by increasing exports and there is certainly a legitimate place for this type of development. There is some danger, however, that in practice such projects may be carried out at too great a cost. Most import saving projects are in the field of secondary industry which many governments are anxious to encourage. If this encouragement entails some form of subsidy or tariff protection there is a cost which must be borne by the rest of the economy including the export industries. Because the development of new domestic industries generally does involve some costs of this kind -- at least for a time -- it is all the more necessary that they should be carefully watched since otherwise there is a real danger that the direction of investment within the country will be distorted and the development of exports will be held back. In the longer run, however, there need be no conflict between the development of industries serving the local market and the growth of production for export. The expansion of exports is one of the most effective of all the stimuli to economic development and the rising incomes which it brings provide the best incentive for the growth of local industries. In other words, economic development takes place most easily in a context of rising international trade; if a country's exports cease to grow, either because of market conditions or physical limitations, development in the rest of the economy will certainly be hampered and may even cease altogether.

7. In judging the ability of a country to service additional external debt the size of the existing debt is clearly a central factor^{1/}. On the

^{1/} The International Bank obtains complete information on the public and publicly-guaranteed indebtedness of all the countries to which it makes loans and this information is kept up to date by periodic reports submitted by its member governments. Estimates of the service on, and composition of, a country's public external debts, are included in the Bank's economic reports which are submitted to the Executive Directors in connection with loan operations. In addition, summaries of these estimates are circulated to the Executive Directors from time to time with a view to covering each country once a year.

basis of comprehensive information about external debt a broad comparison can be made between the annual service payments which have to be made abroad and the growth of national income and foreign exchange earnings. One of the important conclusions which emerges is that to incur long-term debt for sound development projects need not result in any substantial relative increase in a country's debt burden. If the loans are used for productive projects, they will be matched by higher income, and if the country pursues sound foreign trade and exchange policies, this higher income should be translated into a stronger balance of payments position. Difficulties often arise, not so much from the size of the debt as from an overlarge proportion of it being at too short a term. In this event the annual burden of repayments may increase much more rapidly than foreign exchange income so that the country may eventually be forced either to reduce imports severely or -- unless it is able to solicit emergency assistance -- to default.

8. Obviously it is the annual service charges on external indebtedness which is the important magnitude. The lower the interest and the longer the term the greater the debt that can be serviced for the same annual charge. The terms on which development aid is provided are therefore of great significance. For reasons connected either with the project itself or with the balance of payments, it may be important that aid should be provided on terms which are not unduly burdensome. A great many development projects pay themselves out only over a long period of years; yet these are frequently financed by short- or medium-term borrowings. Also there are many desirable projects which governments should carry out but which do not earn revenue to provide for debt service because the benefits accrue largely to the public. In such cases some or all of the debt burden falls upon the general budget which is usually already overstrained with current governmental expenditures. Similarly excessively short repayment terms may place serious strains upon a country's foreign exchange income, and destroy the flexibility which is required to meet vicissitudes in its external accounts.

9. The behavior of a country's balance of payments is the result not only of the operation of independent economic forces but also of government policy. Since creditworthiness depends on the balance of payments, it depends also upon government policy to keep the demand for foreign exchange within the limits set by exports, invisible earnings and the proceeds of external borrowing and foreign aid. The consequences of internal inflation upon the economy are well known; it stimulates imports and hampers exports and so may reduce foreign exchange holdings to a dangerously low level; by increasing the demand for resources beyond the supply it may lead to an accumulation of short- and medium-term external debt as local borrowers attempt to obtain additional resources from abroad particularly in the form of suppliers' credits, and, if it continues long enough, it can create a distortion in the direction of investment especially through the effects of an unrealistic exchange rate. All these consequences will tend to increase the difficulty of servicing external debt.

10. The importance of avoiding inflation is, of course, familiar territory. It is as well to stress, however, that the demands upon sound financial management in many underdeveloped countries go further than the mere elimination of inflation. The ability of an economy to adjust to external changes

is an essential element in creditworthiness. This applies particularly to countries relying for the bulk of their exports on one or a very few commodities or on those whose prices are subject to wide fluctuations from time to time. A fall in the demand for a country's exports normally sets in motion certain forces tending to restore a balance in its external accounts. However, it is generally also necessary for the government to take deliberate measures to adapt the economy to a lower level of foreign exchange income and hence an added responsibility is placed upon the government's economic and financial policies. It is in circumstances of this kind that the level of exchange reserves is of paramount importance since exchange reserves can provide the vital element of time which is necessary for corrective policies to take effect.

11. For all these reasons the financial policies of borrowers are of the utmost significance to lenders. If these policies are such that their continuation would endanger the repayment prospects of foreign loans, it is scarcely unreasonable to require that the borrowing country institute measures designed to restore stability to its economy. It is not generally practicable to insist that all remedial measures which may appear necessary be completed before any further loans can be made, but it is desirable to obtain concrete evidence that the government is actually taking appropriate steps toward the re-establishment of stability.

12. Creditworthiness is not, of course, determined by economic forces alone; within fairly wide limits it is determined, also, by the intangible factor of the country's attitude towards its foreign debts. A country which shows a willingness to maintain debt service at the expense, if necessary, of sacrifices in consumption standards is plainly a better credit risk than a country, even with a potentially somewhat stronger economy, which does not treat its foreign obligations with equal seriousness. In this connection, the past debt record of the country is significant. To be sure, events have sometimes made defaults inevitable, but in such cases the attitude of the country toward its obligations, and the sort of settlement it has made or offered to its creditors, are valuable guides in judging credit for future loans. All lenders have, therefore, a direct interest in the creation and maintenance of satisfactory relations between countries and their external creditors. It is the normal practice of the International Bank, for example, to inform loan applicants who are in default on publicly-held external obligations that the Bank will be unable to assist them unless and until they take appropriate steps to reach a fair and equitable settlement of their debts.

III. The Selection of Projects

13. The objective of development lending is to make the maximum possible contribution to the growth of developing countries. This is a broader objective than that which is uppermost in most commercial lending; that of finding a sound investment to enable the lender to obtain an adequate return on his money. It logically implies a broader examination of the use of the funds. Not only must the funds be used to increase investment rather than consumption but the direction of investment as a whole must be such as to make the best use of available resources.

14. Ideally, therefore, development lending should be accompanied by an appraisal of investment in all the different sectors of the borrowing country. To carry out such a task adequately would be a major undertaking. Generally, however, it is not impossible to make some assessment of investment in the different sectors of the economy so as to indicate where the most urgent projects may be found. In examining the different economic sectors it is useful to distinguish the basic services -- transport, electric power, ports, etc. -- from the directly productive activities in industry or agriculture. The problem of promoting economic development presents itself differently in these sectors; moreover, the former are frequently the responsibility of governments whereas the latter are traditionally the province of private enterprise.

15. As their name implies, the basic services are a pre-requisite for the growth of the other sectors. If one of them falls behind, a bottleneck is created and in such a case the projects having a high priority are generally obvious. More difficult are those cases where it is thought that the expansion of certain basic services may itself stimulate other investment. A new road may well, for example, foster new industrial or agricultural activity. However, this process is by no means inevitable and the particular circumstances must be carefully studied. Instances in which the hoped-for growth has not materialized are far from unknown.

16. In an effort to tackle this problem systematically many governments have drawn up "development plans." The most important part of most of these plans is a program for public investment covering not only the basic services of an economic nature but also capital expenditure on education, health, and other social services. A program of the kind necessitates a decision by the government both as to the size of the program of investment in the public sector which it is possible to finance and as to which of the many desirable projects are to be included and which must be deferred. To take such a decision involves a careful estimate of the resources which will be available to carry out the program and an examination of the individual projects to see which of them will make the greatest contribution to the country's development.

17. One of the most important problems which has to be determined in drawing up a public investment program is the balance between "economic" or "productive" projects and "social" projects which may be urgent and beneficial but which do more to raise levels of consumption than to promote economic productivity. The former may be either revenue-earning projects such as power plants and railways or they may be projects which, while they do increase the national income, do not produce a direct revenue to the government (such as flood control or roads). If insufficient emphasis is placed on productive projects, difficulties will arise in maintaining a balance in the current budget owing to rising current expenditures for the operation of the projects and for servicing debt incurred in their construction. It is this kind of consideration which lies behind the reluctance of many lending organizations -- including the International Bank -- to lend money for social projects. It is not that such projects are in any way undesirable in themselves; it is rather that they represent the fruits of progress rather than the means for achieving it. The community can afford to build and operate such facilities only if through productive investment it can achieve expanding income and overall economic development.

18. The task of encouraging development in the industrial sector is a more complex one than the provision of basic services. Industrial development demands not merely capital but also favorable conditions for the supply of raw materials and markets for the products as well as the existence of entrepreneurial ability. The numerous claims upon public funds for projects unattractive to private capital provide a strong practical reason for leaving competitive industry as much as possible to private enterprise. A clear delimitation between the spheres of public and private enterprise is one of the best ways of encouraging the investment of local capital in industry and the inflow of foreign private capital. Uncertainty about the intentions of government in this field can have an unsettling and therefore deterrent effect on enterprise. Furthermore, government participation in private industry always carries with it the possibility that decisions in government-controlled enterprises will be influenced by political considerations. Governments are by their nature subject to all kinds of pressures which it is undesirable to have carried over into the management of business enterprises. Finally, the governments of most underdeveloped countries are inadequately supplied with well-trained manpower; since they are already heavily burdened with administrative tasks, they are rarely well advised to assume additional responsibilities for the management of manufacturing industries.

19. It is, however, frequently true that industrial development can be helped if long-term loan capital can be made available for industry and many countries have established specialized institutions, such as "Development Banks," to meet this need. Since it is usually the small and medium-sized enterprises which have most difficulty in finding long-term loans, a local institution which is closely in touch with conditions in the country is essential. Where these institutions exist, they also provide a channel by which foreign capital may be encouraged to enter the country. The International Bank has been active in promoting the establishment of such institutions on the basis of private ownership and administration.

20. Agricultural development is perhaps the most difficult of all. Here the problems of agricultural techniques, land use and land tenure, the need for agricultural extension work, etc., are far more important than the availability of capital. In some countries the problem of modernizing agricultural traditions, which may go back for centuries, requires what is tantamount to a social revolution. The financial demands upon governments in this sphere are often similar to those involved in improving social services since the most urgent need is generally to expand the activities of the government agricultural departments on a continuing basis. The demand for loans in the form of agricultural credit is usually limited, not because investment in agriculture is not beneficial, but because the necessary conditions for utilizing credit are lacking. Irrigation, flood control or land reclamation schemes, where they are possible, are an exception, since they frequently require substantial capital outlays. Even here, however, most of the benefit goes to the farmers concerned and the government rarely manages to obtain a return sufficient to provide the full service on the invested capital. Some part of the debt service must therefore be met from general tax revenue.

21. It will be clear from what has been said that there is no single test by which various alternative projects can be judged. In some cases, such as

the expansion of a single industrial enterprise, a simple test of profitability may be sufficient, but in the field of public works and "infrastructure" projects, much more analysis is usually required. With this in mind the next section of the paper discusses some of the questions which arise in the appraisal of specific projects.

IV. The Appraisal of Projects

22. In general, project appraisal has to answer three main questions, which involve the investigation of the project from six different points of view.

23. The first of these questions is: will the goods or services which the project is expected to produce meet a need important to the development of its sector of the economy? In order to answer this question, the project must be investigated from the economic point of view.

24. The second question is: is the project properly designed and planned? To answer this question, the project must be examined from four different points of view, namely, the technical, the managerial, the organizational and the commercial.

25. The third question is: is the proposed method of financing the project appropriate, and (where relevant) are the earnings prospects satisfactory? This requires an examination of the project from the financial point of view.

26. The relative importance of these different aspects varies considerably according to the type of project involved, as is brought out in the following paragraphs, in which the six aspects are discussed in turn.

Economic Aspects

27. It is assumed that the sector of the economy in which the project belongs (agriculture, transportation, etc.) is of a priority which has already been established in a general review of the development needs of the economy. The economic examination of the project itself normally involves some kind of market study, the extent of which will depend on the type of project. In some cases, the study may be limited to a relatively confined area (for example, when a small power system is being considered), or at the other extreme, it may involve an analysis of the demand and supply prospects for a commodity on a world-wide scale (as for instance in the case of a large new source of iron ore).

28. The objective of the economic appraisal is to discover whether the project is able to earn a reasonable return on the capital which must be invested. The question of what rate of return on invested capital is "reasonable" is not easy to answer, and the answer will vary from case to case. Where market forces operate reasonably freely it could be said that the new project should earn not less than the return from comparable enterprises in the country concerned. But in the case of projects which are

subject to regulation because of their monopoly position (for instance, some public utilities and transport systems) this test may not be applicable and resort must be had to a broad judgment in the light of circumstances.

29. In addition to the direct return which a project may produce, there are a number of other possible ways in which it may contribute to economic development. One of these is the extent to which it would utilize resources, material or human, which would otherwise be idle or under-employed. Then there is the question whether the project would create conditions favorable for the establishment of related economic activities (for instance, industries supplying raw materials or processing the products of the project). The obverse of this question is the question whether the project could be successfully carried out only on condition that other developments, which were not directly a part of it, were also carried out (for instance, the establishment or expansion of a steel industry is only practical if there are adequate facilities to transport the raw materials and the finished products.)

30. In the case of agricultural projects, an economic analysis may be required on several scales (that of the individual farmer, that of the project as a whole, and that of its effects on the whole economy).

31. An important aspect of the economic appraisal is a determination of the project's probable effects on a country's balance of payments, whether by way of generating increased exports or by way of import substitution. It is of course the net effect on the balance of payments which must be estimated, that is, account must be taken of possible need to import spare parts or raw materials, as well as debt service, etc. Nor should the indirect impact of the project on the balance of payments be overlooked.

32. In considering projects for highways or railways, particularly on a national scale, it may be necessary to study the relative economics of developing different types of transportation (railways, highways, inland water transportation). Similarly, when considering projects for the development of energy sources, the relative economics of developing different types of energy source may have to be examined.

33. Another important economic question is whether the success of the project will depend upon measures taken to protect it from competition. These may be of various kinds. The commonest type is the imposition of import duties or quotas, but there are other types of protection such as a limitation on the freedom of road transport in order to protect a railway system. Any protection should be looked upon with skepticism, although there may be cases in which a modest protection for a limited period can be justified on the classical "infant industry" grounds.

34. Where the project is a regulated monopoly it is necessary to investigate whether the regulatory supervision is such as to permit the sound operation and development of the project without a subsidy at the expense of the general taxpayer.

Technical Aspects

35. This side of the investigation covers the work done by engineers and similar specialists, and involves the examination of many different features of the project.

36. One of the first things to be examined is the proposed scale of operation, which has to be viewed in relation to the results of the market study. This is of particular importance in the case of those industries which cannot be carried on economically except on a large scale (the steel industry is an outstanding example). Technical appraisal will also include an investigation of the processes which it is proposed to use (and here probable technical obsolescence must be taken into account). It is necessary to confirm the availability of the different factors of production (raw materials, fuel, power, water, skilled and unskilled labor). The proposed location has to be considered in relation to the sources of the factors of production, to the facilities for transportation, and to the markets for products. The layout of a project may also be very important, especially from the point of view of possible future expansion.

37. It is necessary to consider whether the engineering arrangements for a project are satisfactory. In many cases, especially where the type of activity involved is something new to a country, or where an organization undertakes a major expansion involving a change in the scale of its operation, it may be necessary to employ consultants to assist those responsible for the project in this side of the work. The scope of the consultants' work may need to cover any or all of the following functions: design, preparation of specifications, drafting of invitations to bid, analysis of tenders and recommendation for placing contracts, arrangements for the payment of suppliers and contractors and for the transportation of equipment, inspection and expediting of equipment, supervision of construction and installation, training or arrangement for the training of staff, and sometimes the supervision of initial operations. Where consultants are employed, it is necessary to be sure not only that the firm chosen has a good reputation and record, but also that their staff and organization for the proposed project is adequate.

38. This part of the appraisal also includes the investigation of the proposed construction schedule, which must cover all the different phases from design through installation, and must take into account the effect of seasonal variations in working conditions, etc.

39. The appraising engineers' work also involves the investigation of the assumptions on which the cost estimates have been calculated. The cost estimates must include adequate allowances for physical contingencies and for likely increases in the general level of costs during the construction period. It is sometimes also necessary to include the cost of interest on borrowed money during construction. In addition, an adequate allowance for initial working capital must be included. The cost estimates usually need to be broken down according to the amounts which will be spent locally and abroad, according to a time schedule and according to the different main elements of the project. In addition to checking the costs of bringing the project to

the operating stage, it is necessary to investigate the estimates of operating cost.

40. Certain types of projects pose particular problems from the technical aspect. There is, for instance, the question whether it is better, at a given stage in the development of an electric power system, to construct hydro plants which may combine large immediate investments with low running costs or to install thermal generating capacity, which has a lower immediate cost but a higher cost of operation. In preparing the answers to this question it is important to assume a realistic rate of interest. For hydro-electric projects, it is also necessary to check geological investigations for dam sites, and to examine hydrographical records, both in order to confirm the minimum amount of stream flow which can be relied on and to estimate the maximum amount of flood to be taken into account. The potential sedimentation of reservoirs must also be examined. In the agricultural field, one of the most important subjects for investigation is the adequacy of soil studies. In many agricultural projects, success will depend upon the education of farmers through extension services, and their willingness to adopt new systems of cultivation, etc. The system of land tenure is a question of particular importance in this respect.

41. There are some types of projects, particularly for instance railroad and highway construction, in which the commencement of work cannot be delayed until the detailed engineering has been completed. In such cases, there may be a substantial margin of error in the estimate of the work to be done, and in particular of the amount of earth and rock to be moved. Adequate allowances must be made for these uncertainties in estimating the cost.

Managerial Aspects

42. The appraisal of management presents peculiar difficulties. Of course, where a project is to be carried out by an existing organization much can be learned about the quality of management from a study of what has happened in the past. But it often happens that a management with a good past record may be inadequate to handle a greatly-expanded operation. In particular, proper delegation of authority is sometimes difficult to obtain, and this may be due not only to unwillingness to delegate from the top but also to lack of executive ability on the second level.

43. The shortage of management experience and ability is one of the main difficulties standing in the way of economic development in many countries. It is in some cases compounded by an unwillingness to employ foreigners in positions of management responsibility. One solution to this problem may be the partnership between local investors and an existing foreign organization. Another possibility is to have professional managing agents provide centralized management services for a number of different organizations.

44. There are, however, cases in which these solutions may not be practical, and in which the only reasonable assurance of adequate management is to import it. It may be possible to arrange for a management contract with a foreign organization, or it may be practical to employ individuals from abroad. One of the objectives of such arrangements should be that the foreigners train local people to take their places as soon as practicable.

45. One difficulty frequently met with is the limited concept of the role of management in some countries, where it is not understood that management is much more than simply keeping a plant running.

46. A problem which often arises, and not only in countries which are called under-developed, is that of the management of government-owned enterprises and projects. It is true that there are examples of economic activities of this sort which are managed very efficiently; it is also true that in many cases government enterprises suffer from bad management, and in particular a lack of flexibility and of rapid decision. One possible way of solving this problem is to set up public corporations or autonomous agencies, but this in itself is no guarantee of good management, particularly when those in charge are appointed, or may be removed, for political reasons, and also where the arrangements provide for limited terms of office and so may militate against continuity of management.

Organizational Aspects

47. This side of the investigation of a project falls naturally into two phases, the organization required to bring a project to the operating stage and the organization required thereafter. The type of problem which has to be investigated here is the extent to which responsibility and authority should be centralized or delegated. This, of course, is intimately related with the scale of operations, and with their geographical extension.

48. One of the most important aspects of organization is the question of adequate internal controls. In order for management to be able to function efficiently, an organization must be able to provide without delay intelligently presented information which is constantly checking performance against expectations and so bringing to light problems as they arise. It is, of course, equally important that an organization should be able to put the decisions of management into practice without undue delay.

49. As the scale of operation grows functions previously combined in one part of the organization may need to be divided between separate parts. In certain types of projects, for instance those concerned with the development of ports and harbors, investigation may show that a number of different authorities are responsible for various aspects of what is essentially a single operation. This kind of organization seldom works smoothly, and it may be necessary in such a case to establish a single authority which is responsible for all the functions which are integrally connected.

50. There are special problems of organization concerned with regulated industries, such as the electric power industry, the railroad industry, etc., in particular whether the mechanism for exercising the regulatory function (for instance, the tariff commission) is well designed to carry out its tasks, and whether it does so in practice. There are countries, for instance, where the laws provide for a rapid adjustment of permitted tariffs to compensate for types of increased cost which are beyond the control of management, but where in practice there is difficulty and delay in obtaining the necessary tariff increases.

Commercial Aspects

51. By the commercial aspects of appraisal is meant the investigation of the arrangements for buying the materials needed to construct the project and the arrangements for obtaining the raw materials, power and labor for the operation of the project and for marketing its product.
52. In the construction phase, the main objective is to see that the proposed arrangements will ensure that the best value is obtained for the money spent. This will normally mean that the arrangements should provide effective competition between potential suppliers and contractors. The best way to ensure this is usually international competitive bidding. It is, of course, true that there are exceptions to this. For example, it may be most economic to standardize on the basis of existing equipment in order to reduce both the investment in spare parts and the cost of maintenance. Sometimes competition between suppliers may simply not be appropriate, as in the case of manufacture under license.
53. It is necessary to investigate whether those responsible for the project have the necessary knowledge and experience to come to the best decisions about the way in which the available money is to be spent. In many cases, they need outside help for this purpose which can be provided by consultants.
54. The investigation of this aspect of the project at the operating stage involves the proposed arrangements for obtaining raw materials, power, etc., and for marketing the products of the project. Among other things, this will involve investigation of the terms of purchase and sale, which will have an important bearing on the amount of working capital required.
55. Some of the most difficult problems in this field arise in connection with regulated industries, and in particular with the electric power industry. Two questions are generally at issue here. The first is whether the prices which the organization concerned is permitted to charge will give it adequate revenue. This question is discussed below in connection with the financial aspects of appraisal. The second question is whether the structure of rates charged is appropriate to the different types of traffic or customer concerned.

Financial Aspects

56. This side of the investigation usually falls into two parts: that concerned with the amount of money required to bring the project into operation and with the sources from which this money is to be obtained, and that concerned with the operating costs and revenue and the prospective liquidity in the operating phase. In order to explain this approach fully, the main outline of the following paragraphs assumes a project which is to be carried out by an organization already engaged in operations, and already earning revenue. After the financial investigation of a project of this type has been sketched, the simplifications and complications of other types of projects will be considered.

57. Taking first the construction period, the first question is: how much money will be needed? The total financial requirements will include some or all of the following items:

- a) the costs of goods and services required for the project;
- b) allowances for escalation and contingencies;
- c) the cost of other capital investments to be made during the same period;
- d) interest during construction;
- e) repayment installments on existing debt during the construction period;
- f) working capital.

58. Many projects have got into difficulty because inadequate working capital was provided. The estimation of working capital requirements has to be based on reasonable assumptions concerning the amount of stocks, raw materials, spare parts, etc.; the terms on which products are sold, which will indicate the amount of receivables to be financed; and the amount of funds necessary to take care of swings in payments and receipts, taking into account any seasonal variations in production or sales.

59. The sources from which it is planned to meet the financial requirements will normally include funds (depreciation and undistributed earnings) generated from operations. They may also include the proceeds of the sale of share capital, and part of the funds will normally be provided by borrowings at long-term, short-term, or both. In many projects, there may also be provision for public funds from central or local budgetary sources.

60. The importance of retained earnings as a source of finance in countries where capital is scarce and the rate of savings low must be underlined. It is recognized in many countries by existing tax legislation, but there are countries where regulated industries, particularly the electric power industry, have been unable to generate funds from operations to meet an adequate proportion of the costs of new construction.

61. The next step in the financial analysis is to prepare projections of two kinds:

- a) an estimated statement of receipts and expenditures, from which it can be seen whether funds will be available at the right time to meet the expected requirements; and
- b) periodical balance sheets which show the financial situation of the organization during the construction period.

62. These projections, together with projections of earnings, then have to be carried on into the operating period to show the likely financial results of the operation. In these forecasts account must be taken of the time required to overcome initial operating difficulties and the rate at which the market may be able to absorb production. Corresponding calculations will have to be made of the growth in the amount of working capital required.

63. With these forecasts in hand, the investigator has to form various judgments. He has to satisfy himself that there will be no shortage of funds during the construction period and that the financial situation at the end of the period will meet the requirements of sound financial principles. He has to judge whether the expected revenue during the operating period represents a reasonable return on the capital invested, whether there is an adequate margin in the funds generated by operations to meet fixed financial obligations, and in many cases whether revenue will be adequate to establish reserves needed for sound operation and, in particular, reserves for future expansion.

64. In the light of these judgments, the investigator should be able to say whether the proposed financing plan is sound, or whether some change is necessary. He should, in addition, be able to formulate the conditions upon which money should be made available for the project. The object of these conditions will, among other things, be to ensure that subsequent action on the part of the management will not jeopardize the soundness of the financial situation and prospects. This may involve placing limitations on freedom to incur future debt, to distribute cash dividends, etc. It may also be necessary to make arrangements for security, and for the provision of additional funds in case they are needed. With public utilities, it may be desirable to obtain an undertaking that adequate rates will be sought not only to meet the expenses of operation and financial obligations, but in addition to provide funds towards the cost of future construction.

65. There are various types of projects to which an analysis in the form described cannot appropriately be applied. This is true, for instance, of projects which do not earn revenue, such as highways (except toll roads), irrigation projects where no direct payment is made for the water, etc. Particular problems arise in the case of multi-purpose projects, where the allocation of costs to the different functions which the project serves must always be to some extent arbitrary.

66. Where the benefits of a project (say for highways) cannot be measured precisely, estimates have to be made, for instance, of the decreased cost of road transportation, the increase in the amount of farm products which can be brought to market in good condition, the yield from new farming areas which may be opened up, etc. Moreover, it is generally necessary to assess separately the potential benefits at different levels, i.e., to the individual farmer, and to local or central government authorities. Even in the case of a revenue-earning project, such as an irrigation scheme in which a charge for water is made, a deficit on the project operation may be more than offset by increased revenue on growing production and commerce.

67. In this connection the habit of governments of not accounting separately for capital and current expenditures often obscures the real results of government enterprise. There are also cases where a government makes money available either at very low cost, or as equity on which no return is paid, for projects which earn revenue. If the revenue is not adequate to provide a reasonable return on the funds invested, it must be recognized that the recipients of the services or goods provided are being subsidized by the general taxpayer. On the other hand, there have been cases of industrial enterprises clearly unable to stand on their own feet, being started by private capital on the promise of a high protective tariff or a special tax regime. In such cases the general consumer or the taxpayer is providing a subsidy, not for the benefit of the private investor, but as price for accelerating industrialization.

V. The Supervision of Projects

68. Experience shows that, at least for a lender, there are strong arguments against the at first sight attractive method of supervising a project by means of a resident representative. The main disadvantage of this type of supervision is the risk that the lender will unintentionally but inevitably become involved in management decisions which should be the responsibility of those running the project. On the other hand, there are risks involved in depending exclusively on written reports submitted by the borrower. Such written reports are certainly necessary for the efficient management of the project, and should therefore be readily available without the need for special procedures. It is, however, often the case that the management and organization responsible for the project are not sufficiently experienced or sophisticated to realize the importance of such reports or to be able to produce them, and consequently the lender may be obliged to specify the reports required. It is desirable to confirm the information provided by these reports by periodical visits to the project, which also provide an opportunity to discuss problems which have arisen or may be foreseen.

69. The kind of reports required will, of course, depend upon the type of project, but in general their function is to provide up-to-date information at reasonably frequent intervals which will show how the actual progress of the project compares with the physical and financial forecasts which were the basis for the decision to undertake it. This will apply both during the construction period and during the operating period, although, of course, the contents of the reports will be quite different in the two periods.

Washington, D. C.
May 19, 1960



DEPARTMENT OF STATE
WASHINGTON

May 24, 1960

DAG
[Signature]

Dear Mr. Knapp:

Enclosed herewith are two copies of the United States submission to the Development Assistance Group Ad Hoc Working Group on the subject of exchange of information, consultation and coordination of development assistance.

*with copy
copies not sent
to files*

Sincerely yours,

Anthony Geber

Anthony Geber
Secretary
DAG Ad Hoc Working Group

Ack: May 26/60

Enclosure:

U. S. Paper.

Mr. J. Burke Knapp,
Vice President,
International Bank for
Reconstruction and Development,
Washington, D. C.

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Enclosure:

U. S. Paper.

Mr. J. Burke Knapp,
Vice President,
International Bank for
Reconstruction and Development,
Washington, D. C.

0060
May 19, 1960

Dear Mr. Shaffner,

I am forwarding to you herewith 25 copies of a memorandum which we have prepared for submission to the Development Assistance Group in preparation for the meeting in Bonn next July.

If the Interim Working Party has any comments or questions, we should, of course, be happy to receive them.

Yours sincerely,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

Enclosures

Mr. Philip Shaffner
Assistant Director
Office of International Finance
Department of the Treasury
Pennsylvania Ave. and 15th St., N.W.
Washington, D. C.

JHCollier:vmc

See memo
55-1160-88
May 23/60

0000
May 13, 1960

Dear Johnnie:

✓ Best thanks for your letter of May 10. Assuming that you are taking care of your own reservations in Bonn this seems to leave everything in order. Under the circumstances, Hilary will plan to stay on in Paris until July 1 (i.e., will not accompany us on our tour to the East) and she and I will proceed independently to Basle on the evening of July 1. I am making the travel arrangements from here; my own schedule calls for leaving Belfort for Basle at 6:26 p.m. on July 1. Will you please inform Huvelin accordingly?

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. John D. Miller
4, Avenue d'Iena
Paris 16e, France


JBKnapp/jb

HEADQUARTERS:
WASHINGTON 25, D.C.



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

TELEPHONE KLEBER 25-10

CABLE ADDRESS: INTBAFRAD PARIS

EUROPEAN OFFICE:
4, AVENUE D'ÉNA
PARIS (16^e) - FRANCE

May 10, 1960

Mr. J. Burke Knapp, Vice President
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Burke:

Many thanks for your letter of May 2 about plans. I had heard from Huvelin just before I went to London last week that you had put the Tour de France forward when DAG moved to July 5-7.

Our plans are as follows:

Leonard Rist and I will both be on the Tour de France, will come back to Paris on July 1 and join you again in Bonn on the evening of July 4.


Carel de Beaufort will arrive in Bonn some time on July 4 from Holland with his wife.

Enticing as two days on the Rhine is I think I am better employed back in Paris trying to keep up with things.

I am going to London the week before the 27th to find out what they are going to do at DAG. At present their inclination is to concentrate on untied lending.

Is anyone from Washington going to the BIS Annual Meeting this year?

Yours ever,


John Duncan Miller

Acc: May 13/60

OFFICE MEMORANDUM

TO: Mr. M. Lejeune

DATE: May 3, 1960

FROM: J. Burke Knapp

SUBJECT: D.A.G. Meeting

Returned herewith are the sections of the proposed Bank statement on development lending for the D.A.G. meeting.

As I have told you on the telephone, I think the Ripman material is too long and I have suggested a few deletions which would help.

On the other hand, it seems to me the first section, particularly the paragraphs on creditworthiness, can and should be built up a bit. For example, a distinction might be made at the outset between internal and external servicing, with comments regarding the internal servicing from the project and the external servicing from export earnings (noting the special case of a project which is also externally self-liquidating). I would then emphasize the importance of export earnings (comparing this favorably with import substitution) as the basis for external creditworthiness, mentioning the importance of commodity exports by undeveloped countries.

I think it would also be worthwhile to expand on the dangers of inflation and the threat which they create to creditworthiness. There would also be an opportunity here to discuss the problem of the terms of development assistance along the lines of Mr. Black's last statement to D.A.G., i.e., the danger of providing development aid on excessively burdensome terms with respect to either the project or to the balance of payments of the country as a whole.

In the section on sector analysis I would only suggest that the case be built up against government participation in ventures in manufacturing industry. I think this should be presented not as an ideological matter but rather as a matter of the immense burdens that the governments of undeveloped countries have to carry in discharging public functions and their incapacity, both financially and administratively, to take on additional managerial tasks, especially those having such an intricate nature as the management of manufacturing industries.

JBKnapp/jb

Mr. Knapp

Collier & Ripman
have produced drafts which
were given to Burke Friday 6 May
1960

May 2, 1960

Dear Johnnie:

Probably you will have heard by now that the D.A.G. meeting has been shifted to the period of July 5-7, as a result of which I have exchanged cables with Havelin to shift the "Tour de France" to the period of June 28-July 1. Do hope this change won't inconvenience you.

From my personal point of view this is very convenient. Hilary will come with me up to the Belfort area and we shall go into Basle to spend the nights of July 1 and 2 (Three Kings Hotel). We shall proceed down the Rhine by river steamer on the morning of July 3, arriving in Bonn on the evening of July 4 (I haven't got the schedules on this yet but I am pretty sure it will be feasible, probably with a stopoff on land overnight either in Mainz or Worms).

We would be delighted to have any of our companions on the "Tour de France" accompany us on this further expedition before the meeting in Bonn. Would you and Madeleine like to join? And would you check with Leonard Rist on the same matter and let me know. I will be in touch with Raymond Cope and Sien Aldersweld on this.

Meanwhile, I have your letter of April 25. We will keep you posted on papers that we file from here for the D.A.G. Meeting and you are being sent, under separate cover, a copy of the proceedings of the first D.A.G. meeting.

On the matter of hotel reservations in Bonn, I am putting through from here a request for reservations at the Hotel Koenigshof for Hilary and myself, and for Raymond Cope, for the nights of July 4 through the 7th. In view of my uncertainties as to just who will be there from your side, may I suggest that your office make the reservations for you, Leonard Rist, and Carel de Beaufort.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. John D. Miller
Special Representative in Europe
4, Avenue d' Iena
Paris 16, France

JBK Knapp/jb

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

I N C O M I N G W I R E

INTERNATIONAL FINANCE
CORPORATION

DATE OF
WIRE: **ACR 12**

LOG NO. : **APRIL 29, 1960**

TO: **IBRD BURKE KNAPP**

FROM:

PARIS

TEXT:

*- Jourd'hui
- DAG*

WE WILL ARRANGE YOUR TRIP JUNE TWENTYEIGHT TO JULY FIRST

BEST REGARDS

HUVELIN HOMMEY

R O U T I N G

ACTION COPY:

INFORMATION

COPY:

DECODED BY:

MR. KNAPP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

DATE OF WIRE: APR 28	LOG NO.: 1000
TO: NEW YORK	FROM: LONDON
REMARKS:	
TEXT:	

WE WILL ADVISE YOU WITH THE INFORMATION TO THIS POINT

YOUR MESSAGE

URGENT MESSAGE



APR 29 2 01 PM 1950

GENERAL FILES CORRESPONDENCE FILE

TYPE D

OUTGOING WIRE

TO: P. HUVELIN
SOGEI
4 RUE D'AGUESSEAU
PARIS
FRANCE

DATE: APRIL 28, 1960

CLASS OF SERVICE: NLT

COUNTRY:

TEXT:
Cable No.:

INTERNATIONAL CONFERENCE WHICH I MUST ATTEND IN BONN HAS NOW
BEEN SHIFTED FROM WEEK OF JUNE TWENTYSEVENTH TO WEEK OF JULY
FOURTH STOP WOULD IT BE ~~VERY~~ VERY INCONVENIENT TO RESCHEDULE
OUR QUOTE TOUR DE FRANCE UNQUOTE FOR JUNE TWENTYEIGHTH TO
JULY FIRST BEST REGARDS

BURKE KNAPP

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME

J. Burke Knapp
Vice President

DEPT.

SIGNATURE

(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

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Checked for Dispatch: _____

OUTGOING WIRE

APRIL 28, 1960

STATE OF NEW YORK

F. HUGELIN
ROOM 1
400 NASSAU ST
NEW YORK 10038

101

COMMUNICATIONS SECTION

TELETYPE UNIT

Radio Room

I HEREBY ACKNOWLEDGE RECEIPT OF YOUR TELETYPE MESSAGE DATED APRIL TWENTY EIGHT LAST AND IN RESPONSE TO YOUR TELETYPE MESSAGE DATED APRIL TWENTY SEVEN LAST. THE MESSAGE DATED APRIL TWENTY SEVEN LAST IS BEING FORWARDED TO THE APPROPRIATE AGENCIES FOR THEIR INFORMATION AND ACTION.

THANK YOU

DISPATCHED
GENERAL FILES
CORRESPONDENCE

APR 28 5 56 PM 1960



NOT TO BE TRANSMITTED

CLASSIFIED BY: [redacted]

MESSAGE CONTAINS NO

J. Paul [redacted]
Vice President

CLASSIFIED BY: [redacted]

Use of this document is restricted

Original (file copy)

(IMPORTANT: THE USE OF THIS DOCUMENT IS RESTRICTED TO THE ORIGINAL RECIPIENT)

April 26, 1960

Dear Leonard:

kept by JBK

I have your letter of April 21 and am sending you this hasty reply merely to say that in view of the personal circumstances which you outlined, it seems to me that you had better plan to join our delegation to the D.A.G. meeting in Bonn at the end of June and our group for the "Tour de France" in the first week of July. Please keep in touch with Johnnie Miller on these matters.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. Leonard B. Rist
18 bis Rue du Parc de Clagny
Versailles
Seine et Oise
France

c.c. Mr. Lejeune

JBKnapp/jb

JBK



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

~~TELEPHONE BABYLONE 1718~~
TÉLÉPHONE KLÉBER 25-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO

~~PARIS OFFICE: 67, RUE DE LILLE~~
~~PARIS (7^e) FRANCE~~

PARIS OFFICE : 4, AVENUE D'IÉNA
PARIS (16^e) - FRANCE

April 25, 1960

Mr. J. Burke Knapp, Vice President
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Burke:

Many thanks for your letter of April 12 about plans.

1. DAG. Carel and I will certainly be there. Carel will be in Paris to meet and accompany you. I have at present planned to spend a few days in London before that with the idea of being fully briefed on the UK attitude when I get to Bonn. So I will probably fly from London on Monday 27th. Will you include me and Carel in your reservation arrangements so that we all get into the same hotel and he gets on the same plane? And can we have copies of the papers you submit as soon as they are ready - and the minutes of the first meeting, which have never reached me?

2. Tour de France. Neither as touristique nor as gastronomique as the one five years ago, I fear. I will be ready.

3. Will you be working or on holiday in Germany between June 30 and July 4? i.e. Do you want me along too?

4. Carel told Leonard Rist about these plans and I gather that he is writing to you direct.

I wish you were to be here for the 29th - and I also wish I could be somewhere else - at least while the arrangements (particularly the seating plan) are being made.

Yours ever,

John Duncan Miller
Special Representative in Europe



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Cable Address: INTBARD PARIS

TELEPHONE: KLEBER 02-10

PLEASE REPLY TO

PARIS OFFICE - 1, AVENUE D'ENNA

PARIS OFFICE: 1, AVENUE D'ENNA
PARIS (18^e) - FRANCE

April 25, 1950

Mr. J. Burke Mackay, Vice President
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Burke:

Many thanks for your letter of April 12 about plans.

1. DAG, Carel and I will certainly be there. Carel will be in Paris to meet and accompany you. I have at present planned to spend a few days in London before that with the idea of being fully briefed on the UK attitude when I get to Bonn. So I will probably fly from London on Monday 27th. Will you include me and Carel in your reservation arrangements so that we will get into the same hotel and be able to have same plans? And can we have copies of the papers you submit as soon as they are ready - and the minutes of the first meeting, which have never reached me?

2. Tour de France. Neither as tourist nor as gastro-nomique as the one five years ago, I fear. I will be ready.

3. Will you be working or on holiday in Germany between June 30 and July 1st? Do you want me along too?

4. Carel told Leonard that about these plans and I gather that he is writing to you direct.

I wish you were to be here for the 29th - and I also wish I could be somewhere else - at least while the arrangements (particularly the seating plan) are being made.

Yours ever,

John Duncan Miller
Special Representative in Europe

1950 APR 27 11:14 AM

JAN 08 2020

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SecM60-69

FROM: The Secretary

April 21, 1960

SUMMARY OF STATEMENT MADE BY MR. UPTON AT THE MEETING
OF THE EXECUTIVE DIRECTORS ON APRIL 12, 1960 REGARDING
THE DEVELOPMENT ASSISTANCE GROUP

The first meeting of the Development Assistance Group (DAG) was held in Washington on March 9-11, 1960 pursuant to a resolution of the Special Economic Committee which met in Paris on January 12-13, 1960. This resolution was as follows:

The Special Economic Committee having been informed of the desire of the Governments of Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, and the United States, and the Commission of the European Economic Community, who, in addition to their contribution to international organizations, are making available or may be in a position to make available a significant flow of long term funds to underdeveloped areas, to discuss among themselves the question of techniques to facilitate such flow of funds, taking into consideration other means of assistance to developing countries;

NOTES: That these eight governments and the Commission of the European Economic Community intend to meet together to discuss various aspects of cooperation in their efforts, and to invite other additional capital exporting countries to participate in their work or to meet with them as may from time to time appear desirable, and to consult with such multilateral organizations as the International Bank for Reconstruction and Development and the European Investment Bank.

At the suggestion of the United States Government and with the approval of the other participants Japan was invited to join the group, and the Japanese delegation participated in the meeting on the same basis as the other delegations.

We elected His Excellency Egidio Ortona, Italian Ambassador to the United Nations and head of the Italian delegation, as Chairman of the meeting. We agreed that our basic terms of reference would be the resolution adopted in Paris, i.e., to discuss among ourselves the question of the techniques to facilitate the bilateral flow of funds to the less developed countries while taking into consideration other means of assistance. We also agreed that

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

the group is an interim organization and that it would meet informally and in private.

Mr. Black and Mr. Jacobsson made presentations on policies and procedures of the Bank and Fund in relation to development in less developed countries. A large part of the sessions was devoted to a presentation by the U. S. on our policies, institutions and financial arrangements and plans for assistance to less developed countries. I led off our presentation with a summary statement and was followed by detailed presentations by top officials of ICA, the DLF and the Ex-Im Bank. After our presentation the other delegations made briefer presentations on their development programs and policies. Each presentation was followed by questions and discussion. The discussion on the objectives of exchange of information and consultation, brought out a number of ideas on the spheres of activity in which such consultations are most desired, and on possible mechanisms. Mr. Black gave his views and offered whatever services the Bank could make available in this field.

Mr. John Fay, representing the OEEC Secretariat, outlined the study which the OEEC is now making on the amounts and types of capital flows to the less developed areas, and agreed to make available to the Group an initial draft of its report. Mr. Black agreed that the IBRD would prepare and submit a paper on principles and practices of development lending. We also decided that each member would prepare a paper giving its views on the best ways and means for developing exchanges of information and methods of consultation and coordination. An ad hoc working group was established to receive and summarize the country papers, as well as to receive the OEEC study and IBRD paper.

In discussion of DAG's relation to the less developed countries, emphasis was placed on our intentions that the DAG would deal only with general principles and techniques to facilitate the economic development of the less developed countries and that not being an operational group it would not discuss burden-sharing or deal with any specific region, country or project. Ambassador Ortona was requested to inform appropriate agencies of the UN and his colleagues from the less developed countries in the UN, on an informal basis, about our work and activities. Similarly, I was requested to report informally to the Bank in my capacity as a member of the host delegation and as an Executive Director of the Bank.

The major conclusions which emerged from this meeting were that we all recognized the great importance of increasing the flow of development assistance to the less developed areas and that we all intended to continue to work actively toward this objective within the limits of our resources. We agreed that a major step in this effort was the elaboration of individual government measures which might facilitate such a flow. Interesting and important questions arose relating to the effect of capital assistance on

the balance of payments of potential lenders, the difficulties and problems experienced by some capital exporting countries in mobilizing their foreign exchange reserves for development purposes, the question of tied versus untied lending, the difficulties of distinguishing between development assistance and export promotion, and the related questions of possible overburdening of the less developed countries with too much short-term debt.

At the invitation of the German delegation, we agreed to hold the next meeting in Bonn about the first of July. As major points of a tentative program for this next meeting we agreed to discuss development lending principles, to review and discuss the summary prepared by the ad hoc working group on exchange of information, consultation and coordination, and to hear and discuss a detailed presentation by Germany of its efforts in the field of capital assistance.



DAG

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

~~TELEPHONE BABYLONE 17-18~~
TÉLÉPHONE KLÉBER 25-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO

~~PARIS OFFICE: 67, RUE DE LILLE~~
~~PARIS (7^e) FRANCE~~

PARIS OFFICE : 4, AVENUE D'IÉNA
PARIS (16^e) - FRANCE

April 20, 1960

Mr. J. Burke Knapp
Vice President
International Bank for
Reconstruction and Development
Washington, D.C.

Dear Burke:

Probably on account of the Easter holidays your letter to Johnnie of April 12 concerning the DAG meeting and Huvelin's tour arrived only this morning.

Johnnie being in Madrid, I called Leonard Rist to find out whether he will join the meeting and the tour. Leonard said that he would write you about this.

With best wishes and looking forward to seeing you at the end of June,

Sincerely yours,

Carel de Beaufort



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

PARIS ADDRESS: INTBARRAC PARIS

TELEPHONE N° 5886 25-10

PLEASE REPLY TO

~~PARIS OFFICE OF THE SECRETARY~~

PARIS OFFICE : 41 AVENUE DE LA
LIBERTÉ - PARIS (8^e) - FRANCE

April 30, 1960

Mr. J. Burke Sharp
Vice President
International Bank for
Reconstruction and Development
Washington, D.C.

Dear Mr. Burke:

Probably on account of the Easter holidays
your letter to Johnnie of April 13 concerning the
DAG meeting and Havelin's tour arrived only this
morning.

Johnnie being in Madrid, I called Leonard
that to find out whether he will join the meeting
and the tour. Leonard said that he would write
you about this.

With best wishes and looking forward to
seeing you at the end of June,

Sincerely yours,

Gerol de Beaulieu

John Burke Sharp

746

April 12, 1960

Dear Johnnie:

We understand that the dates of June 28 - 30 have now definitely been fixed for the next DAC meeting in Bonn. Raymond Cope and I will be going over from here and I hope that you and Carel will plan to join. Leonard Rist will also be going if his personal affairs by that time permit.

We are preparing a paper on the subject of development lending for submission to the Interim Working Party by around May 1. This paper will be a fairly straightforward account of how we appraise loans and what we regard as sound principles of lending on development projects. We may be preparing another paper on the subject of "Coordination" and exchange of information, but we are waiting to see what proposals the participating countries come up with in their submissions to the Interim Working Party (also due May 1) before deciding just what we should undertake.

May I also inform you that Siem Aldewereld and I had lunch in New York last Thursday with M. Houmelin and made arrangements to make a new "tour de France" - July 5-8. We plan to spend two days in Paris and two days visiting industrial installations in the Belfort Region. Our group for this purpose will consist of Raymond Cope, Jeff Rucinski, Siem Aldewereld and myself plus - I hope - you and Leonard Rist.

Will you please contact Leonard Rist on both the foregoing matters and confirm whether he will be available to attend.

Finally, may I tell you a little more about my personal plans. I shall be bringing Hilary with me. We are trying to get space on the BREMEN, arriving in Cherbourg the morning of the 27th (I shall be in touch with you regarding how we all get up to Bonn from Paris). We shall stay on 2 or 3 days in Germany after the DAC meeting and come down to Paris by train on Monday, July 4.

Mr. John D. Miller
Special Representative in Europe
27 Old Jewry
London EC2

We shall then leave Paris by train (for a few days holiday in Copenhagen) on the evening of July 8.

Canhaedans - French Industries

I think this brings you uptodate for the moment. I am writing to Houvelin directly (copy enclosed) about our visit but you might let him know regarding Leonard Rist's eventual participation.

Wish I could be with you on the "Glorious 29th" but I shall have to be satisfied with my visit in June.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

c.c. Mr. S. Raymond Cope

JBK/jb

ROUTING SLIP	Date 4/28/60
---------------------	-----------------

NAME	ROOM NO.
Mr. Knapp's office	L024.

	Action		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		To Handle

REMARKS

Could you please tell us what
the subject of the outgoing letter
was?

"Development
Assistance Group"

S.B.

From Op. Files P-100

DAG

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
CENTER FOR INTERNATIONAL STUDIES
50 MEMORIAL DRIVE
CAMBRIDGE 39, MASSACHUSETTS

April 8, 1960

Mr. J. Burke Knapp
Vice President
International Bank for Reconstruction
and Development
Washington 25, D.C.

Dear Mr. Knapp:

I am writing to acknowledge your letter of March 30 to Dr. Rodan.

Since Dr. Rodan left for a three month trip abroad on April 1,
I have forwarded your letter to him and also a copy of the address
which you enclosed. I am returning your original copy to you.

If you wish to write to Dr. Rodan directly, he may be reached at
the following address:

c/o Svimez
Via di Porta Pinciana 6
Rome, Italy

He will be back in Cambridge, Mass. around July 1.

Sincerely,

Margaret O'Brien
Secretary

MOB/b

Enc: 1

Mr. S. Aldewereld


April 6, 1960

S. R. Cope

D.A.G. - Paper on Development Lending

You will no doubt have heard from Mr. Knapp regarding the above. Following your telephone conversation yesterday, I am attaching outline of the paper which we have undertaken to produce and send in to the Working Party by the end of this month. I am having Mr. Collier cover points 1 and 2 and I shall be grateful if you could get somebody to cover point 3. The sub-headings are merely suggestions and whoever writes it should be free to vary them as he thinks fit. Point 3 (k) should perhaps be left for the time being as it might be the subject of a separate paper.

Attachment



cc: Mr. J. Burke Knapp
Mr. J. H. Collier

SRCope:mc

DAG.

March 30, 1960

Dear Paul:

As promised you during our talk, I am sending you herewith for your personal background a copy of the address which Mr. Black gave to the Development Assistance Group when it met here in Washington recently. Would you kindly mail this paper back to me after perusal.

With best regards,

Sincerely yours,

Ack: April 8/60

J. Burke Knapp
Vice President

Encl.

Dr. Paul Rosenstein-Rodan
Massachusetts Institute of Technology
Cambridge, Mass.

JBK
JBK/ps

OUTGOING WIRE

DAG

TO: RANDOLPH BURGESS

DATE: MARCH 30, 1960

CHIEF OF U.S. MISSION TO NATO

CLASS OF NLT

SERVICE:

PARIS

WM

COUNTRY: FRANCE

TEXT:
Cable No.:

NO OBJECTION TO PROPOSAL CONTAINED YOUR LETTER MARCH TWENTYSIXTH

BEST REGARDS

EUGENE R BLACK

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME JBKnapp
Vice President

DEPT.

SIGNATURE _____
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MARCH 30, 1960

CLASS OR SERVICE

CLASS OR SERVICE TO WIRE

TO: HAMBURG BY GRS

CLASS

CLASS

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MAR 30 4 53 PM 1960

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(IMPORTANT: See back of card for instructions concerning form)

UNITED STATES MISSION
TO THE
NORTH ATLANTIC TREATY ORGANIZATION
AND EUROPEAN REGIONAL ORGANIZATIONS

MAR 30 REC'D

OFFICE OF
CHIEF OF MISSION

OTAN-NATO
PLACE DU MARÉCHAL DE LATTRE DE TASSIGNY
PARIS XVII^E - FRANCE

March 26, 1960

Dear Gene:

Ack by cable March 30/60

Early this week I was in Washington and called you up but found you had left for southern parts. So this letter will have to take the place of a conversation.

We are making very good progress with our Group of Four, but the great problem is to whip it all into the shape of a report and to button up the odds and ends.

One question we have been wrestling with is that of a name for the new organization. I have forgotten whether we discussed this together. The neutral countries don't like the word "atlantic" or "western". We could call it simply "OEC", but that is very general and too much like the old name.

We have been searching around for something which would give a new flavor and, particularly, which would show that this organization is thinking not in terms of the Atlantic Community alone, but of doing its duty with respect to the outside world.

As a net result of this, we have pretty well agreed that the best way to do this is to add the word "development" to the title, recognizing particularly the functions of the DAG Committee which will become a part of the new organization. The title would then read "Organization for Economic Cooperation and Development". This has a great many advantages in giving a new slant to the new organization.

Someone

The Honorable
Eugene R. Black,
President,
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

The Honorable
Eugene R. Black

-2-


Someone has raised the question whether there would be any confusion between this and the IBRD or IDA, and we wanted to make sure that you knew about it, and saw no insuperable objection, before our report came out.

There are, of course, many things in development which the new institution can do other than providing directly large sums of money. These include technical assistance, opening up their investment markets for financing of foreign projects, and a policy of trade liberalization which will help to provide markets for countries by way of development.

It would help me greatly if I could have a wire from you on receipt of this letter to the effect that our use of the word "development" in the title would not worry you.

With all best wishes to you and Sue from both of us,

Sincerely yours,


W. Randolph Burgess

1969 FEB 20 AM 9:23

M. KANDOLBY BILBOSS

SINCERELY YOURS

RE:

WITH ALL BEST WISHES TO YOU AND THE FLOW BOYS OF

MOBILE ALA.

ONE ONE OF THE MOST "DEVELOPMENT" IN THE STATE WOULD NOT
FLOW YOU ON RECEIPT OF THIS LETTER TO THE EFFECT THAT
IF WOULD BEIT WE WOULD BE IT I COULD HAVE A MORE

CONSIDER BY WAY OF DEVELOPMENT.

INTERESTING WITHIN WITH BEIT TO BROADEN MARKETS FOR
FINANCING OF LOCAL PROJECTS AND A BOARD OF STATE
ASSISTANCE, OFFERING ANOTHER INVESTMENT MARKETS FOR
DIRECTLY TAKE VALUE OF MONEY. THESE FINANCIAL RESOURCES
WITHIN THE NEW INVESTMENT CAN DO OTHER THAN BROADENING
THERE ARE OF COURSE MANY THINGS IN DEVELOPMENT

UNAMBIGUOUS OBJECTIVE, BEFORE ONE REBOLT CAN BE
WE WANTED TO MAKE SURE THAT YOU KNOW ABOUT IT AND WE DO
RE ALL CONVICTION BETWEEN THIS AND THE IBRD OR IDA AND
SOMEONE HAS RAISED THE QUESTION WHETHER THERE WOULD

ELLEN B. BLACK
THE HONORABLE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: March 17, 1960

FROM: J. Burke Knapp

SUBJECT: D.A.G.

JBK

*see separate file
for record of meeting
March 9-11, 1960*

Returned herewith is the set of papers relating to the DAG meeting. You will note that the summary record of the third day refers to the preparation by the Bank of a paper on "Development Principles and Practices". For some reason, however, the "Statement to the 20 Governments" does not allude to this paper.

Att.

JBKnapp/js

3 + 4 - Ahmed

Maclean 3572

Mr. Eugene R. Black

March 16, 1960

J. Burke Knapp

Suggested Topics for your Talk with Mr. Dillon

1. Bank attendance at D.A.G. meetings - we should participate fully in these meetings unless some special issue arises which makes the group want to go into Executive Session (e.g., a real arm-twisting session on burden-sharing).

2. Future meetings of the Indian consortium. In view of Upton's ~~residence~~ at last Saturday's meeting we would like to be reassured that the U.S. Government wants us to go ahead with these sessions in connection with the third Five-Year Plan.


3. Inter-American Bank. In view of Mr. Dillon's enthusiasm about the Bank at the dinner last week what are his thoughts as to where it fits in?

4. Brazil - Lafer is visiting Washington at the end of this week and there is much speculation as to whether the U.S. is getting ready to provide financial assistance in spite of the lack of agreement between Brazil and the IMF.

5. Volta and Roseires. You might mention these projects as something that we are working on very actively and on which we may want to organize international consortia to provide financing supplementing Bank loans.

6. Bank borrowing in the U.S. market. In view of Julian Baird's reaction in the case of our last bond issue you may want to have at least a preliminary discussion with Mr. Dillon regarding future access by the Bank to the U.S. market. The main point you may want to make at this time is simply that we have been laying off the market for a long time (from November 1958 to January 1960) and that we may now have to be coming back once in a while.

7. Finally, joint operations with the DLF involving local currency financing. I learned from Hart Perry yesterday that Vance Brand wanted to talk this matter over with his Board soon and would like to have a note from us confirming the conversation which we had a couple of weeks ago. I have prepared a draft of such a note which I hope to show you before lunch.


JBKnapp/js

Leave D. A. G

see Room

Mr. Knapp

March 11, 1960

M. M. Mendels

Development Assistance to India Meeting - Saturday, March 12, 1960

The following arrangements have been made for the meeting at 10:00 a.m., March 12, 1960 on Development Assistance to India:

1. The Guard Desk has been furnished with a list of Delegates.
2. Two elevators will operate.
3. Board Room arranged in same order as 1959 meeting.
4. Amplification will be in operation.
5. Coffee will be served at 11:00 a.m.
6. A list of Delegates is attached.

Attachment

M M M

LDoucet:neb

LD

Mr. Eugene R. Black

DAS
March 10, 1960

J. Burke Knapp

Mr. Upton's Speech to the Development Assistance Group

Attached is the text of Mr. Upton's talk to the Development Assistance Group yesterday. I have marked a few passages which you might find of special interest.

On pages 2-3 Upton puts in a strong plug for supplemental contributions to IDA by European countries. He also mentions on page 3 the idea of European purchases of the bonds of the Inter-American Development Bank.

On page 7 appears his response to your speech. I have already remarked to you upon the passage in the middle of the page. He then goes on to defend the U.S. tied loans.

JBK:rb

DEVELOPMENT ASSISTANCE GROUP

Ways in which DAG members could augment
the funds of the IBRD and IDA

*Prepared for first
DAG meeting
but never used*
R

PART I - IBRD

1. Accelerate release of 18% subscriptions. Release schedule 1961 and thereafter is as follows (in millions of dollars):

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
Belgium	6.0			
France	12.0	12.0	12.0	12.0
Germany	7.8	7.8	7.8	

2. Lend IBRD untied money on long-term basis. This money could be lent by the government or any of its agencies, as for example development and lending agencies such as the Kreditanstalt für Wiederaufbau in Germany or the Caisse de Depots in France. The transaction could take the following forms:

- (a) Subscribing to part of a public issue of IBRD bonds.
- (b) Subscribing to a special issue of IBRD bonds created for the purpose.
- (c) Lending money to the IBRD.

Any convertible currency would be acceptable. If however the transaction were in the currency of a member other than the member providing the money, the member whose currency was concerned would have to agree.

3. Grant necessary consents and otherwise facilitate:

- (a) The marketing of IBRD bond issues to the public.
- (b) The placement of IBRD bond issues with institutional investors.
- (c) Loans to IBRD by a single institution or group of institutions.

Any convertible currency would be acceptable. If however the transaction were in the currency of a member other than the member providing the money, the member whose currency was concerned would have to agree.

4. Repay in advance of maturity loans granted by the IBRD to DAG members or facilitate their own investment institutions to acquire these loans in advance of maturity. The following amounts were outstanding at December 31, 1959 (in millions of dollars):

Belgium	44
France	217
Italy	156
Japan	<u>185</u>
	<u>603</u>

(In many cases repayment would create local refinancing problems for the entities carrying out the projects.)

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March 10, 1960

DEVELOPMENT ASSISTANCE GROUP

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the funds of the IBRD and IDA

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	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
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2. Lend IBRD untied money on long-term basis. This money could be lent by the government or any of its agencies, as for example development and lending agencies such as the Kreditanstalt für Wiederaufbau in Germany or the Caisse de Depots in France. The transaction could take the following forms:

- (a) Subscribing to part of a public issue of IBRD bonds.
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Any convertible currency would be acceptable. If however the transaction were in the currency of a member other than the member providing the money, the member whose currency was concerned would have to agree.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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FROM: The Secretary

March 9, 1960

DEVELOPMENT ASSISTANCE GROUP

Attached is a text of a statement which was delivered by the President of the Bank at a meeting of the Development Assistance Group in Washington on March 9, 1960.

Attachment

Distribution::

Executive Directors and Alternates
President
Vice Presidents
Department Heads

SOME PRINCIPLES FOR DEVELOPMENT ASSISTANCE^{1/}

I greatly appreciate the opportunity to participate in the present meeting. You will be examining the questions of how to increase the supply of capital for the less developed countries and how to assure the application of that capital in ways most conducive to economic growth. These are matters on which the World Bank has had experience, and I should like to give you my own interpretation of what this experience has shown and how it can help point the way toward a more effective coordination of development assistance.

The countries of the free world - developed and less developed alike - are faced today with an immense challenge - the challenge of the human condition in their poorer areas. The resources now being devoted to meet this challenge are plainly inadequate. Resources are indeed building up as the economies of the less developed countries themselves gather momentum and as the more developed countries come to a deeper appreciation of their responsibilities. But there is no room for waste or for mis-directed efforts. So far as development assistance is concerned, I believe that we are driven to two conclusions:

First, that this assistance must be administered with single-minded attention to the interests of development in the recipient country concerned, and

Second, that its main weight must be directed toward those countries which are prepared to do their part in summoning up their own resources and in developing their own absorptive capacity for external aid.

Let me define a few principles which in my view must be observed if capital invested in economic development is to serve effectively the interests of the less developed country concerned.

For a start, this means rational choice of the investment project, uninfluenced by extraneous political or commercial motives and undeterred by fear of creating new competition for established interests.

Next, this means execution of the project with maximum technical efficiency. In particular, the principle of procuring the necessary supplies and services in the cheapest market, i.e. through free international competition, marks the watershed between investment projects administered solely in the interest of the less developed country and those giving weight to other interests and motivations.

^{1/} Text of statement delivered by Mr. Eugene R. Black, President of the World Bank, at a meeting of the Development Assistance Group in Washington D.C. on March 9, 1960.

Thirdly, this means that the terms on which external development assistance is provided must be reasonably related to repayment capacity, both of the project itself and more broadly of the economy of the recipient country.

We in the World Bank have tried to follow these principles. The Bank is indeed a banking institution, which seeks to act with all the prudence necessary to protect its financial integrity. But it is also a bank for its borrowers. It is in their interests, as much as in the interests of its bondholders, that the Bank tries to ensure that its investment projects are soundly selected, designed, and executed. Moreover, in rejecting unsound loan proposals the Bank, I am also convinced, acts in the interests of its borrowers. No greater disservice can be rendered to a capital-importing country than to encourage it to embark on uneconomic or badly engineered projects or to load it up with external debt beyond its reasonable repayment capacity. And it is surely not in the interests of the less developed countries as a group to allow any country to draw upon the precious pool of external development funds if it is not adequately mobilizing its own resources or adequately preparing itself to absorb such external assistance as becomes available to it.

What then of bilateral development assistance programs? In my opinion they too will achieve their stated purposes only in proportion to the extent that they observe the foregoing principles. Is this a counsel of perfection? Perhaps. There are no doubt deep-seated inherent difficulties in achieving the administration of any nation's aid program so largely in the interests of the recipients. The appeal to long-range enlightened self-interest - powerful as I personally believe this appeal to be - cannot be expected to triumph universally over more self-centered motives. And even if a country providing bilateral development assistance does succeed in eliminating from its program all extraneous political and commercial influences, it is still another step to convince the recipient countries that this has been accomplished. Yet until they are so convinced, they will not readily accept conditions on development aid, even where these conditions are clearly designed merely to assure effective use of the funds and hence to serve the recipient's own self-interest. Judging from the Bank's experience, I would say that the great majority of the less developed countries are far more receptive to advice and guidance, not only on the detailed planning and execution of particular projects but also on matters of broad economic, financial, and development policy, if this is forthcoming from an international and professional agency whose objectivity they may feel that they can fully trust.

I now go a step further and state my conviction that coordination of development assistance, either between national bilateral programs alone or also with programs of multilateral

agencies, will succeed only in proportion to the extent that the participants acknowledge and accept principles such as those that I have outlined above. This is really only to say that agreement upon objectives must precede agreement upon means. Coordination of development assistance will be very difficult to achieve if each country administering development aid is seeking different political or commercial ends. To give only one example, if a country relies upon export credits primarily to promote its export trade, "co-ordination" would be self-defeating. The best that can be hoped for in this case is to put some kind of limit on credit competition, as has been done by the Berne Union for example in agreeing upon its "five-year" rule.

Let me say a word more about the terms of repayment of development assistance, a subject on which I am afraid some dangerous illusions still persist. The fact is that there has been a sharp increase in the external debt of less developed countries in recent years, and many of these borrowers are nearing the limit of their capacity to incur further foreign exchange obligations on conventional loan terms. A book published by the Bank in 1958 entitled "Debt-servicing Capacity and Post-war Growth in International Indebtedness", reviewed the accumulation of international indebtedness through 1955, and we have just issued a supplementary study carrying the analysis through 1958. During the three years 1956-58, for example, external medium- and long-term debt nearly doubled among the low income countries of Asia, the Middle East, and Africa; it increased by 40% in Latin America. In both groups of countries it reached about \$5 billion at the end of 1958, and further expansion has taken place since. While these figures alone may not be unduly disturbing, our study suggests two conclusions: first, that in many countries too great a proportion of development aid has taken the form of debt which has to be repaid in foreign exchange, and, secondly, that of that debt, too great a proportion is short- and medium-term debt, mainly of the supplier credit variety, the service of which places a heavy burden on export earnings during the next few years.

The proposal for an International Development Association is based upon a recognition, in the multilateral sphere, of the need to provide additional development funds on more flexible terms than those applicable under conventional loans. Aid provided by national governments and their agencies has for many years been partly on a grant basis; the principal colonial powers have had much experience of this type of assistance to their own territories. In the United States the Development Loan Fund has been making long-term development loans to less developed countries repayable in the currency of the borrower. In general, however, there has still not been adequate recognition of the demands of economic growth. Development in the less developed areas is a very long-term problem, and at best requires very long-term money if it is to be soundly financed. Indeed in some countries, the

achievement of a ^{reasonable} ~~measurable~~ degree of economic progress requires external development assistance on a scale far surpassing any realistic expectation of the recipient country's capacity to repay on conventional loan terms. If development assistance is given on terms which are too burdensome, it will overload and eventually break down the structure of international indebtedness, with grave consequences for sound development financing.

Needless to say, I do not advocate providing development assistance on "easy" terms (or indeed on any terms at all) to countries whose lack of creditworthiness for conventional loans arises from their pursuit of unsound economic and financial policies. Some of the countries which suffer today from excessive external debt find themselves in this plight only because of serious failures in their own performance coupled in some instances with chronically uncertain prospects for their export earnings. No development assistance is worthwhile if it is merely a palliative for mismanagement. But this only underlines the necessity for insisting on the proper conditions for development assistance.

This brings me to the second principle which I enumerated at the outset: the principle that the less developed countries themselves must play their part to summon their own resources and to plan their own development. Indeed it is here that the primary attack upon the problem must be made. There can be little justification for continuing, let alone for increasing, development assistance unless recipient countries take steps to assure that such assistance can be effectively employed; and on the other hand, it is the recipient countries themselves who must in the end assume the responsibility for deciding the direction that their development should take.

Many underdeveloped countries are making the effort, adopting the policies and creating the institutional structure conducive to economic growth. And with greater economic and financial stability, improved organizational methods, and generally greater "absorptive capacity", this is creating greater opportunities for effective development assistance. In a way, the most important work of the Bank is ^{to provide} ~~is~~ technical assistance to our member countries directed toward ^{their} ~~the~~ objective. The 17 general survey missions organized by the Bank at the request of governments have suggested targets and directions for development over 5-10 year periods, and have offered recommendations concerning public investment priorities and financial and economic measures necessary to the success of a proposed development program. The Bank has helped to establish machinery in many less developed countries to coordinate development policies and investment decisions, and in several cases has detailed staff members to work with the government concerned in formulating or carrying out a development program. Survey missions and resident representatives have likewise been concerned with the problem of encouraging

domestic savings and creating new institutions to channel savings into productive investment. Finally, through its training programs, and especially through our Economic Development Institute here in Washington, the Bank gives officials responsible for preparing and executing development programs in less developed countries an opportunity to broaden their knowledge of the problems and techniques of economic development. We expect to continue and expand activities such as these, and thus to help make more effective not only our own financing, but financing from other sources as well.

I now come more concretely to how the machinery of the Bank (and IDA) may perhaps help to achieve a more effective coordination of development assistance. Of course a country may always lend additional direct financial support, on appropriately long or "easy" terms, either to the Bank or to IDA. But I have no doubt that the countries represented here will also desire to have their own bilateral programs, and there is surely much that can be done to focus these programs on common development objectives, once these are agreed.

I would like to suggest that there are two things that the Bank and IDA can do in this field, namely to take the lead in establishing financial consortia to provide money for specific development projects or programs, or more broadly to provide facilities for the exchange of information or for international consultation on development assistance matters.

The first course contemplates joint or parallel operations, with bilateral assistance from one or more countries directed toward projects or programs to which the Bank or IDA is giving financial support. This technique is illustrated by the discussions concerning outside financing for the \$1 billion program for the Indus Basin. As you know, the governments of Australia, Canada, Germany, New Zealand, the United Kingdom and the United States have agreed, subject to necessary legislative authority, to participate with the Bank in meeting the cost of the program which would be administered by the Bank. Additional opportunities for this sort of collective approach will undoubtedly arise, especially in the case of single large projects located in small or newly-emergent countries which would have difficulty in providing the assurances normally sought by conventional lenders. In most cases, this technique requires that governments be prepared to provide funds, if not as grants, at least on long or "easy" terms.

The organization of joint financing consortia also raises the question of tied versus untied aid. I cannot too strongly urge that bilateral assistance be made available to the greatest possible extent on an untied basis. As I have already pointed out, tied aid often compels the recipient to pay more for equipment or services than he would if he were free to bring in the cheapest market. To the extent that the recipient's freedom

of choice is restricted and he is deprived of the benefits of international competition, the value of assistance is diminished.

This is not to say that ways cannot be found to administer tied funds on a sound basis, and the Bank is prepared to discuss this subject with member government at any time. If, for example, contracts were let for a project on the basis of international competition, they could quite properly be financed with tied funds if each of the governments of the supplying countries made available the necessary amount on suitable terms. To make tied funds acceptable, two conditions have to be fulfilled: first, that the use of tied funds does not influence the pattern of procurement and, secondly, that the tied funds are provided on terms as to interest rate and amortization which are within the payment capacity of the debtor. Since, however, not all capital goods exporting countries are in a position to finance their own capital goods exports out of their own resources, a fully competitive system can operate only if a substantial proportion of development aid is on an untied basis. I would, therefore, urge all capital exporting countries to give their development assistance without strings to the maximum extent possible.

The Bank (and IDA) would be prepared, at the request of any capital-exporting country, to review with that country the development needs and possibilities, and the economic position and prospects, of a less developed country or countries. Such consultations might help both to identify the projects of greatest developmental importance, and to facilitate decisions concerning the type of aid most appropriate to the particular recipient country's repayment capacity; a conventional loan, a "soft" loan or an outright grant. These consultations would supplement the information we already provide to members, through the Bank's Executive Directors, in the form of economic reports, normally prepared as an aspect of the Bank's own loan operations, and brought up to date from time to time. These reports describe a country's economic situation and prospects and its development problems and potentials, and appraise its capacity to incur further external debt. The World Bank has also begun to make available to governments, periodically, and through the same channel, data on the composition of the external public debt of some 40 members, together with projections of service payments. Such consultations might also help to achieve some rationalization and coordination of export credit financing, leading both creditors and borrowers to give more attention to a correspondence between the life of the credit and the repayment capacity of the borrower, as well as to the soundness and economic priority of the project for which the financing is obtained.

Another form of consultation which may prove useful in special circumstances would be conferences between the Bank (and IDA) and a group of capital-exporting countries, looking to a joint program for dealing with the investment requirements of a

particular recipient country. The meetings convened by the Bank with a group composed of the United States, the United Kingdom, Germany, Canada and Japan, and directed toward consideration of India's needs for external financial assistance, is an example of this approach.

These are the areas in which the Bank now sees possibilities for useful coordination between its own operations and bilateral programs, to the end that all forms of development assistance may be directed to the most productive uses. Others may appear as our discussion proceeds. I welcome the opportunity for the coordination and exchange of ideas which these discussions provide, for it is in the end sound principles of administration which will determine whether development assistance will achieve the results we all seek in the interests of the recipient and capital-exporting countries alike.

Mr. J. Burke Knapp

March 8, 1960

J. D. Miller *JDM*

Development Assistance Group

Among the questions that may be brought up during the meeting are:

1. The Bank will probably be asked to keep a list of recommended projects as a guide to members wishing to provide bilateral assistance to specific countries. We should explain that the viability of a project is often uncertain until late in the negotiations for a loan and that it would not be possible to compile a list which would be of any use. It should be possible in some cases to give more general advice such as whether a particular under-developed country is in a position to absorb more foreign investment to advise on which sector of the economy is in most need of aid.
2. We may be consulted on whether DAG should have a secretariat and, if so, where it should be. A very small secretariat seems to be needed (if not, the host country will have to provide an ad hoc one for a few weeks before each meeting -- an unsatisfactory expedient) and the logical place for it is within the reconstituted OEEC. The advantages of this solution are that the new OEC (if that is what it is to be called) will be essentially an organization of the capital-exporting countries and that Europe is the best place for the secretariat of a group with six European countries out of eight. The main disadvantage is that however small the actual DAG secretariat was kept, the knowledge that it had the resources of OEC behind it might encourage the Group to give it jobs which the OEC secretariat would do.
3. We may also be asked about the feasibility of keeping statistics of governmental aid to under-developed countries. The OEEC made such a study in 1957 for their members but it was not published. They are now, as a result of the Council meeting in January 1960, bringing this study up to date. The U.S. Government publishes very full statistics of its aid broken down into countries and types of project. If other countries did the same or provided the figures on a confidential basis, a small staff could produce a report every six months for DAG. As the OEEC have started on this task (as a one shot operation) they seem the logical people to continue. But the Bank should be prepared to undertake it provided the countries are prepared to cooperate. It would be impossible to collect statistics of private investment in under-developed countries.
4. We may be asked in what form the Bank or IDA could accept and use funds which member countries might wish to put at its disposal. The Bank can accept untied money and, if necessary, make a special

Mr. J. Burke Knapp

-2-

issue on the model of the Swiss Government loan. It can also in certain circumstances (e.g. Indus) form a syndicate through which bilateral loans can be made. IDA should be able to be more flexible in accepting and using special contributions. It should be able to accept funds designated for a specific borrower or project, but it should also keep the right to refuse them.

cc: Mr. S. R. Cope

JMiller:mmar

Laura - D A E

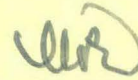
SPECIAL DELIVERY

March 7, 1960

Dear Mrs. Tomlinson:

As I said over the phone today, I would very much appreciate the enclosed invitations being delivered to the members of the European Economic Community who will be attending the forthcoming meeting of the Development Assistance Group.

Sincerely yours,



Lyell Doucet
Assistant to the Secretary

Enclosures

Mrs. Tomlinson
European Community
Information Service
220 Southern Building
Washington 5, D. C.

LDoucet:neb

(Invitations to: Mr. Frederick Boyer de la Giroday
Mr. Robert Faniel
Mr. Helmut Allardt
Mr. Franco Bobba
Mr. Robert Lemaignen)

March 7, 1960

Dear Mr. Pasquale:

This is just to let you know that I am arranging to send you 70 copies each of the Annual Report of the World Bank and of an article about the Bank in the Princeton University Series on International Finance. I was requested to send you these for distribution in connection with the meeting of the Development Assistance Group.

Sincerely yours,

Harold N. Graves, Jr.
Director of Information

Mr. Carmen Pasquale
Room 1130
SA 17
1776 Pennsylvania Avenue, N.W.
Washington 25, D. C.

Person - D. A. G.

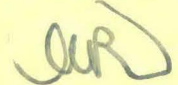
SPECIAL DELIVERY

March 7, 1960

Dear Mr. Pessoa:

With reference to my conversation with your secretary today, I would very much appreciate the enclosed invitations being delivered to the members of the Portuguese Delegation who will be attending the Development Assistance Group.

Sincerely yours,



Lyell Doucet
Assistant to the Secretary

Enclosures

Mr. A. C. Pessoa
Financial Counselor
Embassy of Portugal
2125 Kalorama Road, N.W.
Washington 8, D. C.

LDoucet:neb

(Invitations to: Mr. Albano Nogueiro
Mr. Fonseca Lopes
Mr. A. C. Pessoa
Mr. R. Blanc
Mr. J. Guterres

Mr. Knapp

March 4, 1960

M. M. Mendels

Lunch on March 10, 1960 - DAG

Mr. Black's luncheon on March 10 for the Development Assistance Group will consist of:

- (a) The State Room, Mayflower Hotel, 1:00 p.m.
- (b) A full bar will be provided.
- (c) Menu

- Pea Soup (puree)
- Celery and Olives
- Mixed Grill (Fish for those who request it)
- Vegetables and Salad
- Vin Rose
- Sherbert
- Coffee
- Liqueurs
- Cigarettes and Cigars
(Flowers)

- (d) Eight tables, seating 10 each.
- (e) A receiving line and an announcer.
- (f) Suggested guest list, attached.

A draft timetable of the meeting, as received from the State Department, is also attached.

Attachments

LDoucet:neb

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

IDA will have a question
as follows:

What are the economic
justifications for projects of a
social character such as
education
housing
health.

Costs and benefits have to be expressed
in some other than purely qualitative
manner.

Maybe only practical instances
can convey the idea of a close
correlation, maybe more synthetic
views can be expressed

As a first shot re education
look into

a) Paul Hoffmann's booklet
on Special Fund UN

b) Book of Solomon (Unesco)
on Education and

S.I.P. c) Panel of economics
Friday afternoon

d) attached letter and attachment

OECE

ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE

*to be acknowledged
7. March 60
TR*

OEEC

ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION

BUREAU DU PERSONNEL SCIENTIFIQUE ET TECHNIQUE
OFFICE FOR SCIENTIFIC AND TECHNICAL PERSONNEL

Tél. : TRO 32-20 - 46-10 - 74-30 - 76-00

2, rue André-Pascal, PARIS-XVI^e

RÉFÉRENCE OSTP/60/885
RFL/js/613

Télégrammes : EUROPECONOMIE

1st March, 1960

Dear Dr. Rist,

Following our most interesting discussion on Saturday I am now sending you a copy of a paper prepared by Mr. Alan Day of London University on "Economic Aspects of the Relationship between Technical Progress and Economic Growth".

Mr. Day does not exactly solve the chicken and the egg problem, but he provides some interesting ideas. I suppose the answer lies very much in the socio-economic environment at a given moment. The Russians, for example, have probably made their impressive progress in the physical sciences as a consequence of the attractiveness of scientific research to independant researchers who seek the most interesting work and high social status relative to other employment opportunities, while the possibilities of political neutrality must also weigh heavily in the highly intelligent mind. Perhaps to a lesser extent it is also due to the purposeful allocation of resources to this branch of scientific development.

I am also attaching a copy of the draft Programme of the Office for Scientific and Technical Personnel for the financial year 1960-61. We are at present most interested in the problems of forecasting educational requirements in the context of economic planning and this Office is in constant contact with the planning authorities of the underdeveloped Southern-European countries.

/contd. ...

Dr. Leonard Rist,
The International Bank for Reconstruction
and Development,
WASHINGTON, D.C.

In this connection we organised a Conference in November at The Hague concerned with Techniques for Forecasting Future Requirements of Scientific and Technical Personnel. The Proceedings of this Conference will shortly be published and if you would like to receive a copy please let me know and I should be delighted to send you one.

With best regards,

Yours sincerely,

Raymond F. Lyons

Raymond F. LYONS,
Principal Administrative Officer

ROUTING SLIP	Date Mar. 2, 1960
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OFFICE OF THE PRESIDENT

NAME	ROOM NO.
Mr. Mason	602
<i>No. Stevenson</i>	
<i>Burke attended to this</i>	
<i>File</i>	

	Action	Note and File
<input type="checkbox"/>	Approval	Note and Return
<input type="checkbox"/>	Comment	Prepare Reply
<input type="checkbox"/>	Full Report	Previous Papers
<input checked="" type="checkbox"/>	Information	Recommendation
<input type="checkbox"/>	Initial	Signature

Remarks

Original of this memo is being held
for Mr. Knapp.

*Refers to JAG
Deelys pm*

March 1, 1960

TO: Mr. J. Burke Knapp
Vice President
International Bank for Reconstruc-
tion and Development
Room 1024
1818 H Street, N. W.

FROM: T. Graydon Upton

SUBJECT: Development Assistance Group Meeting in Washington,
March 9 through March 11, 1960

In connection with your participation in this first meet-
ing of the Development Assistance Group it occurred to me that
it would be useful to have available for the representatives
of other countries samples of your various reports and
brochures that describe your operations. If you agree, would
you arrange to have a supply of such copies available -- I
would guess about 70 copies of each would be sufficient.
These could be placed in an accessible spot outside the con-
ference room where they could be picked up by foreign
delegates.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S.R. Cope

DATE: February 26, 1960

FROM: J. Burke Knapp

SUBJECT:

[Handwritten signature]

[Handwritten initials]

letter from the Rist to the Knapps of Feb 17, 1960

Please find attached an interesting letter from Leonard Rist regarding the German attitudes on the Development Assistance Group. I had a translation of the German memorandum prepared and have kept the original copy. It seems to me that we should handle this memorandum very carefully in order to protect the source.


Att.

*→ This has now been made public
L.R
March 8 '60*

JBKnapp/js

ROUTING SLIP	Date Feb 24
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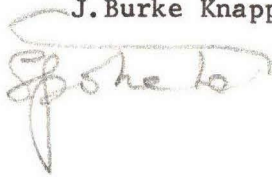
OFFICE OF THE PRESIDENT


NAME	ROOM NO.
Mr. Cope 	813

<input type="checkbox"/> Action	<input type="checkbox"/> Note and File
<input type="checkbox"/> Approval	<input type="checkbox"/> Note and Return
<input type="checkbox"/> Comment	<input type="checkbox"/> Prepare Reply
<input type="checkbox"/> Full Report	<input type="checkbox"/> Previous Papers
<input type="checkbox"/> Information	<input type="checkbox"/> Recommendation
<input type="checkbox"/> Initial	<input type="checkbox"/> Signature

Remarks

If you will call me I'll explain this.
J. Burke Knapp





From

DAG.

JOHN D MILLER

February 24, 1960

INTBAFRAD

NLT

PARIS

FRANCE

BLACK WILL TELEPHONE BURGESS FROM LONDON FRIDAY MORNING REGARDS

KNAPP

J. Burke Knapp
Vice Pres.

Messrs. Rucinski, Rosen, Demuth/Boskey,
Broches
J. Burke Knapp

February 23, 1960

Development Assistance Group

1. Attached is a "fresh start" on Mr. Black's statement to the Development Assistance Group. He has read it and given it general approval - he thought it ought to say more about the responsibility of undeveloped countries to follow sound financial policies.

2. Mr. Black is back on the number two position on the Agenda following the opening welcome by Mr. Dillon. I offer this as an apology to anybody who thinks the new statement is too long.

3. Please send me any further comments or suggestions which you have. I am planning to get out a final draft of this statement upon my return to Washington on March 7th.

P.S. The following is quoted in its entirety from the Shorter Oxford English Dictionary:

"Watershed: The line separating the waters flowing into different rivers or river basins; a narrow elevated tract of ground between 2 drainage areas. 2. Loosely, a) the slope down which the water flows from a watershed 1839; b) the whole gathering ground of a river system 1874. 3. a structure for throwing off water 1881."

Att.

JBKnapp/ls

Draft Statement for Development Assistance Group

I greatly appreciate the opportunity to participate in the present meeting. You will be examining the questions of how to increase the supply of capital in the less developed countries and how to assure the application of that capital in ways most conducive to economic growth. These are matters with which the World Bank can claim considerable experience, and I should like to give you my own interpretation of what this experience has shown and how it can help point the way toward a more effective coordination of development assistance.

We are faced today with an immense challenge - the challenge of the human condition in the less-developed areas of the world. We do not dispose today of adequate resources to meet this challenge. The resources are indeed building up as the economies of the less developed countries themselves gather momentum and as the more developed countries come to a deeper appreciation of their responsibilities. But there is no room for waste or for mis-directed efforts. So far as development assistance is concerned, I believe that we are driven inexorably to two conclusions:

First, that such assistance must be administered with single-minded professional zeal for the development interests of the recipient country concerned, and

Second, that its main weight must be directed toward those countries which are prepared to do their part in summoning up their own resources and in developing their own absorptive capacity for external aid.

Let me define a few principles which must be observed if capital invested in economic development is genuinely to serve the interests of the less-developed country concerned.

For a start, this means rational choice of the investment project, uninfluenced by extraneous political or commercial motives and undeterred by fear of creating new competition for established interests.

Next this means execution of the project with maximum technical efficiency. In particular, the principle of procuring the necessary supplies and services in the cheapest market, i.e. through free international competition, marks the watershed between investment projects administered solely in the interest of the less developed country and those tinged with other interests and motivations.

Thirdly this means that external development assistance must be on terms reasonably related to repayment capacity, both of the project itself and more broadly of the general economy of the recipient country.

You will not be surprised if I now tell you that these principles lie at the very core of the administration of the World Bank. The Bank is indeed a banking institution, which acts with all the prudence necessary to protect its financial integrity. But it is also essentially a bank for its borrowers. In designing and supervising the execution of investment projects, its only interest is that of its borrowers. I further assert, with strong conviction, that in rejecting loan proposals the Bank also acts in the interests of its borrowers. No greater disservice can be rendered to a capital-importing country than to load it up with external debt beyond its reasonable repayment capacity.

poor project

Finally, it is probably in the long-range interest of the individual country concerned, and most certainly in the interest of the less-developed countries as a group, that no country be allowed to draw upon the precious pool of external development funds if it is not adequately mobilizing its own resources or adequately preparing itself to absorb the external assistance which might be available.

What then of bilateral development assistance programs?

In my opinion they too will achieve their stated purpose only in proportion to the extent that they observe the foregoing principles. Is this a counsel of perfection? Perhaps. There are no doubt deep-seated inherent difficulties in achieving the administration of one nation's program solely in the interests of other nations. The appeal to the long-range enlightened self-interest which every nation has in world economic development - powerful as I personally believe this appeal to be - cannot be expected to triumph universally over more self-centered motives. And even if a country providing bilateral development assistance does succeed in purging its program of extraneous political and commercial influences, it is still another step to convince the recipient countries that this has been accomplished. Yet until they are so convinced, they will not readily accept conditions on the development aid, even where these conditions seem clearly designed merely to assure effective use of the funds and hence to serve the recipient's own self-interest. Judging from the Bank's experience, I would say that the great majority of the less-developed countries are far more receptive to advice and guidance, not only on the detailed planning and execution of particular projects but

also on matters of broad economic, financial, and development policy, if this is forthcoming from an international and professional agency whose objectivity they may fully trust.

I now go a step further and state my conviction that coordination of development assistance, either between national bilateral programs alone or also with programs of multilateral agencies, will succeed only in proportion to the extent that the participants acknowledge and accept the principles that I have outlined above. This is really only to say that agreement upon objectives must precede agreement upon means. Coordination of development assistance will be very difficult to achieve if each country administering development aid is seeking different political or commercial ends. To give only one example, if a country relies upon export credits to promote its export trade, "coordination" would be self-defeating. The best that can be hoped for in this case is to put some reasonable limits on credit competition, as has been done by the Berne Union for example in imposing its "five-year" rule.

Let me say a word more about the terms of repayment on development assistance, a subject on which I am afraid some dangerous illusions still persist. The fact is that there has been a sharp increase in the external debt of less-developed countries in recent years, and many of these borrowers are nearing the limit of their capacity to incur further foreign exchange obligations on conventional loan terms. A book published by the Bank in 1955- entitled " ", reviewed the accumulation of international indebtedness through 1955, and we have just issued a supplementary study carrying the analysis through 1958. During the three years 1956-58, for example, external medium and

long-term debt nearly doubled among the low-income countries of Asia, the Middle East, and Africa; it increased by 40% in Latin America. In both groups of countries it reached about \$5 billion at the end of 1958, and further expansion has taken place since. While these figures alone may not be unduly disturbing, our study reveals in many countries a quite disproportionate reliance upon short and medium-term debt, mainly of the supplier credit variety, which has not only contributed to the growth of outstanding indebtedness but accounts for the heavy burden which the service on this indebtedness places on export earnings during the next five to ten years.

The proposal for an International Development Association is based upon a recognition, in the multilateral sphere, of the need to provide additional development funds on terms more flexible than those permissible under the criteria of existing international institutions. There are likewise some national programs which extend financing on terms that minimize or avoid the transfer burden. I have in mind, for example, the grant assistance provided in special circumstances by several countries and development lending such as that engaged in by the U.S. Development Loan Fund, repayable in the currency of the borrower. In general, however, there has still not been adequate recognition of the demands of the development process. Development in the less-developed areas is a very long-term problem, and at best requires very long-term money if it is to be soundly financed. Indeed in some countries, the achievement of a reasonable degree of economic progress requires external development assistance of a magnitude far surpassing any reasonable expectation of the recipient country's capacity to repay on conventional

loan terms. If bilateral programs for development assistance ignore these requirements, they will threaten to overload and eventually to break down the structure of international indebtedness, with grave consequences for sound development financing.

Needless to say, I do not advocate providing development assistance on "easy" terms to countries whose lack of creditworthiness for conventional loans arises from their pursuit of unsound economic and financial policies. It is true that some of the countries which suffer today from excessive external debt have reached this plight only because of serious mismanagement, coupled in some instances with chronically uncertain prospects for their export earnings. But this only underlines the necessity for insisting on the proper conditions for development assistance, albeit a severe challenge for the administration of bilateral programs.

I now come more concretely to how the machinery of the Bank (and IDA) may perhaps be employed to achieve a more effective coordination of development assistance. Of course a country which endorses the principles of development aid which I have set forth may feel that the best way for it to put forth increased effort in this direction would be to lend additional direct financial support, on appropriately long or "easy" terms, either to the Bank or to IDA. But I have no doubt that the countries represented here will also desire to have their own bilateral programs, and there is surely much that can be done to focus these programs on common development objectives, always assuming that the latter are agreed.

Generally speaking there are two things that the Bank and IDA can do in this field, namely to take the lead in establishing actual financial consortiums to provide money for specific development projects or programs, or more broadly to provide facilities for international consultation on the administration of development assistance.

The first course contemplates joint or parallel operations, with bilateral assistance from one or more countries directed toward the support of projects or programs prepared and administered by the Bank or by IDA. This technique is illustrated by the discussions concerning financing for the \$1 billion program under consideration for the Indus Basin. As you know, the governments of Australia, Canada, Germany, New Zealand, the United Kingdom and the United States have agreed, subject to necessary legislative authority, to consider substantial participation, with the Bank, in meeting the cost of the program, which would be administered by the Bank. Additional opportunities for this sort of collective approach will undoubtedly arise, especially in the case of single large projects located in small or newly-emergent countries which would have difficulty in providing the assurances normally sought by conventional lenders. But again, to be really useful, this technique requires bilateral institutions or programs dispensing development assistance on appropriately long or "easy" terms.

The organization of joint financing consortiums also raises the question of tied versus untied aid. I cannot too strongly urge that bilateral assistance be made available to the greatest possible extent on an untied basis. Tied aid often compels the recipient to pay more for

Untied basis

Assets

equipment or services than comparable items available elsewhere would have cost under international competition. To the extent that the recipient's freedom of choice is restricted and he is deprived of the benefits of international competition, the value of assistance is diminished. The Bank's policy on this matter is perfectly clear. I am nonetheless prepared to recognize that in some circumstances, and if the country imposing the condition is prepared to abstain from seeking a competitive advantage in its export trade, even tied funds can be reconciled with sound development assistance. The case I have in mind is where the outcome of international competition would lead the country executing the development project to make purchases in any case in the country or countries whose financial contribution remains tied. To this extent the tying requirement imposes no real distortion upon the pattern of procurement. In practice, however, it is a forbidding task to try to fit together a mosaic of tied financial contributions with the requirements of a development project, and I would strongly urge all capital-exporting countries to make their development assistance freely available for expenditure in the best interests of the recipient countries.

The Bank and IDA would be prepared, at the request of any capital-exporting country, to review with that country the development needs and possibilities, and the economic position and prospects, of less developed countries. Such consultations might help both to identify the projects of greatest developmental importance, and to facilitate decisions concerning the type of aid most appropriate to the particular recipient country's repayment capacity; a conventional loan, a "soft" loan or an outright grant. These consultations would supplement the information we already provide to members, through our Executive Directors, in the form

of economic reports, normally prepared as an aspect of the Bank's own loan operations, and brought up to date from time to time. These reports describe a country's economic situation and prospects and its development problems and potentials, and appraise its capacity to incur further external debt. We also make available to governments, periodically, and through the same channel, data on the composition of the external public debt of some 40 members, together with projections of service payments. Such consultations might also help to achieve some rationalization and coordination of export credit financing, leading both creditors and borrowers to give more attention to a correspondence between the life of the credit and the repayment capacity of the borrower, as well as to the soundness and economic priority of the project for which the financing is obtained.

Another form of consultation which may prove useful in appropriate cases would be conferences between the Bank (and IDA) and a group of capital-exporting countries, looking to a joint program designed to deal with the investment requirements of a particular recipient country. The meetings convened by the Bank with a group composed of the United States, the United Kingdom, Germany, Canada and Japan, and directed toward consideration of India's needs for external financial assistance, is an example of this approach. Such conferences would not, of course, be undertaken without the full knowledge and consent of the less-developed country concerned, and from the Bank's point of view it would be preferable if they originated at the request of that country itself.

At best, however, all forms of consultation and coordination among capital-exporting countries are poor substitutes for adequate action in the less-developed countries themselves to design and execute productive development programs. It is there that the primary attack upon the problem

must be made. There can be little justification for continuing, let alone for increasing, development assistance unless recipient countries take steps to assure that such assistance can be effectively employed; and on the other hand, it is the recipient countries themselves who must in the end assume the responsibility for deciding the direction that their development should take.

Many countries are making the efforts, adopting the policies and creating the institutional structure conducive to economic growth. And with greater economic and financial stability, improved organizational methods, and generally greater "absorptive capacity" this is creating greater opportunities for effective development assistance. In a way, the most important work of the Bank is technical assistance to our member countries directed toward this objective. The 17 general survey missions organized by the Bank at the request of governments have suggested targets and directions for development over 5-10 year periods, and have offered recommendations concerning public investment priorities and financial and economic measures necessary to the success of a proposed development program. The Bank has helped to establish machinery in many less-developed countries to coordinate development policies and investment decisions, and in several cases has detailed staff members to work with the government concerned in formulating or carrying out a development program. Survey missions and resident representatives have likewise been concerned with the problem of encouraging domestic savings and creating new institutions to channel savings into productive investment. Finally, through its training programs, and especially through our Economic Development Institute here in Washington, the Bank gives officials responsible for preparing and executing development programs in less developed countries an opportunity to broaden their knowledge of the

problems and techniques of economic development. We expect to continue and expand activities such as these, and thus to help make more effective not only our own financing, but financing from other sources as well.

These are the areas in which the Bank now sees possibilities for useful coordination between its own operations and bilateral programs, to the end that all forms of development assistance may be directed to the most productive uses. Others may appear as our discussion proceeds. In any case, whether or not coordination takes place, and whether or not the facilities of the Bank or IDA are called upon, it is in the end sound principles of administration which will determine whether development assistance will achieve the results we all seek in the interests of the capital-exporting and the recipient countries alike.

JBKnapp/js

February 22, 1960

OUTGOING WIRE

TO: LEONARD RIST

DATE: February 23, 1960

HOTEL AMIGO

CLASS OF SERVICE: FULL *Rate*

BRUSSELS

WM

COUNTRY: BELGIUM

Mr Knapp

TEXT:
Cable No.:

MANY THANKS YOUR LETTER OF FEBRUARY SEVENTEENTH WHICH VERY TIMELY
IN OUR PREPARATIONS FOR MARCH MEETING

KNAPP

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME J. Burke Knapp *JBK*
V. President

DEPT.

SIGNATURE _____
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

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FEB 23 4 43 PM 1960

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GEORGE BIRD

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DATE

February 23, 1960

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FOR KING JAMES

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REPRODUCTION
TELETYPE UNIT

OFFICE MEMORANDUM

TO: Mr. Eugene R. Black

FROM: J. Burke Knapp *JBK*

SUBJECT: DEVELOPMENT ASSISTANCE GROUP

DATE: February 19, 1960

Attached is a proposed statement for you to make to the Development Assistance Group when they meet here on March 9-11. Since we will speak after the other countries it is possible that we shall want to make some changes based upon their statements. I also plan to meet with the Treasury people at the end of next week to "coordinate" our approaches and this may suggest some changes. I am not planning, however, to give them the text of our proposed statement - I am afraid this will only invite pot shots at it and I don't think we should give them an advance copy any more than the rest of the countries concerned. I would propose to circulate the final version of the statement to our Executive Directors on the day of its delivery.

Following are my comments on certain subjects not included in the statement, first on the following three matters referred to in Mr. Upton's letter to you dated February 4.

- 1) The statement does not volunteer action by the Bank to draw up a list of "approved projects" which would be available to "any interested country" to pick up for financing. We think this is a completely impracticable idea. This is not just a question of manpower, although that in itself would be a very serious obstacle. Beyond that, we feel that the Bank can never really know whether a project is a good project or not until it has been subjected to the "full treatment" of preparation for Bank financing. Also something that is a good project on paper may turn into a bad project unless the proper terms and conditions are insisted upon and the proper supervision is exercised during the execution and operation of the project. I think the problems will be manifest to you from Mr. Upton's own suggestion that the Bank might draw up a list of "approved projects" in a place like Turkey and leave it to others to handle the financing.
- 2) We have not developed any concrete ideas about "enlarging and strengthening the Paris Office." We do not believe there is any merit in Mr. Upton's suggestion that it be used as a "center for coordinating information." We think that this should be done in Washington where all of our technical resources and country experts are congregated.

- 3) Mr. Upton wanted the statement also to deal with "the basic problem of opening European capital markets to IBRD bonds and the possibilities of developing new legal or administrative mechanisms within these countries to facilitate the direct placement (sic) of these bonds." It seems to us that the obstacles to selling more Bank bonds in Europe are not "legal or administrative" but related rather to the willingness of the governments concerned to permit the capital exports, and the problem of high interest rates.

I may add that during my own discussions with Upton, he suggested at one point the Bank might organize a mission to go to Germany, for example, to advise them on how to develop their capital market and thus make room for additional Bank issues there. I do not believe however that the Germans need technical assistance in this field.

I should like to call a few other questions to your attention as follows.

You will note that the statement does not put forward any concrete proposals along the lines of the "Cope Plan", although it does refer to the technical possibilities of making constructive use of tied money in certain circumstances. One reason we have not put the "Cope Plan" forward is that we think it important to drive as hard as possible for longer term and "softer" money than is available from the European export credit guarantee systems. Also if export credits are tied into Bank projects we think it can be done in a more flexible manner than that specified in the "Cope Plan."

A question arises as to what attitude the Bank should take toward the expansion of the functions of the European Investment Bank in the direction of lending to undeveloped countries. Some such ideas are apparently "cooking" in view of the decision to include the European Investment Bank in the forthcoming meeting. Undoubtedly it would be a step forward if the Common Market countries were to administer aid to undeveloped countries through the European Investment Bank rather than bilaterally. On the other hand, I think there is real danger that if the European Investment Bank were built up in this role this would not mean pooling of bilateral aid so much as diverting European interest and financial support away from the World Bank and IDA toward their own regional institution. (This is related to our problem of creating a greater sense of European participation in the administration of the World Bank.) To the extent that we have anything to say about it, (probably very limited extent) I would suggest a policy of "watchful neutrality." I think it is more than likely that the European Investment Bank will in fact expand its functions to include lending at least in nearby African territories both dependent and independent. This

would be better than if they were given a mandate to make loans to undeveloped countries all over the world.

Finally, a word on the subject of burden-sharing; i.e. striking a proper balance between the contribution of the U.S. and other capital exporting countries to the needs of the undeveloped areas. However, speaking personally, I think some of the people on the U.S. side have shown some tendency to advance two false principles:

- a) that each country bears some sort of obligation to finance its own exports, and
- b) that countries ought to provide development aid in proportion to the favorable or unfavorable state of their balance of payments or reserve position.

There is, of course, some force in the latter point, at least in the short run, but surely in the longer run the question of who bears the burden of undeveloped countries must rest upon capacity to pay (i.e. overall economic strength as indicated by, say, per capita national income) weighted by degree of political interest in the fate of the undeveloped countries.

M E M O R A N D U M
on a possible International body
for private investments

Oct 30, 1959

In his report of September 29, 1959 to the Board of Governors of the International Bank for Reconstruction and Development, Mr. Eugene Black "wonders whether there is not a place, now, for an entity, made up exclusively of private international investors from all countries, which could champion the kinds of policies which attract such investment!" This excerpt from the President of the World Bank's address has given rise to the following thoughts: -

1) There is no doubt that during the last few years private capital has been markedly hesitant to invest itself in developing countries because of the risk factor which has been high-lighted by numerous experiences. With increasing frequency international bodies, whose capital is contributed by the Nations, have substituted for private investments. Where these are still being made the lender is often concerned with a special interest of an industrial nature ; when this is not so the terms imposed include an abnormally high insurance premium.

2) In the last few years numerous studies have been made of the conditions necessary to restore the flow of private capital. To quote a few examples only - the International Chamber of Commerce has examined the matter on several occasions ; certain bankers have put forward the idea of a charter for private investment ; and the oil companies have, on their side, held several conferences in 1958 and 1959 in an attempt to fine down the conditions to be fulfilled by the borrowing countries.

These studies usually advocate the establishment of an investment code to which the countries in need of private capital should, more or less spontaneously, adhere. The requirements of such a code, which might, perhaps, be over-rigid, run the risk of arousing the distrust of the under-developed countries - so that implementation of projects of this kind seems still far removed.

3) The far more empirical procedure, followed hitherto by the International Finance Corporation, would seem more realistic. This organization focusses its studies exclusively on the individual industrial investment cases which are submitted to it. It weighs whether the risks, in such and such a particular case, are relatively limited. Should it proceed with the requested investment, it then seeks cooperation from private capital as a means of relieving

.../...

part of its commitment burden. But, for the time being the International Finance Corporation must enter into direct contact with numerous private investment entities if it wishes to broaden out the field of its operations.

4) These considerations give rise to the idea of an international organization, in the shape of a company, working in close liaison with the I.B.R.D. and the I.F.C., whose capital would be subscribed by a number of corporations desiring to enter the field of foreign investments. Such an international company could, by virtue of its Articles of Association, be charged with a threefold function : -

a) It would study the various industrial projects submitted to it either by countries in the process of developing or by its own, investment company, shareholders. By defining, in each particular case, what should be the conditions of a healthy investment, it would, little by little, bring into being a club of reasonable investments instead of the theoretical code that has been advocated hitherto.

b) To such projects as it would, in the light of the prevailing circumstances, consider to be sound, it would grant, as it were, its stamp of approval in the shape of its own partial or total guaranty of the investment's satisfactory conclusion - this guaranty being remunerated by a commission. The nature of the guaranty would have to be such as to bring about less expensive terms, for the borrower, than would have attended an investment with no international guaranty.

c) The international organization would also be responsible for the liaisons between all its shareholders and the International Finance Corporation so as to facilitate private investments in association with I.F.C. These investments, according to cases, could be made with or without its guaranty.

5) The international entity under consideration should have a kind of federal structure - the private companies of each country interested in the project forming a national group for subscription to the portion of the capital reserved for their nation and for representation on the Board.

Such an entity could only get off progressively from a somewhat slow start and would consist, in each country, only of a very small group of financial companies.

.../...

But the group would remain open, and, on the occasions of capital increases, could welcome further companies interested in the development of the project.

6) Should Mr. Black and Mr. Garner consider that the foregoing ideas deserve to be delved into more thoroughly a more complete memorandum might be sent by them to a leading personality of a financial organization selected in each of the following countries : United States, Great-Britain, France, Germany, Switzerland, Italy, Belgium and Holland. This personality, after having studied the matter with the issuing bank of his own country, would examine whether he could create, there, a first small nucleus of financial companies interested in the idea of the project under review.

October 30, 1959

ROUTING SLIP

Date

Feb 23

OFFICE OF THE PRESIDENT

NAME

ROOM NO.

Mr. Cope

813

Files

P-100

Action

Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers

Information

Recommendation

Initial

Signature

Remarks

From

JBKnapp

M. Knapp
to see

OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen

DATE: February 19, 1960

Mr. Cope
2

FROM: H.E. Bachem *f*

SUBJECT: Excerpt from German Press Article

The following might interest you in connection with the discussions on the "Group of Four":

"Common Market-Ministers of Finance Discuss Economic Policies And Development Aid"
VWD, Foreign Currencies and Finances, Frankfurt a.M., No. 36, dated February 12, 1960

Paris, February 12 (VWD) - The meeting of the Ministers of Finance of the six EWG-countries on February 11 and 12 in Paris..... was characterized by the frankness with which the Ministers discussed the various problems. Talks concerned mainly problems of market *gen. econ.* politics and development aid.

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As for the second main subject - the problem of development aid - the Ministers had for the first time received a few statistic statements concerning the achievements of the individual countries in this field. These, however, have still to be checked more thoroughly, so that they were evaluated only conditionally. According to these statements the contribution of France for development amounts approximately to 1,5% - 2% of her Gross-National Product, of the United Kingdom to 1% - 1,5% and that of the Federal Republic, the Netherlands and USA each to approximately 1%, while the rates of Belgium and Italy are lower than 1%. France, the United Kingdom and Belgium grant their aid, however, almost exclusively to their overseas areas. In the case of France it is granted predominantly in the form of Government credits, while the Federal Republic grants mostly private credits.

As the Ministers recognize, it is extremely difficult to combine the various development aids and thus to make plans for harmonization and coordinated measures. The idea, to change the export credits granted by the suppliers - which are especially prominent in the Federal Republic - into direct credits granted to the purchasing country, was received ~~in~~ with a rather cool reaction by most of the Ministers. Etzel, Minister of Finance, referred to the fact that a new law would be needed in the Federal Republic for such change in credits and that the German development aid would thus probably be diminished because of the greater risk which would be connected with direct credits to the receiving country. Such methods would also result in a larger burden on the state budget. The question of creating another common market-fund to guarantee long-term credits for development countries was also judged with reserve. According to Etzel's opinion, the common market could give joint guarantees for various projects. The Ministers of Finance agreed on the necessity of promoting exports of long-term capital.

cc.: Mr. Gilmartin

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**FOR
EXECUTIVE
DIRECTORS'
MEETING**

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(For consideration on
February 19, 1960)

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FROM: The Secretary

February 17, 1960

DEVELOPMENT ASSISTANCE MEETING
MARCH 9 - 11, 1960

1. The Bank has been asked to participate as Observer in a meeting to be held in Washington on March 9 - 11, 1960 which is being convened pursuant to a Resolution on Development Assistance adopted by a Special Economic Committee representing thirteen governments plus the Commission of the European Economic Community which met in Paris on January 12-13, 1960. The same Resolution was adopted on the following day, January 14, by representatives of the twenty governments which are members and associate members of the Organization for European Economic Cooperation. The text is as follows:

"The Special Economic Committee having been informed of the desire of the Governments of Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, and the United States, and the Commission of the European Economic Community, who, in addition to their contribution to international organizations, are making available or may be in a position to make available a significant flow of long term funds to underdeveloped areas, to discuss among themselves the question of techniques to facilitate such flow of funds, taking into consideration other means of assistance to developing countries;

NOTES:

That these eight governments and the Commission of the European Economic Community intend to meet together to discuss various aspects of cooperation in their efforts, and to invite other additional capital exporting countries to participate in their work or to meet with them as may from time to time appear desirable, and to consult with such multilateral organizations as the International Bank for Reconstruction and Development and the European Investment Bank."

Distribution: Executive Directors and Alternates
President
Vice President
Department Heads

2. Attached in this connection are excerpts from a statement presented by Under Secretary Douglas Dillon, the Head of the U.S. Delegation, to the meeting of the Special Economic Committee which considered the foregoing Resolution.

3. At the Meeting of the Executive Directors on Friday, February 19, 1960, Mr. Knapp will comment on these developments.

Attachment

The attached in this connection are excerpts from a statement presented by Under Secretary Douglas Dillon, the Head of the U.S. Delegation, to the meeting of the Special Economic Committee which considered the foregoing Resolution.

At the Meeting of the Executive Directors on Friday, February 19, 1960, Mr. Knapp will comment on these developments.

EXCERPTS FROM STATEMENT MADE BY U.S. UNDER SECRETARY
OF STATE DILLON TO SPECIAL ECONOMIC COMMITTEE
PARIS, JANUARY 12, 1960

".....

The question of coordination of broad national policies relating to world-wide development assistance would appear to require the full participation of all countries actively engaged in this effort. The OEEC as presently constituted is seriously handicapped in this effort since the United States is not a full member. And while the World Bank can be helpful in providing many kinds of information, and in bringing countries together on specific projects in which the Bank has an interest, it is itself a lending institution which is not organized in such a way as to make possible the international discussion of broad policies, including national lending policies and the programs of those members which provide, or desire to provide, external capital for development on a bilateral basis over and above their contribution to international organizations."

- - - - -

".....

Now as to the problem of development assistance and its better coordination. If the study of the successor organization to the OEEC results in general agreement that such an organization should be established, we assume that it may be as long as 18 months before the new organization could come into being. We therefore propose that in the meantime a limited group be constituted consisting of those countries in a position to make an effective long-term bilateral contribution to the flow of funds to the less developed countries. We believe that this group on development assistance should operate in an informal manner, and that it should consult whenever desirable with the World Bank, the OEEC and other appropriate national or international institutions. A major task of the development assistance group would be to discuss the most effective methods of mobilizing national resources for development assistance as well as of providing such assistance to recipient countries in the most useful manner. There is not only a real need for an increased flow of long-term private and public funds from the

industrial countries whose reserves have increased in recent years but also a real need to provide investments, loans and assistance to the less developed countries in ways which will make the maximum constructive contribution to their economies. The United States would be prepared to make available to this group information on its own lending, assistance and investment guarantee operations with the thought that our experience might be useful to others in considering their own programs.

We do not envisage that the development assistance group should attempt to engage in a "burden-sharing" exercise or seek to reach decisions on amounts of assistance to be provided to specific countries or areas. If, during its deliberations it appears that two or more countries desire to cooperate in assistance to particular countries, then it would be desirable to consult promptly with the recipient country, or perhaps enlist the good offices of the World Bank. This, as you know, has been the procedure followed successfully by a number of capital exporting nations and the World Bank in coordinating assistance to India.

We believe that the development assistance group would not require any special international staff. It could, however, make effective use of certain studies which might be carried out by the staff of the OEEC. Useful studies which the OEEC might appropriately undertake at this time would be:

- A) The development of up-to-date statistics on the actual amount of financing which various countries have undertaken in their transactions with the less developed countries, as well as the various types of financing, the relative maturities, and the countries to which assistance has gone.
- B) A factual survey of existing national organizations in the investment, lending, and assistance field, through which funds are made available to the less developed countries, the policies of these organizations, the funds currently available to them, and the source of the funds.
- C) An analysis of the various types of incentives to foreign investment in the less developed countries which may exist or be under consideration in the industrial countries.

These studies, as you will have observed, correspond in general with certain of the recommendations of the OEEC staff which are to be considered at the meeting of the OEEC Council on January 14. Certain other recommendations of the OEEC staff in the field of development assistance would in our judgment be premature and we will speak to that point at the January 14 meeting.

We propose that the development assistance group consist of those of us who, in addition to their contributions in multi-lateral organizations, now make, or might be prepared to make, significant bilateral contributions to development. Such a group might include, for example, Canada, France, Germany, Italy, the United Kingdom, the United States and the Commission of the European Economic Community."



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

TELEPHONE BABYLONE 17-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO
PARIS OFFICE: 67, RUE DE LILLE
PARIS (7^E) - FRANCE

February 17, 1960

Dear Burke,

Germany produced a few worthwhile candidates, which is encouraging. It also entailed a trip to Berlin, which was most depressing. There is, however, no need to comment on these things before my return.

On the other hand, you might be interested in the fact that our friends at the Ministry of Economics, from Henckel down, very rapidly seized on the opportunity of our presence in Bonn to carry on the conversations I had had in October and which you had only a few weeks ago on cooperation, etc. They are very anxious to make the meeting of the "Committee of Eight" (or is it nine?) a success and they are actively preparing for it. An advisory committee of economists is from time to time asked to give its views to the Ministry on current matters of policy. It includes about 22 people, all respected professors of economics in the Universities. The only one who has an official position is Müller-Armack (Under-Secretary, Ministry of Economic Affairs). In January, this committee reported on the assistance to underdeveloped countries. Their report was lent to me on a hush-hush basis by one of the lower ranks. You might be interested in looking through the conclusions, of which I am enclosing a copy. Although some of the thinking is somewhat confused, the emphasis on the use of international agencies is from our point of view quite encouraging. The reasons why the report is kept secret are a) that they are usually not published, b) that as of last week the German Government had not yet fixed its own position, and c) that no agreed position had been arrived at among the Six. There is every reason to believe, however, that the statements made in the economic advisers' report were, at least a week ago, very close to the thinking of the Ministry of Economics.

One does not know yet who will be in the German delegation. It may well be handled primarily by the Ministry of Foreign Affairs rather than by the Ministry of Economics. Generally speaking, my

*This has now been made public
See Mr. Wigg's memo to Mr. Cope of
Feb 26/60.*

impression is that in Germany the willingness to export capital, both private and governmental, is just as strong as it was last Autumn, but that the reluctance to give detailed information about magnitude, direction and terms of these exports of capital is also just as strong. After all, any aggregate figure of exports of capital includes recipient countries such as Switzerland, the United States or Canada. This is misleading but convenient where the term "capital export" and "assistance to underdeveloped areas" are used as if they were synonymous.

I was shown the agenda, or more likely, a garbled version of the agenda of the meeting which is to be held in Washington on March 8. So far as I can see there is not much meat in it, except that the U.S. agencies are to report about their own activities and methods. I understand the World Bank will be called upon to do the same (and incidentally, in the version of the agenda which I have seen, IBRD was mentioned in the same group as U.S. agencies...). There is a hint, but not really a strong suggestion, that the other participants in the conference should explain their operations in underdeveloped areas in the same complete manner as would the U.S. agencies and the IBRD. I feel that who-ever represents the IBRD at the meeting should jump on this opportunity to put in a plea for open and frank publication of information on all financial transactions in support of underdeveloped countries. Since all countries claim that they are doing a lot, the least they can do is to describe what they are doing in some detail, indicating beneficiaries and terms. I think we are better placed to make this suggestion than even the U.S., however meritorious its tradition to publish information; unlike the U.S., we are not involved in the export race. Our position obviously would be dictated exclusively by preoccupations pertaining to the creditworthiness of debtor countries, not by a spirit of competition.

I have another suggestion to make with respect to the forthcoming meeting. I would hope that by now our memorandum on debt servicing burdens of World Bank member countries has been seen by you and duly amended by Drag Avramovic. I also hope that this paper will go to our Executive Directors before the end of February. Since, except for Portugal, all the countries represented at the Washington meeting are members of the Bank, it might be a good idea to distribute that memorandum at the meeting of the Eight (or Nine). As you will remember, it makes the point that in some cases creditworthiness is being threatened not so much by the amount of borrowing as by the debt structure, i.e. by incurring too large a proportion of medium-

and short-term debts. At the very time when a number of countries are considering increasing their long-term commitments, this may perhaps encourage them to switch from medium to long rather than adding long to more medium, in other words to indulge in what would amount to refunding operations. Since the members of the meeting will not necessarily be the people whom our Executive Directors report to, distributing this document at the conference would ensure a wider audience.

I assume, of course, that our presentation will include a strong hint in favour of future increases in IDA contributions and an expression of hope that return of monetary stability in Europe will make more IBRD bond issues possible there, especially if, as seems to be generally anticipated, the trend towards more freedom of capital movements gains ground. The existence of this trend was confirmed to me hopefully by the B.I.S.

There might also be a point in boasting a little about two particular features of our lending policy. Magnitude of our operation, tradition of careful creditworthiness, etc. will, I presume be amply commented on. But these facts are known and appreciated. Less appreciated are:

no | a) The fact that we exercise pressure on defaulters to settle their outstanding debts. This would be a way of eliciting a similar statement from who-ever will represent the European Bank. As you know, they intend to be pretty stiff in this respect if they have to deal with non-Six (e.g. Greece).

b) The fact that we are untied, and this for the benefit of importing countries. The DLF incident is now seasoned and the U.S. could hardly construe this as an impertinence. Furthermore, the Eight (or Nine) are supposed to be sincerely interested in the welfare of the underdeveloped countries and this is one way of helping the latter more efficiently. My feeling is not so much that the subject is an important one, a pretty good reason anyway, but that we are just about the only ones at the meeting who can bring it up. Every other participant will know that from the point of view of the less developed countries, this is plain common sense. But either they have a somewhat guilty conscience or they don't feel too happy about launching a discussion on this point. Even the Germans know that if they advocate untied loans or grants everybody will think that it is merely because they are sure to get the lion's share. Only one angel is quite above suspicion, ourselves.

I thought I should let you have these few suggestions without waiting too long, since you are probably in the process of preparing the Bank's submission to the conference.

Ever yours,

A handwritten signature in blue ink, appearing to read "Leonard B. Rist".

Leonard B. Rist

Encl.

Mr. J. Burke Knapp
Vice President
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

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Mr. Knapp

Room 1024

Extracts from the draft of an opinion on "the relations of the Federal Republic to developing countries"

(Text of January 7, 1960)

Session of the economic advisory council at the
Federal Ministry of Economics

IV.

37. Under present conditions the Federal Republic faces considerable difficulties in lending effective assistance on all three types of development aid. Mindful of these difficulties and of certain shortcomings noted in the past, the following measures are separately recommended:

A. Advisory assistance

38. As regards advisory assistance given by Germans and involving a large number of experts to be sent abroad, difficulties of a quantitative and qualitative nature arise. For example, replacement for engineers, teachers, economists and statisticians is far from being assured for a long time to come even for Germany's domestic requirements. Moreover, knowledge of French, Spanish and other foreign languages is of importance together with adequate professional qualification.

39. The sending of highly qualified consultants is usually wrecked by the fact that no reserve personnel is available to take over during their absence abroad. Therefore positions should be created in all administrations, such as Federal and Lander Ministries, the Federal Bank, Statistical Bureaus and colleges, for training just such reserves. Likewise, large industrial enterprises interested in the development field should be admonished to train in their own interest adequate reserve personnel in all fields.

40. Information courses should be arranged for already appointed consultants where persons familiar with the respective countries would instruct them in political, social, economic and cultural problems.

41. Another difficulty arises concerning the financial situation of advisers who go abroad leaving behind a position carrying with it security provisions. To meet this difficulty an attempt should be made to introduce generous regulatory measures regarding maintenance of pension claims, reservation of professorships, observance of seniority rights with the employer firm, maintenance of advancement possibilities after return, etc. To accomplish this it will probably be necessary to establish a special fund in the Federal budget and by the economy respectively. Furthermore the possibility already existing on a modest scale, namely the training of supply personnel for later independent work in the developing countries through appointing younger people as assistants to experts sent to said countries by international organizations (World Bank, U.N.O. etc.), should be further explored.

TRANSLATION SECTION

Translated From: German 2/24/60 By: A. B. & G.A.:mh & vv

42. It should be emphasized that the work of an adviser and also the training for such work will only be successful if the persons in question do not limit their stay in the developing country to a few weeks or even a few months, but spend there at least one year, maintaining the continuity of their work thereafter. The same goes for persons visiting the Federal Republic from the developing countries. No satisfactory regulations exist at present concerning the training of foreign students in German colleges and technical schools.

B. Commercial policy

43. A sober analysis of German economic policy since World War II in the commercial field shows that little has been done to promote development. The measures taken in the Federal Republic in the last decade to bring about trade liberalization have operated primarily in favor of imports from the developed countries and purchases from developing countries have had small encouragement. True, in the course of economic growth imports expressed in absolute figures have risen also from underdeveloped countries but relatively the increase was smaller than that from the more developed economic entities. Agricultural protectionism resulted in increasing but insignificantly the import requirements for farm products of the developing countries. High tariffs and excise duties (recently further increased) hinder greater consumption of overseas luxury products (coffee, tobacco, tea) although protective considerations do not arise. Inherited tendencies of economic self-sufficiency have led to the artificial stimulation and protection of certain raw materials (ores, non-ferrous metals). Recent claims, which aim at an artificial limitation of the growing imports of low-priced mass consumption articles, are particularly alarming.

44. On a close examination of the possibilities of trade policy available to the Federal Republic and favorable to the less developed regions, one must bear in mind that the European Economic Community agreement provides for a common foreign trade policy and therefore the measures here considered can only be taken within the framework of that agreement. This means that the representatives of the Federal Republic in the institutions of the Community will have to impress the Community as a whole that its foreign trade policy should take into account to the largest possible extent, the requirements of the developing countries. In this connection it is of the utmost importance that the Federal Republic state its willingness to change and mitigate its own agricultural protectionism, lest it contribute to the strengthening of the Community's agricultural protectionism as a whole.

45. Nevertheless there are means at the disposal of the Federal Republic which make it possible to take at least into partial account the needs of the less developed countries by autonomous measures in the field of taxation. The lowering or abolition of certain excise duties (see p. 43) comes here to mind. This would make it necessary to overhaul the tax structure which incidentally would serve the purpose of simplifying that structure so warmly wished by many.

C. Financial measures

46. As regards the financial measures to be taken by the Federal Republic, the first question to be decided is what type of financial assistance ought to have preference. As set forth under II above, export promotion should not be further advanced but conversely attempts should be made to replace the export credits hitherto granted with medium and long term investment credits. To accomplish this the Federal Government must initiate the conclusion of bilateral and multilateral agreements inducing thereby the developing countries to create the prerequisites necessary for expanding their capital exports. Binding agreements should be entered into with the other industrial countries close cooperation of the national guarantee institutions in guaranteeing deliveries of capital goods in the developing countries should be established and assured. Finally, efforts should be made to improve international freedom of movement in export financing on the basis of such agreements, and the existing international organizations should be included insofar as possible.

47. For certain specific projects which cannot be financed with the help of credits alone, investments à fonds perdu must be provided. In this, it should be taken into consideration that initial help in principle has the advantage over long-term subsidies. To provide the necessary funds for this, the corresponding amounts should be set aside as regularly recurring items in the budget. Here it is conceivable that funds of the special budget "ERP Funds" might be used for this purpose -- these funds derive from foreign aid that Germany received when it was in dire need of reconstruction assistance.

V

48. All kinds of development promotion (advisory help, trade policy and financial measures) are to be understood in their interdependency as a part of an over-all program. Such an over-all program requires the following basic decisions - aside from those individual measures mentioned in IV.

49. Therefore, there must be a clear concept as to whether, in view of the immense need for development assistance, relatively, limited available funds should be distributed more or less equally, or whether they should be concentrated on certain purposes. This question does not only arise in the case of direct development assistance by the Federal Republic to individual underdeveloped territories, but also in the case of funds provided through international organizations, for the Federal Republic, as a member, participates in the decisions of these organizations.

50. A further question arises - whether the Federal Republic should take its measures for development promotion bilaterally, or, insofar as possible, within the framework of the international organizations. For the above-mentioned reasons (figs. 27 and 29*) it is advisable for the Federal Republic to carry out its development promotion to a great extent in the second manner. To the extent that bilateral measures cannot be avoided, care should be taken to bring them into line with measures of other countries and international organizations. To that end it seems urgent to follow the proposal made by the Federal Republic at the last World Bank Meeting for mutual information and consultation on development assistance.

51. It is also necessary to establish the interrelation of the three kinds of development assistance. Consideration should be given also to the fact that financial assistance measures frequently do not attain the desired success until they are bound in with proper advisory assistance measures.

52. The advisory council is of the opinion that the Federal Republic should not continue its present policy of ad hoc and partially more or less accidental measures for development promotion. Rather it ought to set up a long-term over-all program. Such a program for development promotion must, of course, be

* See enclosure

incorporated into a well-founded projection of the future economic and financial development of the Federal Republic. Only in the framework of such a projection can the Federal Republic make a responsible commitment as to how far it can exceed the assistance so far granted. At present the total amount of the development aid granted in recent years and the amount of the contractual or political commitments do not appear to be precisely ascertainable. There is therefore an urgent need to make such an over-all survey as quickly as possible. Only in that case can the necessary long-term skeleton program for development assistance be determined with regard to the distribution in time and the consequent burden of the commitments not yet entirely met.

Encl. - (Figs. 27 and 29)

Enclosure

(Excerpt from draft of opinion on "The Relation of the Federal Republic to the Developing Countries" Draft of January 7, 1960).

27. The satisfaction of the underdeveloped countries' demand for credit - whether by private entrepreneurs or by the state or its institutions - through direct lending competes on the capital markets of the capital-exporting countries with the issues of international financial institutions (World Bank, European Investment Bank etc.). Since these institutions generally can attend to a better distribution of available capital among the underdeveloped countries, and a more purposeful use of the capital, everything that might impede their entry to the national capital markets of the potential capital-exporting countries should be avoided. This does not exclude the possibility that borrowers from the underdeveloped countries may also be admitted to the capital markets of the industrialized countries.

In the interest of orderly operation of the national capital markets there should be no favoring of capital offerings for such purposes through differentiation of interest rates. Similarly, the borrowing of capital by the underdeveloped countries might be supplemented in justified cases by free contributions by the capital exporting countries.

29. In the case of state loans or investments a fonds perdu to underdeveloped countries, there arises the basic question of whether they should be granted bilaterally, or multilaterally through international organizations. Generally speaking, for as far-reaching an incorporation of international organizations as possible it may be argued that regional participation in available capital and its rational use can be better and more easily guaranteed. International organizations are in a better position than individual states to hold the recipient countries to organizing their economic policy efficiently in connection with the granting of capital. Moreover, the provision of capital through international organizations makes it possible for the not unlimited available funds to be held together and not dissipated. Finally, in the interest of political and economic world order, undesirable exploitation of powerful financial positions of individual countries will be reduced.

Messrs. Black, Kliff, Cope, Rosen, Aldewereld,
Rucinski, Demuth, Broches

February 15, 1960

J. Burke Knapp

Meetings of Development Assistance Group

Mr. Shaffner, of Treasury, called today and gave me the following information: the meetings originally scheduled for March 8, 9, and 10 will now be held on March 9, 10, and 11 due to the fact that Mr. Dillon would be unable to attend the meeting on the 8th.

JBK:js



ASSISTANT SECRETARY

TREASURY DEPARTMENT

WASHINGTON

February 11, 1960

Mr. Lofe

TO: Mr. J. Burke Knapp
Vice President
International Bank for Reconstruc-
tion and Development
Room 1024
1818 H Street, N.W.

FROM: T. Graydon Upton *P.S. Hoffman*

SUBJECT: U.S. Preparatory Meeting for Development Assistance
Group Meeting to be Held in Washington, March 8-10,
1960

See Memo to Mr. Black of Feb 10

In preparation for the first meeting in Washington of the Development Assistance Group (which was set up as a result of Mr. Dillon's initiative in Paris in December and January) would you kindly set aside the afternoon of February 25, 2:30 p.m. to 5:30 p.m., to meet in Room 4426, Main Treasury, for a rehearsal of the talks to be given on March 8 by each of the various U.S. financial agencies involved.

It is hoped at this preparatory meeting to have each agency present the highlights of the talk it plans to present before the Development Assistance Group. It is contemplated that each agency would emphasize the principles it has found to be sound guidelines in its long-term development financing, the major problems it has encountered in such financing, and the mechanisms it has used to help overcome these problems. The purpose of this meeting will be to insure some coordination in the approach to the subject and to avoid overlapping insofar as feasible.

Seen by W. E. Cope,
Feb 15/60 -

Mr. Eugene R. Black

February 10, 1960

J. Burke Knapp

Letter from Mr. G. Upton

The attached letter came in during your absence and is being studied by our Committee in the Bank. You will note that the letter is unsigned - this is explained by the covering note from Mr. Schaffner.

I must say the letter seems to me a bit presumptuous in trying to tell the Bank what it should do. Grady always gives me the line contained in his last paragraph - that if we don't take more initiative the OEEC will beat us out. I don't think this is any reason however for us to be stampeded into making proposals that are not thoroughly considered and thoroughly sound.

As I have told you, Grady's idea of having the Bank make an address under Item 2 of the Agenda has now been abandoned.

Attachment

JBKnapp/js

February 8, 1960

Dear Johnnie,

Re your letter of February 4, ✓
our present thinking is simply that we
would file with Burgess a copy of the
statement which we shall be working up
for presentation to the Committee of
Eight when they meet here on March 8.
We don't think of making any oral pre-
sentation, although possibly Gene will
want to talk to Burgess when he is over
there early in March.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. John D. Miller
67, Rue de Lille
Paris
France

File to: Mr. Cope

 JBK/ps/js

ROUTING SLIP

Date

Feb 8

OFFICE OF THE PRESIDENT

NAME

ROOM NO.

Mr. Cope 

813

Action

Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers

Information

Recommendation

Initial

Signature

Remarks

From

JBKnapp



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

TELEPHONE BABYLONE 17-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO
PARIS OFFICE: 67, RUE DE LILLE
PARIS (7^e) - FRANCE

February 4, 1960

Mr. J. Burke Knapp, Vice President
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Burke:

Randolph Burgess has sent me a copy of
his letter to Gene about the reorganisation
of OEEC. I imagine you will probably send
a written reply but if you want me to present
the Bank's views I shall be back in Paris
from the Carnegie Endowment meeting on the
19th and could do it during the next week.

Yours ever,

John Duncan Miller

John Duncan Miller

✓ Jan-28/60

ack. Feb 8/60



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Cable Address: INTBFRAD PARIS

TELEPHONE BABYLONE 17-10

PLEASE REPLY TO
PARIS OFFICE: 87, RUE DE LILLE
PARIS (7^e) - FRANCE

February 14, 1960

Mr. J. Burke Knapp, Vice President
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Burke:

Handolph Burgess has sent me a copy of
his letter to Gene about the reorganization
of OEEC. I imagine you will probably send
a written reply but if you want me to present
the Bank's views I shall be back in Paris
from the Carnegie Endowment meeting on the
19th and could do it during the next week.

Yours ever,


John Duncan Miller

Jan 28/60

1960 FEB 8 PM 10:45

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Mr. Alexander Stevenson

February 4, 1960

O. J. McDiarmid

Attached File on "Coordination of Aid to Underdeveloped Countries"

I have the following thoughts on this material.

(1) The January 14 Resolution and Mr. Dillon's comments speak of "techniques to facilitate flow of funds" and "most effective methods of mobilizing national resources for development assistance". The Dillon statement explicitly rules out any burden-sharing exercise. Since all the discussion deals with bilateral aid, no new international financing organization is contemplated. Other capital exporting countries outside the Atlantic community, such as Japan, might be included. The following comments relate to (a) what such an organization might do, and (b) how the Bank could cooperate with it.

- (a) The functions of the organization are far from clear from these papers. The two exercises of this general sort that come to mind are the Colombo Plan Annual Consultative Meeting, and the Creditors Meeting called by the International Bank on India. However, since in the proposed organization the recipient countries are not included and since it is not to be a burden-sharing exercise, neither of these examples seem to apply to the proposed new organization. Apparently, then, it is to be purely an information exchanging group on techniques and amount of bilateral aid being offered. It clearly could not review development programs without the recipients present. It is not to have a secretariat or international staff, but may receive studies from the staff of the revamped OEEC. As for its usefulness, I suppose that the United States could acquaint other countries with, for example, its government guarantee program through such an organization a little more efficiently than on a bilateral basis. Also, I suppose some general resolutions of an exhortational character might occasionally be produced. Also, perhaps the organization could suggest some general undertakings of capital importing countries in respect of private foreign investment and related subjects.
- (b) As for the Bank's cooperation, certainly some of our special economic reports on external debt burden and major world commodities, and edited copies of some of our economic reports would be useful were they not already available to the countries that will make up this organization.



ASSISTANT SECRETARY

TREASURY DEPARTMENT

WASHINGTON

February 4, 1960

DAG
FEB 4 REC'D

Dear Gene:

File
3/14/60

It is expected that the first meeting of the development assistance group will take place in Washington on March 8-10 inclusive, possibly carrying over to the 11th - although the time and place will not be formalized until agreement is reached with the participating nations.

It is my hope that the IBRD would participate in two separate instances in this meeting as follows: first, that after the formal opening, you or another high level official of the Bank would establish a constructive atmosphere for the meeting by delivering an address on "Principles and Problems of Development Lending." I would hope that this address would outline not only the various principles which on the basis of the Bank's experience would offer useful guidance for the various countries in their bilateral development financing, but also outline the major specific problems you run up against (e.g., inadequacy of planning, project selection, problem of completion as planned, availability of local currency for development expenditures without adding to inflationary impact, excessive short term foreign debt, etc.)

After this address, various U.S. agencies, particularly the Export-Import Bank, the Development Loan Fund, and the International Cooperation Administration would give discourses on their own operations, emphasizing among other things to what extent they utilize the various principles outlined by the Bank, and the mechanisms they use to help overcome the problems outlined by you. We would expect similar analyses by the other countries present of their own programs, followed by some open discussion of these programs. Within the course of these discussions we would hope that the other countries would receive some impetus towards establishing institutions, where necessary, and procedures for long term bilateral financing in line with the principles mentioned by the Bank, and towards establishing decisions regarding loan maturities, project follow-up mechanisms, etc., which would diminish the number and intensity of the "problems" enumerated by you.

Secondly, at a later point in the proceedings, I would hope that you would speak on the subject of "Capital Market Problems and New Coordination Techniques." The first part of this address would deal

with

with the basic problem of opening European capital markets to IBRD bonds and with the possibilities of developing new legal or administrative mechanisms within these countries to facilitate the direct placement of these bonds.

In the second part of this address, I would hope you would present in a well rounded package the various conclusions reached as a result of your and Mr. Rist's studies, so as to place the Bank in an important role in any coordination of bilateral aid. Among the matters which I personally would hope could be presented would be a decision to enlarge and strengthen your Paris office as another center for coordinated information (perhaps with arrangements to have certain key area economists available there at certain times), a decision to work towards a list of "approved" projects, perhaps with the Bank also undertaking, on request, the completion inspection on such of the projects as may be financed. This list would be available for any interested country to help it in determining which projects it might wish to finance - either with or without participation by the Bank. This would, of course, carry no implication of responsibility for financing either by the Group jointly or by any particular member country or countries. If the list could include projects in countries, such as Turkey, Greece, etc., where European countries may already be doing some development financing, but where the Bank is not presently doing any financing, it would seem to me to be an additional step in assuring that, regardless of the source of financing, the project would be one of constructive importance to the economy of the recipient country. Out of this might come increased efforts on the part of European countries to provide truly long term development financing from public funds - in addition to development investment by their private citizens - and to concentrate their extension of export credit guaranties on equipment for "approved" projects.

In addition I would hope that you would be able to make concrete proposals on increased participation activities of the European countries along the lines you have outlined to me. I recognize the problems of dual interest rates, but I think this is a situation which ultimately the Bank must accept in one form or another. As a suggestion, if it were understood that "approved" projects in a special category of your list, say Category II, would not be available for one hundred percent direct financing by the Bank in the next few years, but that the Bank would participate up to a specified percent with any country winning the competitive bidding, the way might be cleared for the borrowing country to accept a dual rate structure, since the country would realize that the Bank would not

in any event finance the total project itself in the next few years - if at all - due to other projects having a higher priority.

The above represents at this time only my personal views. The arrangements for the agenda of the development assistance group are being worked out not only between State and Treasury, but also in conjunction with suggestions still to be received from the various participants. Several of us from U.S. agencies have had an informal preparatory meeting which Burke Knapp attended. In my absence in El Salvador, my associate Philip Schaffner, will be carrying on for the Treasury.

I do believe that the attitude and the proposals of the Bank at the March meeting of the Group will be important in setting the background for future effective development financing and coordination in the bilateral sphere, and it is my hope that the Bank will go as far as feasible along the lines mentioned above. As you know, various proposals have been made in Europe for developing coordination through European financial institutions - a procedure which would no doubt be supported by some of the European lending entities. I would think, however, that this would only develop in the absence of positive Bank leadership in this direction.

Sincerely,

T. Graydon Upton

Mr. Eugene R. Black
President
The International Bank for
Reconstruction and Development
Washington, D. C.

Draft Statement for Development Assistance Group

I greatly appreciate the opportunity to participate in the present meeting. You will be examining the questions of how to increase the supply of capital in the less developed countries and how to assure the application of that capital in ways most conducive to economic growth. These are matters with which the World Bank can claim considerable experience, and I should like to give you my own interpretation of what this experience has shown and how it can help point the way toward a more effective coordination of development assistance.

We are faced today with an immense challenge - the challenge of the human condition in the less-developed areas of the world. We do not dispose today of adequate resources to meet this challenge. The resources are indeed building up as the economies of the less developed countries themselves gather momentum and as the more developed countries come to a deeper appreciation of their responsibilities. But there is no room for waste or for mis-directed efforts. So far as development assistance is concerned, I believe that we are driven inexorably to two conclusions:

First, that such assistance must be administered with single-minded professional zeal for the development interests of the recipient country concerned, and

Second, that its main weight must be directed toward those countries which are prepared to do their part in summoning up their own resources and in developing their own absorptive capacity for external aid.

Let me define a few principles which must be observed if capital invested in economic development is genuinely to serve the interests of the less-developed country concerned.

For a start, this means rational choice of the investment project, uninfluenced by extraneous political or commercial motives and undeterred by fear of creating new competition for established interests.

Next this means execution of the project with maximum technical efficiency. In particular, the principle of procuring the necessary supplies and services in the cheapest market, i.e. through free international competition, marks the watershed between investment projects administered solely in the interest of the less developed country and those tinged with other interests and motivations.

Thirdly this means that external development assistance must be on terms reasonably related to repayment capacity, both of the project itself and more broadly of the general economy of the recipient country.

You will not be surprised if I now tell you that these principles lie at the very core of the administration of the World Bank. The Bank is indeed a banking institution, which acts with all the prudence necessary to protect its financial integrity. But it is also essentially a bank for its borrowers. In designing and supervising the execution of investment projects, its only interest is that of its borrowers. I further assert, with strong conviction, that in rejecting loan proposals the Bank also acts in the interests of its borrowers. No greater disservice can be rendered to a capital-importing country than to load it up with external debt beyond its reasonable repayment capacity.

Finally, it is probably in the long-range interest of the individual country concerned, and most certainly in the interest of the less-developed countries as a group, that no country be allowed to draw upon the precious pool of external development funds if it is not adequately mobilizing its own resources or adequately preparing itself to absorb the external assistance which might be available.

What then of bilateral development assistance programs?

In my opinion they too will achieve their stated purpose only in proportion to the extent that they observe the foregoing principles. Is this a counsel of perfection? Perhaps. There are no doubt deep-seated inherent difficulties in achieving the administration of one nation's program solely in the interests of other nations. The appeal to the long-range enlightened self-interest which every nation has in world economic development - powerful as I personally believe this appeal to be - cannot be expected to triumph universally over more self-centered motives. And even if a country providing bilateral development assistance does succeed in purging its program of extraneous political and commercial influences, it is still another step to convince the recipient countries that this has been accomplished. Yet until they are so convinced, they will not readily accept conditions on the development aid, even where these conditions seem clearly designed merely to assure effective use of the funds and hence to serve the recipient's own self-interest, judging from the Bank's experience, I would say that the great majority of the less-developed countries are far more receptive to advice and guidance, not only on the detailed planning and execution of particular projects but

also on matters of broad economic, financial, and development policy, if this is forthcoming from an international and professional agency whose objectivity they may fully trust.

I now go a step further and state my conviction that coordination of development assistance, either between national bilateral programs alone or also with programs of multilateral agencies, will succeed only in proportion to the extent that the participants acknowledge and accept the principles that I have outlined above. This is really only to say that agreement upon objectives must precede agreement upon means. Coordination of development assistance will be very difficult to achieve if each country administering development aid is seeking different political or commercial ends. To give only one example, if a country relies upon export credits to promote its export trade, "coordination" would be self-defeating. The best that can be hoped for in this case is to put some reasonable limits on credit competition, as has been done by the Berne Union for example in imposing its "five-year" rule.

Let me say a word more about the terms of repayment on development assistance, a subject on which I am afraid some dangerous illusions still persist. The fact is that there has been a sharp increase in the external debt of less-developed countries in recent years, and many of these borrowers are nearing the limit of their capacity to incur further foreign exchange obligations on conventional loan terms. A book published by the Bank in 1955- entitled " ", reviewed the accumulation of international indebtedness through 1955, and we have just issued a supplementary study carrying the analysis through 1958. During the three years 1956-58, for example, external medium and

long-term debt nearly doubled among the low-income countries of Asia, the Middle East, and Africa; it increased by 40% in Latin America. In both groups of countries it reached about \$5 billion at the end of 1958, and further expansion has taken place since. While these figures alone may not be unduly disturbing, our study reveals in many countries a quite disproportionate reliance upon short and medium-term debt, mainly of the supplier credit variety, which has not only contributed to the growth of outstanding indebtedness but accounts for the heavy burden which the service on this indebtedness places on export earnings during the next five to ten years.

The proposal for an International Development Association is based upon a recognition, in the multilateral sphere, of the need to provide additional development funds on terms more flexible than those permissible under the criteria of existing international institutions. There are likewise some national programs which extend financing on terms that minimize or avoid the transfer burden. I have in mind, for example, the grant assistance provided in special circumstances by several countries and development lending such as that engaged in by the U.S. Development Loan Fund, repayable in the currency of the borrower. In general, however, there has still not been adequate recognition of the demands of the development process. Development in the less-developed areas is a very long-term problem, and at best requires very long-term money if it is to be soundly financed. Indeed in some countries, the achievement of a reasonable degree of economic progress requires external development assistance of a magnitude far surpassing any reasonable expectation of the recipient country's capacity to repay on conventional

loan terms. If bilateral programs for development assistance ignore these requirements, they will threaten to overload and eventually to break down the structure of international indebtedness, with grave consequences for sound development financing.

Needless to say, I do not advocate providing development assistance on "easy" terms to countries whose lack of creditworthiness for conventional loans arises from their pursuit of unsound economic and financial policies. It is true that some of the countries which suffer today from excessive external debt have reached this plight only because of serious mismanagement, coupled in some instances with chronically uncertain prospects for their export earnings. But this only underlines the necessity for insisting on the proper conditions for development assistance, albeit a severe challenge for the administration of bilateral programs.

I now come more concretely to how the machinery of the Bank (and IDA) may perhaps be employed to achieve a more effective coordination of development assistance. Of course a country which endorses the principles of development aid which I have set forth may feel that the best way for it to put forth increased effort in this direction would be to lend additional direct financial support, on appropriately long or "easy" terms, either to the Bank or to IDA. But I have no doubt that the countries represented here will also desire to have their own bilateral programs, and there is surely much that can be done to focus these programs on common development objectives, always assuming that the latter are agreed.

Generally speaking there are two things that the Bank and IDA can do in this field, namely to take the lead in establishing actual financial consortiums to provide money for specific development projects or programs, or more broadly to provide facilities for international consultation on the administration of development assistance.

The first course contemplates joint or parallel operations, with bilateral assistance from one or more countries directed toward the support of projects or programs prepared and administered by the Bank or by IDA. This technique is illustrated by the discussions concerning financing for the \$1 billion program under consideration for the Indus Basin. As you know, the governments of Australia, Canada, Germany, New Zealand, the United Kingdom and the United States have agreed, subject to necessary legislative authority, to consider substantial participation, with the Bank, in meeting the cost of the program, which would be administered by the Bank. Additional opportunities for this sort of collective approach will undoubtedly arise, especially in the case of single large projects located in small or newly-emergent countries which would have difficulty in providing the assurances normally sought by conventional lenders. But again, to be really useful, this technique requires bilateral institutions or programs dispensing development assistance on appropriately long or "easy" terms.

The organization of joint financing consortiums also raises the question of tied versus untied aid. I cannot too strongly urge that bilateral assistance be made available to the greatest possible extent on an untied basis. Tied aid often compels the recipient to pay more for

equipment or services than comparable items available elsewhere would have cost under international competition. To the extent that the recipient's freedom of choice is restricted and he is deprived of the benefits of international competition, the value of assistance is diminished. The Bank's policy on this matter is perfectly clear. I am nonetheless prepared to recognize that in some circumstances, and if the country imposing the condition is prepared to abstain from seeking a competitive advantage in its export trade, even tied funds can be reconciled with sound development assistance. The case I have in mind is where the outcome of international competition would lead the country executing the development project to make purchases in any case in the country or countries whose financial contribution remains tied. To this extent the tying requirement imposes no real distortion upon the pattern of procurement. In practice, however, it is a forbidding task to try to fit together a mosaic of tied financial contributions with the requirements of a development project, and I would strongly urge all capital-exporting countries to make their development assistance freely available for expenditure in the best interests of the recipient countries.

The Bank and IDA would be prepared, at the request of any capital-exporting country, to review with that country the development needs and possibilities, and the economic position and prospects, of less developed countries. Such consultations might help both to identify the projects of greatest developmental importance, and to facilitate decisions concerning the type of aid most appropriate to the particular recipient country's repayment capacity; a conventional loan, a "soft" loan or an outright grant. These consultations would supplement the information we already provide to members, through our Executive Directors, in the form

of economic reports, normally prepared as an aspect of the Bank's own loan operations, and brought up to date from time to time. These reports describe a country's economic situation and prospects and its development problems and potentials, and appraise its capacity to incur further external debt. We also make available to governments, periodically, and through the same channel, data on the composition of the external public debt of some 40 members, together with projections of service payments. Such consultations might also help to achieve some rationalization and coordination of export credit financing, leading both creditors and borrowers to give more attention to a correspondence between the life of the credit and the repayment capacity of the borrower, as well as to the soundness and economic priority of the project for which the financing is obtained.

Another form of consultation which may prove useful in appropriate cases would be conferences between the Bank (and IDA) and a group of capital-exporting countries, looking to a joint program designed to deal with the investment requirements of a particular recipient country. The meetings convened by the Bank with a group composed of the United States, the United Kingdom, Germany, Canada and Japan, and directed toward consideration of India's needs for external financial assistance, is an example of this approach. Such conferences would not, of course, be undertaken without the full knowledge and consent of the less-developed country concerned, and from the Bank's point of view it would be preferable if they originated at the request of that country itself.

At best, however, all forms of consultation and coordination among capital-exporting countries are poor substitutes for adequate action in the less-developed countries themselves to design and execute productive development programs. It is there that the primary attack upon the problem

must be made. There can be little justification for continuing, let alone for increasing, development assistance unless recipient countries take steps to assure that such assistance can be effectively employed; and on the other hand, it is the recipient countries themselves who must in the end assume the responsibility for deciding the direction that their development should take.

Many countries are making the efforts, adopting the policies and creating the institutional structure conducive to economic growth. And with greater economic and financial stability, improved organizational methods, and generally greater "absorptive capacity" this is creating greater opportunities for effective development assistance. In a way, the most important work of the Bank is technical assistance to our member countries directed toward this objective. The 17 general survey missions organized by the Bank at the request of governments have suggested targets and directions for development over 5-10 year periods, and have offered recommendations concerning public investment priorities and financial and economic measures necessary to the success of a proposed development program. The Bank has helped to establish machinery in many less-developed countries to coordinate development policies and investment decisions, and in several cases has detailed staff members to work with the government concerned in formulating or carrying out a development program. Survey missions and resident representatives have likewise been concerned with the problem of encouraging domestic savings and creating new institutions to channel savings into productive investment. Finally, through its training programs, and especially through our Economic Development Institute here in Washington, the Bank gives officials responsible for preparing and executing development programs in less developed countries an opportunity to broaden their knowledge of the

problems and techniques of economic development. We expect to continue and expand activities such as these, and thus to help make more effective not only our own financing, but financing from other sources as well.

These are the areas in which the Bank now sees possibilities for useful coordination between its own operations and bilateral programs, to the end that all forms of development assistance may be directed to the most productive uses. Others may appear as our discussion proceeds. In any case, whether or not coordination takes place, and whether or not the facilities of the Bank or IDA are called upon, it is in the end sound principles of administration which will determine whether development assistance will achieve the results we all seek in the interests of the capital-exporting and the recipient countries alike.

JBKnapp/js

February 22, 1960

Monsieur le Président, Messieurs,

Avant de vous donner les informations que je vous dois, je voudrais m'associer, au nom de mon gouvernement, aux témoignages d'appréciation qui ont été rendus au gouvernement des Etats-Unis pour l'initiative qu'il a prise de nous convier à Washington en vue de cette première et utile réunion.

Il n'est ^{bpa} pour nous d'objectif moins contesté que celui d'aider la croissance économique des pays en voie de développement. Nous ne doutons pas de la valeur de cette politique.

En fait, cette aide est actuellement donnée sous des formes diverses d'assistance financière ou technique; par des investissements à long terme ou des crédits commerciaux; elle est distribuée multilatéralement par diverses organisations internationales; elle est aussi consentie bilatéralement par nombre d'entre nous. Une coordination, ou mieux encore, l'harmonisation de ces efforts qu'annonce la formation de notre groupe, est bienvenue.

La coopération de mon gouvernement à nos efforts communs de développement économique se traduit à la fois par sa participation aux institutions internationales qui furent

créées à cette fin et par l'octroi d'une assistance importante, financière et technique, à la croissance des territoires africains où la Belgique a assumé une responsabilité propre: le Congo et le Ruanda-Urundi.

Puis-je rappeler ici la participation substantielle de la Belgique à trois institutions internationales spécialisées dans l'octroi de capitaux à long terme aux pays en voie de développement? A la Banque Internationale pour la Reconstruction et le Développement, la Belgique a souscrit originellement un montant de 225 millions de dollars, souscription qui fut portée récemment à 450 millions. Les premiers jours de l'année prochaine, par la mise à la disposition de la Banque d'un montant de 6 millions de dollars, la Belgique aura libéré le total des 40.5 millions de dollars appelables. Nous avons été heureux de pouvoir aussi ouvrir à la Banque, en 1959, notre marché du capital pour un montant de 10 millions de dollars. La Belgique est, vous le savez, également membre de la Société Financière Internationale. Notre contribution au Fonds de Développement des Territoires d'Outre-Mer de la Communauté économique européenne est de 70 millions de dollars dont la libération commencée en 1958 sera achevée en 1962.

Bien que le Fonds Monétaire International n'ait pas mission d'assurer le financement d'investissements à long terme, sa fonction active de deuxième ligne de réserve monétaire justifie qu'on le mentionne ici. Car, tout compte fait, comme le disait hier M. Jacobsson, que vaudrait notre effort commun de financement à long terme si, ensemble, nous ne pouvions assurer une discipline monétaire commune et financer les déséquilibres temporaires?

Je crois donc pouvoir citer notre quota, aujourd'hui de 337,5 millions de dollars, au Fonds Monétaire, rappelant que le quota d'un pays comme le mien, dont la monnaie est pratiquement convertible, est un moyen de paiement international et constitue, en fait, à 100% l'octroi d'une ligne de crédit applicable à vue.

Je rappelle enfin que nous participons à toutes les institutions des Nations Unies, dont l'action est principalement ou accessoirement utile aux pays sous-développés, même si elle n'est pas essentiellement financière. Il se peut que le coût de nos contributions à ces institutions ne soit pas, comme tel, très considérable en termes absolus, mais il s'ajoute aux efforts substantiels que je viens de rappeler.

J'en viens, enfin, au principal des informations que je vous dois : notre action bilatérale. Comme vous le savez, elle est centrée sur le Congo belge et les territoires sous mandat du Ruanda Urundi.

Le développement du Congo belge s'est accéléré d'une façon remarquable depuis la mise à exécution, il y a dix ans, du plan décennal de développement.

Au cours de cette décade, les investissements bruts du Congo ont atteint annuellement, en moyenne, 26 pour cent du produit national brut.

En chiffre absolu, les investissements totaux faits au Congo se sont élevés, pendant cette même période, à 2.5 milliards de dollars. Les investissements privés représentent 60 pour cent de ce total, à savoir 1.5 milliard de dollars, les investissements publics font le reste : 1 milliard de dollars dont 800 millions affectés à l'exécution du plan décennal que je viens de mentionner. Ces investissements ont accru dans une mesure très considérable la capacité productive du territoire: la moyenne annuelle de la croissance du revenu national brut congolais fut de 6.7 pour cent. Des investissements de cet ampleur ont cependant demandé un effort financier ^{très important} ~~considérable~~ auquel la Belgique a contribué dans une très grande mesure.

Le financement des investissements privés fut assuré principalement par les sociétés belges, dans une très large mesure par le réinvestissement au Congo des bénéfices qu'elles y avaient réalisés.

Quant au financement des investissements publics il fut assuré, pour une très large part par des emprunts émis, soit en Belgique soit à l'étranger avec la garantie du gouvernement belge. Au cours des sept dernières années par le marché belge des capitaux a ainsi fourni 250 millions de dollars au Congo. Par ailleurs le Congo a pu emprunter aux Etats-Unis, en Suisse et auprès de la BIRD. La garantie belge qui appuie ces emprunts atteindra dans quelques jours lorsque les négociations en cours avec la Banque Internationale se seront conclues, comme nous l'espérons, favorablement, la somme de 220 millions de dollars.

La Belgique a également financièrement aidé le développement économique et social du territoire sous mandat du Ruanda Urundi. Au cours de ces dix dernières années, sa contribution a atteint le chiffre de 78 millions de dollars. Ces avances sont sans intérêt et sans échéance. Le territoire du Ruanda Urundi a également obtenu un prêt de 5 millions de dollars de la Banque Internationale pour la Reconstruction et le Développement, toujours avec la garantie de la Belgique.

*

* * *

Au moment où, prochainement le Congo va devenir indépendant, la Belgique vient d'accroître son appui financier. Le budget belge pour 1960 prévoit, en plus d'une contribution portée à 15 millions de dollars pour le territoire du Ruanda Urundi, une assistance gratuite au Congo de 50 millions de dollars et un crédit de 20 millions de dollars en vue de la

constitution d'une société belgo-congolaise de développement que nous envisageons de créer prochainement. L'ensemble de ces crédits budgétaires se monte donc pour 1960 à 85 millions de dollars.

De plus, dans le domaine monétaire, un accord de coopération vient d'être signé entre la Banque Nationale de Belgique et la Banque Centrale du Congo Belge au terme duquel cette dernière sera mise en mesure de bénéficier de crédits à court terme de la Banque Nationale de Belgique à concurrence de 40 millions de dollars.

C'est également dans le but de faciliter la période de transition actuelle que les sociétés belges qui opèrent au Congo viennent d'accepter d'effectuer anticipativement certains paiements au Trésor congolais et pour renforcer les réserves de change du Congo, de transférer dans ce pays une partie de leurs fonds de trésorerie. Au total, ces paiements et transferts se montent à environ 50 millions de dollars.

*

* * *

La Belgique a l'intention d'aider dans la mesure du possible et au mieux de ses moyens le nouvel état indépendant à poursuivre sans heurt son progrès économique. Parmi d'autres mesures, mon Gouvernement envisage de prendre à sa charge une partie importante de la rémunération des agents belges qui assurent en ce moment l'administration du Congo et qui seraient maintenus dans leurs activités après l'accès à l'indépendance du nouvel état. Il semble que les agents de l'Etat au Congo ^{qui} resteraient au service du Congo indépendant pourraient

représenter un effectif de 10.000 personnes environ.

L'agenda de nos réunions nous invite à mentionner les institutions dédiées à l'accroissement de notre assistance aux pays en voie de développement. Une conférence économique à laquelle participeront le gouvernement belge et des représentants congolais doit s'ouvrir à Bruxelles le 15 avril prochain. Elle sera chargée notamment de recommander la création d'institutions qui faciliteront et favoriseront la collaboration entre la Belgique et le Congo. La Société Belgo-Congolaise de développement, que j'ai mentionnée, en est une.

La Belgique, comme vous tous, est disposée à maintenir dans la mesure de ses moyens sa participation à l'effort général en faveur des pays sous-développés: aujourd'hui, cependant sa tâche essentielle consiste, par priorité, à veiller dans toute la mesure du possible à ce que l'acquisition de l'indépendance par le Congo ne compromette pas sa croissance économique et à ce que celle-ci se poursuive au rythme soutenu que nous avons réussi à créer au cours des années récentes. Ceci implique un sacrifice financier important, ainsi qu'une solution satisfaisante de divers problèmes structurels et institutionnels qui sont actuellement à l'étude. Le succès de cette entreprise, que nous abordons avec confiance, est indispensable si nous voulons maintenir et développer un climat favorable aux investissements privés qui devront comme dans le passé jouer une part prépondérante dans le développement du Congo. Lorsque je parle des investissements privés, je pense tout autant aux investissements privés étrangers que belges car le Congo doit rester ce qu'il a toujours été: une porte ouverte au capital et au commerce.

A cet égard, une de nos tâches consiste sans aucun doute à promouvoir le maintien d'une politique qui assurera la sécurité des capitaux et de la main d'oeuvre. Il est important également que l'effort public en vue d'un développement rationnel que nous avons commencé et continué avec succès grâce au plan decennal, puisse être maintenu afin que l'aide dont le Congo aura besoin demain bénéficie d'un maximum d'efficacité. A cet égard, les institutions internationales peuvent être d'un grand appoint grâce à leur caractère multilatéral, tant sur le plan financier que sur le plan de l'aide technique qui leur permettra notamment de contribuer au maintien d'un programme rationnel de développement pour le Congo.

Vous comprendrez que je me sois limité, dans ce bref exposé, aux aspects économiques et financiers de l'action belge en Afrique, sans m'étendre sur les aspects politiques de cette action. J'aimerais conclure cependant en soulignant que nos efforts et les sacrifices auxquels nous consentons s'inspirent de notre résolution à collaborer, avec les autres puissances du monde occidental, à la création d'une Afrique prospère, paisible et libre.

Mr. Cope

C O P Y

February 2, 1960

Mr. J. Burke Knapp
Vice President
International Bank for
Reconstruction and Development
Washington, D.C.

*Development Assistance
Group*

Dear Burke:

The Berne Union meeting which was held on January 28 and 29 went off without much excitement. As usual, the Bank representative was treated with particular courtesy and was able to express some of our opinions about the countries in which we are active. As usual also, the various members were glad to hear about our activities in the field of lending, missions, technical assistance, survey missions, etc., in the various areas about which we can really say something. I have already sent to my office a summary of the remarks made about individual countries by a number of export credit insurers or guarantors, and I have asked that these notes be distributed to the area departments.

The main points worthy of note are perhaps the generally good experience with the Eastern block countries, the considerable concern expressed about Brazil and Cuba and finally, the very generally worry expressed about Venezuela. As always, I have the impression that the information at the disposal of most of the Berne Union members was largely made of current gossip among commercial and banking circles. As usual also, the Ex-Imbank on the one hand and more particularly the British EOGD showed considerably greater acumen in their judgment which is obviously based on very much more serious information.

The only point of policy which came up during the discussion concerns the fear of the export credit insurers that longer term credits will be made available by the larger countries in growing amounts and that the 5-year rule will be either by-passed or broken. This was expressed by the Belgian in the form of a comparison between "financial credits" and "suppliers' credits". This concern is probably due to a number of factors. They were not spelled out, but I would list them as follows:

- a) The smaller countries feel that they do not have the means to provide for longer term financing and they are deeply worried about the trend towards longer term credits already evident in Germany and suspected in France and perhaps Italy.
- b) In spite of the fact that the Berne Union rules have been broken from time to time, on the whole trading competition properly said has been held within reasonable bounds. It would be nice to keep it that way.

- c) On the other hand, the export credit insurance agencies know that it is not within their competence to influence their governments one way or the other if these governments want to make more financial credits available abroad.

This concern was expressed in paragraph 3 of the attached Press Release which was the object of considerable discussion. I can reassure you right away in adding that I kept carefully silent while it proceeded. To my surprise the Ex-Imbank also had nothing to say. It is true that they have never felt obligated under the 5-year rule. As you will see from the text, the stand taken by the Union is not very clear nor is it very strong. What it really means I think, if I may be allowed to be ironical, is that the credit insurers would rather renounce a larger share of the new business than manage government credits abroad in a manner which would break the 5-year rule.

As a matter of fact, part of the discussion sounded very much like an attempt to probe into the operations of the Kreditanstalt fur Wiederaufbau. The Hermes professed almost complete ignorance and only indicated that they themselves had not been asked to guarantee the credits granted by KfW. Actually they sounded as if they were sorry about it. As you know the Federal Government can grant guarantees themselves.

There was at one time a hope that a strong resolution would be adopted for submission to the Committee of 8 which is to meet in Washington end of February or beginning of March. Our Canadian friend, who at present is Chairman of the Union, was very keen on getting such a resolution passed and, quite naturally, the Belgian and the other smaller countries were all for it. Watered down as it is the resolution can hardly make much of an impression.

Incidentally, the head of the Belgian Ducroire agency had heard about the Cope Plan, I think through the European Investment Bank. He was very hopeful that something could be worked out on these lines and, again to my surprise, he contended that the resolution adopted by the Union in no way meant that the Cope Plan was set aside. After all, he said, the World Bank proposal would mean that there would be two operations: one financing a fraction of the investment at medium term, and the other financing the balance at long term and the Berne Union rules would be respected.

I thought you ought to hear about this rather confused discussion not because our friends the credit insurers show a very keen sense of international finance (except as always Ex-Im and the British) but because this is one more indication of the strong pressure towards long-term lending in Europe. Gene Black would tell me that as long as it is bilateral and tied the threat to orderly international financing remains extant. He is quite right, but in my opinion more long term money should be considered welcome news in any case.

Don Fowler and I are now busy sorting out candidates. Our Italian friends do not seem to have been very effective in their preliminary screening but after all Rome remains a beautiful city, so why complain?

Ever yours,

/s/ Leonard R. Rist

PRESS RELEASE OF BERNE UNION

A precedent setting General Meeting of the Berne Union was held in Rome on January 28 and 29, with attendance of delegates representing export credits insurers from 16 countries. The Istituto Nazionale Assicurazioni, which recently joined the Union was welcomed on its appearance for the first time as a Member at a General Meeting. An observer from the World Bank was also present. This was the first time in the Berne Union's 26 years of existence that two General Meetings in the same year were deemed to be necessary in view of the growing demands for export credits insurance and the ever changing pattern of international trade. The economic outlook of various importing markets was reviewed and careful consideration was given to the terms of payment for the various categories of goods exported on short and medium term credit.

Export credits insurance for consumer goods sold on a short term basis is mainly used to cover exporters for both commercial and political risks on sales to foreign buyers over credit periods appropriate to the particular goods and circumstances, but generally not over 180 days.

At the Rome Meeting, in considering the more complex question of export credits insurance for medium term transactions covering capital goods, the Berne Union reaffirmed its determination not to relax the five-year maximum post-delivery credit rule. This maximum of five years should in any event apply only to substantial orders for the heaviest classes of equipment.

The Berne Union has been successful in maintaining orderly practices in the realm of suppliers credits through the rational cooperation of its many members. Members of the Union unanimously expressed their opinion that it is contrary to the interests of orderly competitive trading if the insurance or guaranteeing of financial credits results in a distortion or circumvention of the terms agreed by the Union covering suppliers credits.

The President of the Berne Union, Mr. H.T. Aitken, who is President-General Manager of the Canadian Export Credits Insurance Corporation, expressed the view of all members that the successful operation of export credits insurance could be seriously jeopardized if the established limits on insurable credit periods were materially relaxed.

February 2, 1960

My dear Dr. Henckel:

I have just returned to Washington following my tour which ended up last week in Ghana. I should like to send you herewith my warmest thanks for the very kind reception which you gave to me and my associates during our recent visit in Bonn. It was certainly kind of you to take such good care of us and I immensely enjoyed the conversations which we were able to have over our dinner, our lunch and other occasions. I hope that you share my feeling that this exchange of views was very constructive.

I subsequently had very interesting meetings in Frankfurt with the Bundesbank and the Kreditanstalt. I feel confident that as time goes along there will be more and more ample opportunities for close cooperation between the Federal Republic and the Bank. In the meanwhile, we are most grateful to those like yourself who are striving to support the Bank's mission in the underdeveloped world.

As you know, the Committee of Eight which was established at Paris is now planning to meet in Washington in the second week of March. I greatly look forward to making contact with your country's delegation to the Conference and I very much hope that you may take part in this meeting. I always find particular pleasure in our conversations which seem to me to be based upon a solid mutual understanding.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Dr. Hans Henckel
Assistant Secretary
Ministry of Economy
Bonn
Federal Republic of Germany

c.c. Messrs. Donner, Cope
JBKnapp/js

February 2, 1960

Dear Dennis:

Now that I am back home after my swing around Europe and Africa let me send you best thanks for the evening which we spent with you in London before the Paris meetings. I found this an extremely useful opportunity to catch up with things at your end and our conversation gave me some useful lines for application during the subsequent days in Paris.

I understand that you and Robert Hall will probably come over to attend the first meeting of the Committee of Eight and we greatly look forward to seeing you here. We plan to participate fully in the meeting and hope to be able to make some constructive contributions. ✓

Incidentally, my visit to Ghana was useful and we are proceeding to make a full study of the Volta River project. Apparently Mr. Macmillan said something to Nkrumah about raising the subject at the Commonwealth Prime Ministers' meeting in the first week of May. We shall scarcely have our final appraisal completed by that time but perhaps we will have some preliminary conclusions which may be helpful at that time.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Sir D. H. F. Rickett
The Treasury
Great George Street
London, S.W.1
England

cc Mr. Cope

JBK/PP/js

February 2, 1960

Dear Maurice:

I finally got back to my desk in Washington after touring around in Europe followed by a fling to Ghana. I retain very pleasant memories of the evening which I was privileged to have with you, and our talk was very relevant to some of the events which took place during the following days in Paris. We are reasonably happy about the setup of the Committee of Eight and are looking forward to their first meeting in Washington in March, at which time we expect to establish a close connection with their work.

Thanks again for your kind invitation to dinner. Hope we may see you on this side of the water some time soon.

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. Maurice H. Parsons
Bank of England
London, E.C.2
England

JBKnapp js

CROSS REFERENCE SHEET

COMMUNICATION: Letter

DATED: February 2, 1960

TO: Mr. Knapp

FROM: Mr. Leonard B. Rist, (in Paris)

FILED UNDER: Liaison - F.A.O.

SUMMARY: Page 2, para. (c).
Re discussion with Mr. Sen.

Mr. Sen's main preoccupation was the Committee of 8 on aid to under-developed countries which you will see in a few weeks in Washington. He was apprehensive at the thought that a new organization might be created which would try to handle its own technical assistance in practically every field and which would by-pass the United Nations' agencies and supplant them by purely creditor countries' assistance. He had somehow imagined that this Committee had already reached the stage of resolutions, decisions and action. He could hardly believe me when I told him that at the time I left Washington the problem was to find an agenda.

He is right however in this sense that the issue may arise some day, but I can hardly imagine that individual Atlantic countries, or whichever organization will succeed the OEEC will be in a position to substitute for the enormous amount of technical assistance provided by the existing U.N. Specialized agencies.

Messrs. Cope, Rosen, Aldewereld, Rucinski,
Demuth, Broches

February 2, 1960

J. Burke Knapp

"Coordination of Aid to Underdeveloped Countries"

The recent economic conference in Paris resulted
in the establishment of

a) a group of "Four Wise Men" to study the problem
of the future organization for economic work in the Western world,
and

b) a special Committee of Eight to study the problem
of coordination of aid to underdeveloped countries.

Attached ^{✓ Jan. 25/60} is a copy of a letter which Mr. Black has
received from Mr. Burgess, Head of the U.S. Mission to NATO and
the OEEC and Chairman of the "Four Wise Men", asking the Bank's
views on matters of concern to them.

Also attached is a copy of the Resolution on
Development Assistance, adopted at the Paris conference, together
with a copy of Mr. Dillon's statement outlining the U.S.'s
conception of the functions of the Committee of Eight. The Committee
plans to have its first meeting in Washington on March 8-10 and it
is expected that the Bank will be asked to present its views regarding
the need for coordination of aid to underdeveloped countries and
any suggestions which it may have to accomplish this purpose.

Will you kindly attend a meeting in my office on
Friday, February 5, at 2:30 p.m. to initiate discussion of these
matters.

Attachments

JBKnapp/js

Following is the text of the Resolution on Development Assistance adopted by the meeting of the representatives of 20 governments in Paris on January 14, 1960:

"The Special Economic Committee having been informed of the desire of the Governments of Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, and the United States, and the Commission of the European Economic Community, who, in addition to their contribution to international organizations, are making available or may be in a position to make available a significant flow of long term funds to underdeveloped areas, to discuss among themselves the question of techniques to facilitate such flow of funds, taking into consideration other means of assistance to developing countries;

NOTES:

"That these eight governments and the Commission of the European Economic Community intend to meet together to discuss various aspects of cooperation in their efforts, and to invite other additional capital exporting countries to participate in their work or to meet with them as may from time to time appear desirable, and to consult with such multilateral organizations as the International Bank for Reconstruction and Development and the European Investment Bank."

The following is an excerpt from a statement made by Mr. Dillon to the Special Economic Committee on January 12, 1960:

"Now as to the problem of development assistance and its better coordination. If the study of the successor organization to the OEEC results in general agreement that such an organization should be established, we assume that it may be as long as 18 months before the new organization could come into being. We therefore propose that in the meantime a limited group be constituted consisting of those countries in a position to make an effective long-term bilateral contribution to the flow of funds to the less developed countries. We believe that this group on development assistance should operate in an informal manner, and that it should consult whenever desirable with the World Bank, the OEEC and other appropriate national or international institutions. A major task of the development assistance group would be to discuss the most effective methods of mobilizing national resources for development assistance as well as of providing such assistance to recipient countries in the most useful manner. There is not only a real need for an increased flow of long-term private and public funds from the industrial countries whose reserves have increased in recent years but also a real need to provide investments, loans and assistance to the less developed countries in ways which will make the maximum constructive contribution to their economies. The United States would be prepared to make available to this group information on its own lending, assistance and investment

guarantee operations with the thought that our experience might be useful to others in considering their own programs.

"We do not envisage that the development assistance group should attempt to engage in a "burden-sharing" exercise or seek to reach decisions on amounts of assistance to be provided to specific countries or areas. If, during its deliberations it appears that two or more countries desire to cooperate in assistance to particular countries, then it would be desirable to consult promptly with the recipient country, or perhaps enlist the good offices of the World Bank. This, as you know, has been the procedure followed successfully by a number of capital exporting nations and the World Bank in coordinating assistance to India.

"We believe that the development assistance group would not require any special international staff. It could, however, make effective use of certain studies which might be carried out by the staff of the OEEC. Useful studies which the OEEC might appropriately undertake at this time would be:

"A) The development of up-to-date statistics on the actual amount of financing which various countries have undertaken in their transactions with the less developed countries, as well as the various types of financing, the relative maturities, and the countries to which assistance has gone.

"B) A factual survey of existing national organizations in the investment, lending, and assistance field, through which funds are made available to the less developed countries, the policies of these organizations, the funds currently available to them, and the source of the funds.

"C) An analysis of the various types of incentives to foreign investment in the less developed countries which may exist or be under consideration in the industrial countries.

"These studies, as you will have observed, correspond in general with certain of the recommendations of the OEEC staff which are to be considered at the meeting of the OEEC Council on January 14. Certain other recommendations of the OEEC staff in the field of development assistance would in our judgment be premature and we will speak to that point at the January 14 meeting.

"We propose that the development assistance group consist of those of us who, in addition to their contributions in multi-lateral organizations, now make, or might be prepared to make, significant bilateral contributions to development. Such a group might include, for example, Canada, France, Germany, Italy, the United Kingdom, the United States and the Commission of the European Economic Community."

Belgium and Portugal added later.

February 2, 1960

D.P.G.
FEB 1 REC'D

GROUP OF FOUR ON ECONOMIC ORGANIZATION
ESTABLISHED BY THE RESOLUTION OF JANUARY 14, 1960 OF THE TWENTY GOVERNMENTS
AND THE COMMISSION OF THE EUROPEAN ECONOMIC COMMUNITY

GROUPE DES QUATRE

POUR ETUDIER LES PROBLEMES D'ORGANISATION ECONOMIQUE CREE PAR LA RESOLUTION
DU 14 JANVIER 1960 ADOPTEE PAR LES VINGT GOUVERNEMENTS ET LA COMMISSION DE LA
COMMUNAUTE ECONOMIQUE EUROPEENNE

W. RANDOLPH BURGESS, Chairman
BERNARD CLAPPIER
SIR PAUL GORE-BOOTH
XENOPHON ZOLOTAS

HOTEL MAJESTIC
19 AVENUE KLEBER
PARIS 16, FRANCE
TEL: KLE 52-00
BAL 21-18

Secretaries - Secrétaires

ANDRE SELLIER
PETER WILDE

*File
7/7/61*

*No reply
necessary
[Signature]*

January 28, 1960

Dear Mr. Black:

In accordance with the Resolution adopted by the 20 Governments and the Commission of the European Economic Community on January 14, the Group of Four on Economic Organization listed on this letterhead has been formed and today held its first meeting.

This Group proposes to begin consultations immediately with representatives of the 20 Governments and the European Communities and appropriate international organizations bearing on future economic organization. In the next few days we are meeting with the officials of the OEEC and the European Communities and we should like to follow that with consultations with representatives of all 20 countries and appropriate international organizations.

Since this Group is charged with the responsibility of making a report to the representatives of the 20 Governments in time for a meeting on April 19, we plan to have a draft of our report in the hands of these Governments in the early days of April. To achieve this purpose, it will be necessary to devote the month of February to consultations and the month of March to the preparation of the report.

This

Honorable Eugene R. Black,
President,
International Bank for
Reconstruction and Development,
1818 H Street, N.W.,
Washington 25, D.C.

This time schedule could hardly be met if the Group visited 20 countries. We should therefore like to inquire whether you could communicate your views about these questions to us in Paris, either in writing or through representatives, or both, during the course of the month of February. We will try to arrange our schedule of consultations for your greatest convenience and would like to know when, and in what form, you would be prepared to present your views on these important questions. An early response would facilitate our work.

As a general guide in this work we are transmitting both the Resolution adopted on January 14 and a tentative list of questions. We shall appreciate the frankest and fullest possible expression of your views on these and other points you think we should consider within the framework of the Resolution.

The Group of Four is undertaking this task with a full appreciation of its importance, not only for the countries concerned but for our wider relationships in the free world.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "W. Randolph Burgess". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

W. Randolph Burgess

Enclosures 2.

SUGGESTED QUESTIONS TO BE CONSIDERED IN CONNECTION WITH THE RESOLUTION

1. In the light of the Paris Resolution of January 14, 1960, what specifically are the major cooperative tasks in the economic field which could best be accomplished through an appropriately reorganized or reconstituted organization?
 - (a) What needs to be accomplished on a continuing basis in the field of general economic and financial policies, with a view to contributing to economic stability and growth?
 - (b) What needs to be accomplished on a continuing basis in the field of assistance to less-developed areas?
 - (c) What needs to be accomplished on a continuing basis in the field of trade and payments policy?
 - (d) What other tasks should be entrusted to the organization?
2. If it is decided to bring about an appropriately reorganized or reconstituted organization to deal with the above tasks:
 - (a) What general responsibilities would it be necessary or appropriate for all parties to assume as a condition of membership?
 - (b) What specific types of activities and functions should be performed by the organization?
3. In view of the aims and functions of such an organization and the general responsibilities of all parties:
 - (a) What should be the structure of the organization (e.g., provisions for council, secretariat, subordinate bodies, voting procedure)?
 - (b) What should be the membership of the organization?
 - (c) What arrangements, if any, should be established in regard to association of countries not members of the organization?
 - (d) What arrangements, if any, should be established in regard to liaison between the organization and established international bodies?
4. In addition to the foregoing applicable to all parties, what specific activities and functions of the OEEC and its subordinate bodies should continue to be the subject of economic cooperation among countries now members of the OEEC?

SPECIAL ECONOMIC COMMITTEE

JANUARY 12 - 13, 1960

CES/2/FINAL
ORIGINAL : ENGLISH

Resolution on the Study of the Reorganization
of the O.E.E.C.

Representatives of the Governments of Belgium, Canada, France, Denmark, the Federal Republic of Germany, Greece, Italy, the Netherlands, Switzerland, Sweden, Portugal, the United Kingdom, and the United States and the Representative of the Commission of the European Economic Community,

- a) fully appreciating the cooperative work accomplished by

the O.E.E.C.;
- b) wishing to ensure the continuity of cooperation in the

fields where no change is called for;
- c) Determined to pursue economic policies which will contribute to stability and growth in the world economy, including trade policies directed to the sound use of economic resources and the maintenance of harmonious international relations;
- d) Conscious of the need to devote increased efforts towards furthering the development of less-developed countries;

.../...

- e) Recognizing the importance of continued cooperation to ensure the achievement of these objectives,
- f) Noting the desirability of arrangements which would enable full participation not only by the present 18 Members of the Organization for European Economic Cooperation but also by the two associate members, the United States and Canada;
- g) Desiring to proceed with an examination of improved organizational arrangements which could best accomplish these purposes;
- h) Recognizing the equal interest of all member and associate member governments of the Organization for European Economic Cooperation in this matter;

PROPOSE

- 1) That a meeting of senior officials of the twenty Governments, members or associate members of the O.E.E.C. and to which the European Communities should also be invited, be convened in Paris on April 19, 1960 to consider the question of appropriate arrangements to achieve the objectives stated above;
- 2) That, in order to facilitate the work of such meeting, a group of four persons consisting of , , and should be appointed to prepare a report which would
 - a) examine the most effective methods for achieving the objectives referred to above and make appropriate recommendations with respect thereto;
 - b) submit a draft of articles of agreement, should their examination of this question indicate the desirability of bringing about an appropriately improved organization for economic cooperation;

.../...

- c) Identify those functions at present performed by the O.E.E.C. which should continue to be the subject of international economic cooperation under the aegis ~~of the proposed~~ ^{improved organization, including revised} organizational arrangements with respect thereto;
- 3) That the group named above should consult with all twenty governments and the European Communities and appropriate international organizations during the preparation of their report without, however, committing any government as to the content of the report which would be submitted by them in their personal capacities and which would be open for discussion and negotiation at the meeting envisaged in Paragraph 1) above.

Liaison D.A. 10



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

TELEPHONE BABYLONE 17-10

CABLE ADDRESS: INTBAFRAD PARIS

PLEASE REPLY TO
PARIS OFFICE: 67, RUE DE LILLE
PARIS (7^e) - FRANCE

January 26, 1960

DAG.
[Handwritten signature]

Mr. S.R. Cope
Director of Operations - Europe,
Africa and Australasia
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Raymond:

I don't know whether Denis talked to you last week about the meeting of the Eight in Washington. In case he did not, he and Robert Hall from the Treasury, and John Chadwick from the FO (No.3 in the Economic Department) will be going. That, I gather, is the kind of level at which governments will be represented.

It is the idea of the US that meetings should rotate; the UK thinks it would be more sensible to stick to Washington for all of them; other countries tend to think that if the result of the committee is going to be that they have to put up money they should at least have meetings in their capitals. So it is anybody's guess what happens. It seems to me that if all the meetings are going to be in Washington or if you can send Mike whenever there is one I need not bother to come for the first. If they are going to rotate and you are not going to send somebody each time then I suppose I ought to come.

Yours ever,

John Duncan Miller
Special Representative in Europe



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Cable Address: INTBFRAD PARIS

TELEPHONE BABYLONE 17 10

PLEASE REPLY TO
PARIS OFFICE: 67, RUE DE LILLE
PARIS (7^e) - FRANCE

January 26, 1960

DAG
M

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Director of Operations - Europe,
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Yours ever,

John Duncan Miller
Special Representative in Europe

1960 JUN 29 AM 9:32

RECEIVED

Date JAN 19 1960

**INCOMING MAIL
ROUTING SLIP**

Mr. Black	1024	Mr. Perry	513
Mr. Broches	1113	Personnel Div.	207
Mr. Cargill	614	Mr. Poore	801
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Mr. Cope	813	Mr. Ramm	A313
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Mr. Hauenstein	101	Mr. Rucinski	600
Mr. Howell	801	Mr. Schmidt	513
Mr. Hiff	1003	Mr. Stevenson	600
Mr. Knapp	1024	Technical Op.	309
Mr. Lejeune	813	Translation	804
Mr. Mendels	1017	Treasurers	700
Mr. Nurick	1121	Mr. Worthington	A316
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Office Services	111	<i>Files</i>	

Remarks:

January 15, 1960

Mr. Eugene R. Black
President
International Bank for
Reconstruction and Development
Washington 25, D.C.

Dear Gene:

This has been a hectic few days in Paris, at least for those who were participating in the inner meetings where the fate of the OEEC has been under discussion. Generally speaking, the Americans have carried the day almost completely, perhaps at the cost of some bruised feelings among some of the smaller countries who could not be fully consulted because of the pace of events. Briefly the outcome has been:

- a) Agreement to set up a special group of "Four Wise Men" (United States, United Kingdom and France, plus Greece to speak for the smaller countries), to formulate definite plans for the future Atlantic Economic Organization;
- b) Agreement in principle to establish, probably within eighteen months, the Atlantic Economic Council in which the United States and Canada would become full members. Within this body a reconciliation would somehow be sought between the Six and the Seven - there was no real progress on this in Paris;
- c) Agreement upon the immediate creation of a "Creditors Committee", to hold its first meeting in Washington within a month or so, to work on the problem of coordinating aid to the undeveloped countries. Attached is the text of the resolution on this subject which was finally adopted unanimously.

I think you will find the resolution more or less self-explanatory and it closely follows the line of thinking in Washington before the meeting. The following points may be of interest:

- 1) Note that Belgium has been made a member, but not the Netherlands; also that Portugal is in simply because of their strong insistence that their own program in Portuguese Africa justified this;
- 2) The way is left open to extend an invitation to countries from outside Europe and it is certainly intended that Japan should join the group at an early date. All parties seem very keen to have the Bank in the picture and specifically the idea of having the first meeting in Washington was to facilitate the establishment of a close relationship with the Bank from the outset.
- 3) According to Upton, the future meetings will probably be rotated around among various national capitals;
- 4) The inclusion of the European Community as a full member is something of a surprise, as is the reference to the European Development Bank. Throughout the meetings, the French (apparently with the active encouragement of the United States) were pushing the interests of the European Community as opposed to those of the broader OEEC. I am planning to have breakfast with von Mangoldt tomorrow to see if he has any special ideas about how the European Development Bank fits into this picture.

In summary, I think things went very well for us here. I did not have occasion to participate in the discussions at the formal meetings, but have been in touch with various delegations. At one point during the OEEC Council meeting, when some of the delegations were urging that the OEEC be charged with preparing a general study of what had been accomplished in the way of aid to the undeveloped countries, the OEEC Secretariat pressed me to agree to have the Bank join with them in a joint effort of this kind. I said that we knew when we were well off and declined.

With best regards,

Yours sincerely,

J. Burke Knapp

Enclosure

cc: Mr. Iliff ✓
Mr. Lejeune

1962 JUN 13 AM 8:30
COMM. INT. BANK
WASHINGTON

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 this kind. I said that we were very well off and declined.

With best regards,

Yours sincerely,

W. Arthur Hopp

Enclosure

cc: Mr. HITT
 Mr. Johnson

1960 JAN 19 AM 9:30
 RECEIVED
 BANK MAIL ROOM

SPECIAL ECONOMIC COMMITTEE

Resolution on Development Assistance

The Special Economic Committee

Having been informed of the desire of the Governments of Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, and the United States, and the Commission of the European Economic Community, who, in addition to their contribution to international organisations, are making available or may be in a position to make available a significant flow of long term funds to underdeveloped areas, to discuss among themselves the question of techniques to facilitate such flow of funds, taking into consideration other means of assistance to developing countries;

Notes that these eight Governments and the Commission of the European Economic Community intend to meet together to discuss various aspects of cooperation in their efforts, and to invite other additional capital exporting countries to participate in their work or to meet with them as may from time to time appear desirable, and to consult with such multilateral organisations as the International Bank for Reconstruction and Development and the European Investment Bank.



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

TELEPHONE: MONARCH 3452, 3453

CABLE ADDRESS: INTBAFRAD LONDON

PLEASE REPLY TO
LONDON OFFICE: 27/32 OLD JEWRY
LONDON, E. C. 2. - ENGLAND

J. Burke Knapp, Esq.
Vice President
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

December 10, 1959

Dear Burke:

Many thanks for your letter of December 1st. Since I wrote to you on November 25th my conversations in London, mostly with Denis Rickett, have pulled some of the loose threads together. I told Gene some of it at various moments but some I have picked up since he left.

Probably René Sergent said that OEEC was not thinking of doing anything because at the time he left Paris they had not considered the matter. The suggestion that they should seems to have been very recent and to have come from London.

What Denis told me is at present largely his own thinking and has not yet become official policy. He sees the future of the OEEC as a "regional fund-raising organization" (his expression) for the Bank and IDA. He wants to ensure that Europe not only does enough but is generally realised to be doing enough to encourage the U.S. and he thinks OEEC could be a useful coordinator both of effort and information. But he is against letting them have any say in the disposition of the funds raised. That, it must be clearly understood, is the Bank's job. The talks with Dillon went well and generally followed these lines though Denis is not quite clear whether the U.S. do not want the OEEC to have a wider role than the U.K. does.

The U.K. is also becoming more and more interested in the problem of coordination and ensuring that loans are, to the greatest extent possible, untied. Denis thinks OEEC might play a useful role here of the same kind they did over the liberalisation of trade. That is, they might coordinate and then police an agreement that, for example, 50% of all loans are untied for the first year, 60% for the second year and so on.

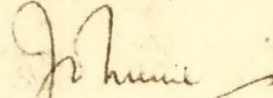
✓ Para. 3 W & D A.
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O.E.E.C. Cen.

Denis therefore thinks that Leonard Rist's mission was one of the most important exercises we have ever undertaken and is awaiting his report with impatience. His present idea is to suggest that the Bank should call a meeting in March or April to discuss the report. (I also suggested to Gene that it could be the subject of the meeting to open the Avenue d'Iéna.)

These problems - particularly the question of tied and untied loans - will probably come up at the OEEC Ministerial Meeting on January 14th, 15th and 16th, which Dillon will attend and to which Gene is going to get an invitation. I think it would be a good idea if he could come, if only, as Denis says, to see that no decisions are taken which would be embarrassing to the Bank.

You will be getting all this through official U.K. channels over the next few weeks but this is an unofficial preview.

Yours ever,



John Duncan Miller
Special Representative in Europe

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: December 1, 1959

FROM: A. M. Kamarck *awp*

SUBJECT: Some Developments in the Coordination of Aid to Under-developed Countries

The purpose of this note is merely to call to your attention a matter which may come up in discussions with Mr. Black in Europe:

(a) The recent NATO Conference of Parliamentarians adopted a resolution calling for a commission of outstanding independent economists from both developed and under-developed countries to be convened by OEEC to formulate an aid program for the under-developed countries.

(b) The representatives of the Seven in initialling the convention for a European Free Trade Association on November 20 adopted a resolution which they have officially communicated to OEEC announcing their readiness to initiate negotiations with the Common Market countries to avoid a new division in Europe and to achieve common action on "... the problem of aiding the less developed countries in Europe and in other continents, which is one of the foremost tasks of the more advanced countries".

(c) The recent meeting of the Finance Ministers of the Common Market countries discussed the problem of development aid. They agreed no new organizations were necessary. However, they were in favor of adjusting their development policies to each other in the international organizations and in bilateral aid programs.

~~Letter~~ Drag
Initial

ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE

ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION

Economics Directorate

Tél. TRO. 32-20 - Télég. Europeconomie
TRO. 46-10

2, RUE ANDRÉ-PASCAL
PARIS XVI^e

N/Référence :

17th October 1957

Dear Mr. Rist,

In reply to your letter of 24th September, I enclose some additional information about our projections of GNP for individual countries.

I must make it quite clear that these projections were the end product of lengthy negotiation between the Secretariat and the national delegations. They do not, therefore, necessarily represent either our best guess, nor the national experts' best guess as to the probable rate of productivity growth. Furthermore, as we were only interested in the global end product, we only made specific assumptions for the four main countries and Greece, Portugal and Turkey. (The reasoning behind these assumptions is set out in general terms in paragraphs 28-31). For the other countries, as explained in paragraph 27, we applied a 2.5 p.a. compound rate of productivity growth to our labour supply projections. Clearly if these latter country figures were to be used in any other context allowance should be made for probable differences in growth rates within the group.

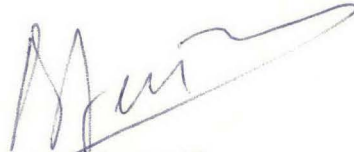
I must also, I am afraid, ask you to treat these figures as entirely confidential - both in the sense that they cannot be quoted and also that I would rather that it were not known that we had given them to you. We had considerable difficulty in getting the delegations to swallow the idea of a study of this kind at all, and one of the conditions they insisted on throughout was that no projections should be made - or rather published - for individual countries.

We did not make any systematic projections for industrial or agricultural production for individual countries. In the case of the former the global estimate is based on the simple assumption that the GNP/industrial production ratio

remains constant. We did, however, cross-check this with our assumptions about the projected changes in the composition of GNP and the growth of demand in certain sectors such as steel and energy. We also made some rough calculations for individual countries in connection with the 1960 import bill, but this was not done very systematically. On agricultural production we did nothing - you may have noticed that we do not even give a global estimate of 1960 "production", only of "the demand for European farm output". The object, of course, was to emphasise that this was a political as opposed to a technical question, and that, with the possible exception of Germany, every country could probably meet the increased demand for most products from home production.

I hope this will be of use to you. We are looking forward to hearing something about the results of your research which is naturally of great interest to us.

Yours sincerely,



(R. Bertrand)

Head of Economics Division

(on behalf of Mr. Milton Gilbert)

Mr. Leonard B. Rist,
Director, Economics Staff,
International Bank for Reconstruction and Development,
1818 H Street, N.W.,
Washington, 25, D.C.

Enclosure

ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE

ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION

Economics Directorate

Tél. TRO. 32-20 - Télég. Europeconomic
TRO. 46-10

2, RUE ANDRÉ-PASCAL
PARIS XVI^e

N/Référence :

Work Sheet of 6th February 1957

Gross National Product 1960 in 1955 Prices

	Billion Dollars	Per Cent Increase from 1955
United Kingdom	60.86	13.6
France	55.23	15.9
Germany	47.20	21.2
Italy	27.37	26.4
Greece	2.72	26.5
Portugal	2.08	16.7
Turkey	9.79	33.9
Austria	4.41	14.9
Belgium)	10.32	7.6
Luxembourg)-		
Denmark	4.74	14.6
Ireland	1.67	12.1
Netherlands	8.90	16.4
Norway	3.79	12.0
Sweden	9.75	12.2
Switzerland	7.07	15.3
Total ⁽¹⁾	257.25	17.4

(1) Including the Saar and Iceland.

*Incoming with
in Lutz
206*

August 14, 1957

Dear Mr. Bertrand,

Thank you very much for your letter dated August 10th, 1957, which you have addressed to Mr. Rist who is absent at the present moment.

The information you provided us with is most helpful and will enable us to carry our own projections one step further. Inevitably there will be a number of other questions with respect to which we might have to seek your assistance again. We shall be glad to write to you as soon as the preparatory work has been completed.

In the meantime, I wish to express my appreciation for your willingness to cooperate.

Sincerely yours,

Gerald M. Alter,
Assistant to the Director,
Economic Staff.

Mr. R. Bertrand,
Head of Economics Division,
O.E.E.C.,
Palais de la Muette,
Paris, France.

FL: FS

ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE

ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION

Tél. TRO. 32-20 - Télég. Europeconomie
TRO. 46-10

2, RUE ANDRÉ-PASCAL
PARIS XVII^e

N/Référence : DEC/57. 105

Paris, 10th August 1957

Mr. Leonard B. Rist
Director, Economic Staff
I.B.R.D.
1818 H Street, N.W.
Washington 25, D.C.

Dear Mr. Rist,

Mr. Gilbert asked me to reply to your letters of July 29th and 31st as he is just off to a conference in Stockholm.

I am afraid the following is rather a brief reply to your questions, and contains only a very short bibliography. The truth is that there has been very little systematic work done on the future of European agriculture or the European economy as a whole. Thus, although we have, of course, used national publications, they have mainly been useful to fill in bits and pieces here and there, and most of the material is only in rough form in our working papers and files.

Agricultural Products

I enclose a copy of a Working Paper /FTB/W(57)4/ prepared for the Council describing in more detail the projections underlying Chapter VIII of "Europe in 1960". You will realise that this is a somewhat political document and that in some places the text should not be taken too seriously.

Demand

Table 1, and Addendum Table 2, give estimates of 1960 consumption of food products by country and product. Rather more detail concerning individual products for O.E.E.C. as a whole is given in Table 9. It must be stressed that the

methods used in constructing these estimates are not necessarily appropriate if the problem is to estimate the demand for a particular product either in Europe as a whole or in a particular country. In particular, although we have taken into account the effect of differences in income levels, we have not allowed for differences in national tastes and prices, or for price developments. These factors could well be important in, for example, the case of coffee. A more refined result might be obtained by applying income elasticities derived from national sources to the income and population projections underlying the 8th Report. Such elasticities could be obtained from the sources mentioned in the Report on page 144 and from the country studies of demand trends listed in "Long Range Projections of Food Consumption", F.A.O. Monthly Bulletin of Economics and Statistics, June 1957.

It should be possible to extend the demand projections beyond 1960 - along the same lines as "the five year projections - and with the same qualifications - without very great difficulty. Population projections up to 1970 are contained in "Demographic Trends in Western Europe 1951-71" O.E.E.C., 1956 (the 8th Report is based on revised figures). We have done no work as yet on trends in G.N.P. and consumption after 1960 - although, of course, we have some ideas - but it should be possible to make a rough guess at the trend. What might be more difficult would be to allow for the "processing factor" discussed in paras. 219-221 of the Report which could be rather important in the longer-run. There is little literature on this subject on this side of the Atlantic at present and it is very hard to tell how it works for different products and different income levels. We have made some rough estimates based on differences between trends in consumers' expenditure and available data on the physical volume of consumption, but they are very tentative.

Some data on the relative prices of foodstuffs can be found in "An International Comparison of National Products and the Purchasing Power of Currencies", O.E.E.C., 1954. A new edition of this work will be appearing in the autumn extending the coverage to include Norway, Denmark, Belgium and the Netherlands. It will also contain some estimates of income and price elasticities derived from a multiple correlation analysis of inter-country differences in consumption patterns.

While we are not at present planning to do further work on the demand for food, there seems to be increasing interest in this subject in Europe at the moment. Earlier this year, the F.A.O./E.C.E. Agriculture Division in Geneva organised an informal meeting of experts on the study of demand for milk and milk products. The discussion was mainly concerned with methods and concepts, but it was agreed that

there should be a continuing exchange of views and results. Unfortunately, although we pressed for an extension of the work to include a wider range of products, it was decided to concentrate on dairy products, with the possible addition of meat.

Production and Imports

Details of our assumptions about the development of production and imports on a product basis are given in Tables 8 and 9 of FTB/W(57)4. We did not attempt to make a country by country assessment although, as you can see from paras. 4 and 5 of the Annex, we did make allowance for the most obvious characteristics of the existing pattern of production and trade.

It is clear that these estimates are subject to very large errors. In the first place, imports of "competing" products only account for a small proportion of total supplies and are in many cases only important for one or two countries. Thus a small error in estimated demand, or a lack of reality in either the technical or political assumptions about production could upset the whole picture. Naturally, this is less true for "partly competing" or "non-competing" products. Secondly, there seems to be at present considerable uncertainty about the technical possibilities of increasing production in Europe. As you know, agricultural output in the area as a whole has been more or less stable for the last four years, and we found that there was considerable disagreement among the experts as to how much this was due to the weather, to shortage of manpower, to changes in agricultural policy, etc.. Our agricultural people seem to think that a rate of increase of output of 3 to 4 per cent per year should be regarded as "normal", but we are pretty doubtful about this.

There is also the question of what is the cost of the additional output, Here we are very much in the dark. The one relatively comprehensive study of costs is "The Output and Expenses of Agriculture in some European Countries". ECE/FAO Agriculture Division, Geneva 1955, but since this only covers four rather exceptional years it is of limited value for the analysis of cost-output relations.

It is, of course, the political reality of the assumptions which is most open to question. Some idea of the existing attitudes in this matter at the present time can be derived from "Agricultural Policies in Europe and North America", O.E.E.C., 1956. When reading this, however, it must be kept in mind that at their examinations most countries tried to appear as liberal as possible and that the final text bears strong marks of Secretariat drafting. Largely because this report met with considerable disfavour in farming circles in many countries, this year's report on price and income support

policies - which will be appearing in a month or two - is markedly less liberal. This second report contains a good deal of new information on the actual mechanism of subsidies, price support, etc..

I do not think that other "existing records of discussions among European countries which are of interest in this connection" add much to the picture. It seems clear that output will largely be determined by policies, which are extremely hard to predict especially in view of the Common Market, etc..

In view of these uncertainties, it would hardly seem profitable to extend projections of production and imports beyond 1960 for those products which are produced in substantial quantities in Europe.

Import Projections for other Raw Materials

When preparing the 8th Report, we made separate studies of supply and demand prospects for the main non-ferrous metals, rubber, timber and pulp. I will ask the man responsible to write to you about these studies when he returns from leave.

has not written

I hope you will find this rather scanty information useful. We have got some further material and ideas, but not in any coherent state. If you feel we could be of further assistance it might be a good idea to send a man over here in the autumn as you suggest. We should, of course, be only too willing to cooperate in every way possible.

Yours sincerely,



R. Bertrand
Head of Economics Division

ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE

ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION

Directorate of Economics
and Statistics

2, rue André Pascal,
Paris (16e).

National Accounts Division

7th May, 1957.

Dear Mr. Rist,

Thank you for your letter of 24th April 1957. I now enclose the revised investment data as taken from the country submissions for the O.E.E.C. 1956 Annual Review.

(11) I should mention that the information in these tables is still in the restricted category and for this reason I am not in a position to authorise its publication. I would again request that you limit the circulation of these tables to the persons actively concerned within the Bank.

The reservations on the content and inter-country comparability of these figures, which we outlined in our letter of 18th June 1956, still apply. Many of the departures from the standard definitions, which the countries are requested to apply in compiling these tables, are noted on the tables but considerable disparities may still remain. However, as we stated in our previous letter, the figures are probably fairly reliable for inter-temporal comparisons within any one country.

You will notice that the enclosed tables for France give only the limited breakdown by type of asset. This information is adjusted to conform to O.E.E.C. definitions but, as you are no doubt aware, much more extensive investment information is available on an unadjusted basis in the French "Les Comptes de la Nation".

I trust that this information will meet your requirements and if you have any questions about these tables we will do what we can to answer them. My apologies again for the delay in transmitting this material to you.

Yours sincerely,

MAY 15 0 50 PM 1957
G. Stuvell
G. Stuvell
Head of the
National Accounts
Division

Mr. Leonard B. Rist,
Director, Economic Staff,
International Bank for Reconstruction
and Development,

1818, H Street N.W.,
WASHINGTON 25, D.C.

ORGANISATION ÉCONOMIQUE
DE COOPÉRATION EUROPÉENNE

ORGANISATION EUROPEENNE
DE COOPERATION ECONOMIQUE

M. le Directeur
des Statistiques
et de l'Economie
Paris (16e).

Directorate of Economic
and Statistics

National Accounts Division

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Yours sincerely,

Stavel
G. Stavel
Head of the
National Accounts
Division
MAY 13 9 20 AM 1957

Mr. Leonard B. Rist,
Director, Economic Staff,
International Bank for Reconstruction
and Development,
1818 H Street N.W.,
WASHINGTON 25, D.C.

OFFICE MEMORANDUM

TO: Messrs. Rist and Alter

DATE: March 21, 1957.

FROM: Franz Ldtolf

SUBJECT: OECE Report on European Economic Growth

This is a supplement to my memorandum of February 5, 1957. The purpose is to give more detailed information on the conceptional and statistical background of the OECE growth projections.

1. Labor supply, productivity and output

Total population of all OECE countries is expected to increase at a slightly smaller rate between 1956-1960 (3.6 per cent) than between 1951-1955, (4.4 per cent). There will also be certain shifts in the migration from one member country to another; for Europe as a whole the net gain for the labor force from migration will probably be somewhat smaller than in the past five years when it amounted to 300,000.

Population of working age (15-64 years) rose by 3.4 per cent from 1951 to 1955; in future the increase will be 2.8 per cent. The labor force is expected to increase by only 4 million, or 3.4 per cent, as compared with 7 million, or 5.8 per cent in 1951-1955, the reasons being that participation of women in the labor force is believed to shrink, school attendance to rise.

Actual employment of the working population will continue to increase in 1956-1960 (anticipated for Austria, Belgium, Denmark and Germany), the net gain in employment being probably 5 million (4.1 per cent).

Shorter hours and longer holidays, planned in a number of countries, will make for a reduction of average annual working hours in the next five years.

As a result of all these factors the anticipated increase in the total number of hours worked from 1956 to 1960 will only be 2.8 per cent, whereas in the preceding five-year-period it was 8.2 per cent.

Finally, the question of productivity has to be considered. The report makes a forecast after an examination of the productivity rate in the more prominent member countries during the period 1950-1955. The result, together with the projected movement in G.N.P. is reproduced in table 1.

Table 1: Percentage increases in G.N.P. and its determinants

	<u>Number of hours worked</u>	<u>Productivity</u>	<u>G.N.P.</u>
1950 - 1955	8.2	16.9	26.5
1955 - 1960	2.8	14.2	17.4

In prices of 1955, G.N.P. amounted to \$173.13 million in 1950, \$219.09 million in 1955; in 1960 it will have reached \$257.21 million. The annual compound growth rate for OEEC countries as a whole is expected to be 2.7 per cent as compared with 3.2 per cent during the past five years. The rate of 2.7 per cent is somewhat higher than that experienced in the United States from 1950 to 1955.

2. Government demand for goods and services

The OEEC findings are summarized in table 2:

Table 2: Actual and projected government expenditures
(billion \$ in 1955 prices)

	<u>1955</u>	<u>1960</u>	<u>Percentage increase</u>
<u>Current expenditure</u>			
Total civil	19.9	22.7	14
of which: Education	4.5	5.4	20
Other civil	15.4	17.3	10
Defense	11.4	12.5	12
<u>Capital expenditure</u>			
Roads	0.8	1.6	100
School Building	1.0	2.0	100
Public Administration	2.0	2.2	10
Total:	35.1	41.0	17

The estimates of future expenditures for education are based on the expected increase in the number of children who have to go to school and young people for whom more and better education is a necessity. The basis for the projections of defense expenditures is admittedly weak. It is assumed, that all countries will spend the same percentage of G.N.P. for defense purposes in 1960 as in 1955, except Germany and Austria where a rise is foreseen. As to the projection of capital expenditure, it appears that the OEEC staff has heavily drawn from development programs that have been prepared by member countries. In addition, a fair amount of guess-work is included.

3. Growth of investment

Table 3 summarizes the OEEC projections in the field of investment.

Table 3: Domestic investment in OEEC countries
(billion \$ in 1955 prices)

	<u>1955</u>	<u>1960</u>	<u>Total investment</u> <u>1956-1960</u>	<u>Annual average rates</u> <u>1956-1960 *</u>
Energy	4.5	5.9	26.75	5.35
Transport	5.2	6.7	30.55	6.11
Manufacturing (incl. iron ore mining and construction)	9.4	11.3	51.5	10.3
Agriculture	3.2	3.5	16.9	3.38
Services	4.6	5.6	27.2	5.44
Housing	9.9	11.6	54.6	10.92
Public Administration, roads and schools	3.8	5.8	25.00	5.00
Increase in inventories	<u>3.3</u>	<u>2.2</u>	<u>-</u>	<u>-</u>
Total:	<u>43.9</u>	<u>52.6</u>	<u>232.5</u>	<u>46.5</u>

* The figures of column 4 do not indicate the amount of investment in any particular year, they are derived by assuming a straight line growth.

Due to a number of well-known factors, the expected increase of output provides only a partial guide to the future investment demands. The OEEC staff therefore has also estimated the future growth of investment by taking into account the level and nature of investment in the past years and existing plans and expectations for the future.

A great deal of thought has been given to the energy sector. The OEEC report devotes much space to this question, including the probable requirements in the field of nuclear power.

With respect to investment in manufacturing, it is particularly difficult to make a quantitative forecast. After having examined a number of considerations the OEEC report has decided in favor of the assumption that the average level of investment in manufacturing industry will be 25 per cent higher than the average achieved over 1951-1955.

Agricultural investment is expected to increase as indicated in table 3 under the assumption that no change in governmental support policies occurs.

In assessing the future demand for houses the OEEC report has taken into account: the relation between demand and production in the past years, the future requirement on the basis of the expected population growth, the likelihood of continued government rent controls. Due attention has been paid to the fact that the actual situation and the probable future development vary greatly from country to country.

4. Growth of private consumption

The overall future consumption figures for the member countries combined have been anticipated on the basis of the past distribution (in per cent) of G.N.P. as to investment, consumption, government demand. After having considered the forces at work which make for a change of these percentages in the next five years, it has been estimated that consumption will rise by about 18 per cent.

This is, however, an average and therefore an almost meaningless growth rate. There exist great differences between the member countries which had to be accounted for. The OEEC report distinguishes four groups of countries, each group comprising the countries which in 1955 had approximately the same per capita consumption rate.

Table 4: Per capita consumption and population changes
between 1955 and 1960 (in per cent)

	<u>Increase in per capita consumption</u>	<u>Increase in population</u>	<u>Increase in total con- sumption</u>
I Belgium, Luxemburg, Denmark, Norway, Sweden, Switzerland, U.K.	11.6	1.8	13.5
II Austria, France, Germany, Netherlands	16.9	2.9	20.2
III Ireland, Italy	18.8	1.5	20.6
IV Greece, Portugal, Turkey	13.4	10.8	25.7

Furthermore, on the basis of the projected increase from 1955 to 1960 in total private consumption expenditures and the distribution of consumers' expenditure on individual products in 1955, the consumption expenditures in 1960 on individual product groups have been projected. This has been done by means of consumption-elasticities, i.e. the percentage by which the expenditure per capita on a product group should increase if total expenditure per capita rises by one per cent.

5. Growth in demand for imports

The methods adopted in this chapter vary. Food and raw material imports, for instance, have been estimated in conjunction with the projected changes in demand and supply for the products concerned. Other items, such as several invisible transactions, military payments and various capital movements have been independently estimated on the basis of past trends and likely developments. The estimates are strictly based on the growth projections of the European economies; no external factors have been taken into consideration.

Table 5: Member countries' imports 1955 and 1960

		<u>Imports 1955</u> (in billions of 1955 dollars)	<u>Imports 1960</u> (in billions of 1955 dollars)	<u>Increase in per cent</u>
I	Food, beverages and tobacco	6.55	7.32	11.4
II	Crude materials (inedible) except fuels	6.58	7.67	16.5
III	Mineral fuels, lubricants and related materials	3.27	4.51	38.0
IV	Base metals, paper and paper board	1.68	2.04	21.5
V	Manufactures	2.3	3.2	40.0

The increase anticipated in group I results from expected higher imports of tea, coffee, sugar; imports of meat and dairy products are likely to remain stable, while bread grain imports will rise only moderately. Within group II, imports of pulp and fertilizers are expected to show moderate increases. Rubber imports may gradually decline as production of synthetic rubber is coming into operation. Imports of textile fibres taken together are not likely to increase very much; imports of wool will probably rise by a small amount. Group III shows a large increase, mainly on account of expected higher coal imports. Diverging movements are expected within group IV with imports of finished iron and steel decreasing, imports of various non-ferrous metals increasing. With respect to group V, it is assumed that the increase in manufactured imports relative to the GNP will be as high in the next five years as over the past few years. This is because it is assumed that, continuing recent trends, a higher degree of liberalization will be achieved by 1960.

The net income on invisible transactions is expected to remain practically constant. Compared to 3,050 billion \$ in 1955 the figure for 1960 may be 3,100 billion \$.

Mr. Root
file

OFFICE MEMORANDUM

TO: Mr. Gerald Alter
DATE: October 30, 1956.

FROM: Badri Rao *B.R.* through Mr. deBeaufort *C.M.*

SUBJECT: OEEC Memoranda on contributions by member countries to economic development in the less developed areas.

I have gone through the five memoranda on the above subject keeping in mind your inquiry regarding what new information has become available as a result of OEEC's investigations.

Frankly, we are not much wiser as a result of this study although it certainly serves a very useful purpose in pulling together existing data from various sources and making them readily accessible.

The note by the Secretariat of the Committee (EC (56) 29) is a neat summary of their findings and has a short note on what constitutes developmental assistance. They readily admit that "it is impossible to give total figures which are more than orders of magnitude" because of "gaps and deficiencies" in existing information and have quite often resorted to "guesses".

Where the study is really strong is precisely where considerable work has already been done by other institutions e.g. (1) on public long term loans IBRD studies are far more detailed and comprehensive, (2) on technical assistance, the data have already been collated by us from various UN publications.

As a source for our work on private capital movements, this study is no good. In the case of the UK, only estimates are given and where Switzerland is concerned, the figures relate only to portfolio investment. The French data are admittedly incomplete. No data are given for the Netherlands.

The appendix on UK technical assistance is good and the information on the U.S., IBRD, and UN programs is also good but not new.

To conclude, interesting as the OEEC study is, it does not significantly add to our knowledge on economic assistance to underdeveloped countries.

I have asked Badri to see whether info. for 1955 is based on published data - would it be possible for us to get out a regular survey of this type 9 months after the calendar year covered.

OFFICE MEMORANDUM

TO: Mr. Rist *?*

DATE: June 28, 1956

FROM: Gerald Alter *ga*

SUBJECT: OEEC Draft Questionnaire on Contributions to Economic Development in Less Developed Areas of the World.

We recently received from the OEEC a copy of a draft questionnaire, submitted by the Secretariat to the Economic Committee, which is designed to secure "information on what Member and Associated countries have done and are doing, and on their existing plans, as a contribution to the object of constructive economic development in the less developed areas of the world". This paper, dated May 30, 1956, EC(56)14, calls for data not only on government grants and long-term loans and investments, but also for data on private long-term investment (maturity exceeding five years), and miscellaneous transactions such as release of sterling balances, etc. Under government loans are included those the repayment of which extends over more than five years, and short-term credits, even those of a revolving type, are excluded. Information is requested as a minimum on a yearly basis from 1952 or fiscal 1951-52 onward until 1955. Data from 1947 to 1951 are optional, but are requested particularly for the U.S., U.K., and France. The questionnaire also calls for information on technical assistance.

The questionnaire, it should be noted, calls for information on contributions made to the overseas territories of the Member countries as well as to independent countries. Only bi-lateral contributions are to be included, since published information is available to the Secretariat for contributions made through international organizations.

It appears that the questionnaire calls for a breakdown of contributions by area, but does not call for figures on individual countries. Only gross figures will be shown. All capital outflows from underdeveloped countries are to be ignored.

This OEEC project clearly has important implications for our own work on public long-term international capital movements. In view of the fact that we have published the results of our surveys, I am rather surprised that the OEEC did not consult us in drafting their questionnaire. I think it would be advisable for us to establish contact with the OEEC on this. Perhaps Mr. Miller could be informed of our interest. I do not know whether the Economic Committee of OEEC has yet approved the questionnaire, or whether the questionnaire has already been despatched to Member and Associated countries.

Mr. de Beaufort has the draft questionnaire, and I have suggested to him that he draft a letter to Mr. Miller.

GMAAlter:at

cc: Messrs. de Beaufort
Kamarck

*peruz
Suppose le titre o/kouurs*

**ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE**

**ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION**

Tél. TRO. 32-20 - Télég. Europeconomie

2, Rue André-Pascal - Paris XVI^e

**Le Directeur des Statistiques
et des Comptes Nationaux**
**Director of Statistics
and National Accounts**

18th June, 1956.

Dear Mr. Rist,

In response to your letter of May 29th, I am sending you on a personal basis, a set of tables which will provide the greater part of the information on investment you requested.

These tables are from the country responses to our 1955 Annual Review questionnaire. As you will see, they bear a restricted classification. Because of this, I am not in a position to authorise their publication. Indeed, I would like to request that you limit their circulation to a relatively narrow circle within the Bank.

Within the next two months, we shall be receiving comparable tables for the 1956 Annual Review, and, if you are interested in having them, we can probably arrange to send them to you at that time. They will, of course, give revised estimates for 1955 and incorporate any changes in the basic series for the earlier years since the last Annual Review submissions.

I should mention that, although the countries are all requested to follow standard definitions in filling out these tables, a number of them have not been able to do so for some - or even all - the items. Unfortunately, not all of these departures from such definitions are noted on the tables, and we are not certain ourselves of the precise extent to which they do and do not conform. For analysing developments by sector over time within each of the countries, however, the estimates are probably quite reliable on the whole.

I should indicate one important point about the classification of these tables: Public administration (item 7) is defined in a restrictive manner and excludes road building, harbour facilities, etc.. (which are included in item 5), it also excludes health and education (which are included in item 8). It is not certain, however, whether all the countries have followed this classification.

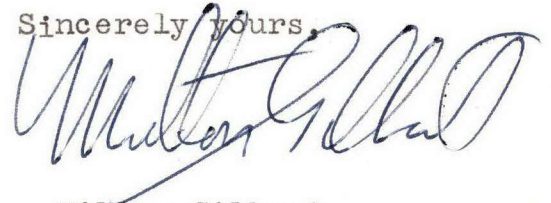
You will note that the tables give information on housing, other construction, and machinery equipment as well as the breakdown by industrial sector. Therefore, we are not sending separate tables showing this breakdown, except for France, which gives information only for 1952 for the more extensive breakdown.

Please write to us if you have any questions about these tables, and we shall do what we can to answer them.

I was sorry to have missed you while you were in Paris, but am very glad you were able to see Erichsen and Maddison.

With best wishes,

Sincerely yours,

A handwritten signature in black ink, appearing to read "Milton Gilbert", written in a cursive style.

Milton Gilbert
Director of Economics
and Statistics.

Mr. Leonard B. Rist
Director, Economic Staff,
International Bank for Reconstruction
and Development,
1818 H Street, N.W.
Washington 25, D.C.

**ORGANISATION EUROPÉENNE
DE COOPÉRATION ÉCONOMIQUE**

**ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION**

Tél. TRO. 32-20 - Télég. Europeconomic

2, Rue André-Pascal - Paris XVI^e

**Le Directeur des Statistiques
et des Comptes Nationaux**

**Director of Statistics
and National Accounts**

17th April, 1956

Dear Mr. Rist,

This is an interim reply to your letter of March 22nd. I must apologize for the delay in giving you a response, but the past few weeks has been a very busy period for us.

While we simply have not had the time to work on your request, as such, I might mention that one of the projects that has kept us tied up recently has involved the assembling of certain figures on investment, which may be of interest to you. By the beginning of next week, this phase of our work will have reached a point at which we can send you these estimates, if you feel they will be of use. The figures I have in mind cover a breakdown of fixed capital formation into (a) residential construction, (b) other construction, and (c) machinery and equipment. These will be available for a number of countries for the period 1949-1954 (and in some cases 1955), in current and constant (1954) prices. They will be adjusted for international comparability in so far as we are able to do so.

I gather from your letter that you would also be interested in having investment figures on an industry of destination basis. While a number of countries do, of course, publish this type of breakdown in their national accounts publications, I am not sure to what extent we shall be able to make such figures available to you on an internationally comparable basis. One difficulty is that such comparable data as we have available for these further details have been provided by the Member countries under a "restricted" classification. We shall, however, be looking into this matter next week to see what, if anything, we might be able to provide along these lines. In the meantime, it would be helpful to us if you could indicate

Mr. Leonard B. Rist,
International Bank for
Reconstruction and Development,
1818 H Street, N.W.,
WASHINGTON 25, D.C.

.../...

the elements of capital formation in which you are most interested, the time period you would like to have covered, and whether you want both current and constant price information.

Finally, we would also be grateful if you could indicate whether you have in mind using these data for purposes of publication.

Yours sincerely,

A handwritten signature in cursive script that reads "Milton Gilbert". The signature is written in dark ink and is positioned above the typed name.

Milton Gilbert
Director of Economics
and Statistics

AIRMAIL

August 18, 1952.

P.527

Mr. Walter Hill,
Special Representative in Europe,
International Bank for Reconstruction
and Development,
67 Rue de Lille,
Paris, 7e, France.

Dear Walter,

I am sending you in the enclosures the information which you requested in your P.880 of July 25 for the fourth report of OEEC. The information is more or less in the form in which you requested it.

However, after some discussion with the Treasurer's Department, we agreed on the following modifications:

(1) Table 1 includes only dollar disbursements of the Bank loans to countries in the OEEC monetary areas broken down by metropolitan countries, DOT's, and non-participating sterling countries. Not included are deductions for European purchases of Bank bonds and portfolio sales to OEEC countries since all these transactions must be considered switching operations, since they represent either investments of official reserves or genuine private switching operations. Interest and amortization payments to the Bank are included, however. * The figures also include, in accordance with your point (iii), a conversion of Swiss francs into dollars.

(2) Also not included are dollar disbursements in Europe by the Bank's borrowers outside the OEEC monetary areas. In our opinion, the dollar receipts accruing to the OEEC countries from this source can be considered a net addition to their dollar supply only if these purchases would not have taken place in the absence of the Bank's loan operations. Since it is difficult to make this categorical assumption, it may be better to leave them out. Besides, these disbursements were rather small. They are shown separately in Table 2.

(3) The estimates for 1952-53 and 1953-54 are based only on the estimated withdrawal schedules for authorized loans. No allowances have been made for loans which are likely to be made in the future. The reason for this cautious approach (and the ensuing understatement) is that we do not want to project any future loan operations, and even less do we want to allocate such loan operations to a specific country. Please note also that the estimates

* Figures indicating net receipts by the Bank are shown in parentheses in the Table.

Mr. Walter Hill....

....August 18, 1952.

for 1952-53 and 1953-54 do not allow for the contractual repayment obligations under existing loans. They are gross in accordance with our interpretation of the OEEC request to you.

Table 3 shows sales of Bank bonds and sales of bonds from our purchasers as of June 30, 1952. Since they are not to be included in Table 1 they are not broken down by periods. Moreover, these figures should be kept confidential since some of the purchasing countries may object to the disclosure of their purchases.

Best wishes,

Sincerely yours,

Leonard B. Rist,
Director, Economic Department

Attachment.

JHADler/med.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. John H. Adler

DATE: August 14, 1952

FROM: Henry W. Riley *HW*

SUBJECT: Letter of July 25 from Walter Hill

Table No. 1 attached reflects the net amount of dollars supplied to OEEC countries, their overseas territories and to non-participating sterling area countries during the semi-annual periods ended June 30, 1951, December 31, 1951 and June 30, 1952. Also included are estimates of the amount of dollars to be disbursed to these countries during the years ending June 30, 1953 and June 30, 1954. These latter figures represent the best estimates available for loans signed as of June 30, 1952.

Table No. 2 attached reflects dollars used for borrowers other than those in Table No. 1 for purchases in the countries shown.

Table No. 3 attached lists certain sales of the Bank's own bonds and sales of the Bank's portfolio bonds. With regard to the latter sales, all were completed in the first half of 1952 with the exception of \$134,000 sold to a Swiss purchaser in the first half of 1951.

Attachments 3

Mr. John H. Adler

August 14, 1952

Henry W. Riley

Letter of July 25 from Walter Hill

Table No. 1 attached reflects the net amount of dollars supplied to OEEC countries, their overseas territories and to non-participating sterling area countries during the semi-annual periods ended June 30, 1951, December 31, 1951 and June 30, 1952. Also included are estimates of the amount of dollars to be disbursed to these countries during the years ending June 30, 1953 and June 30, 1954. These latter figures represent the best estimates available for loans signed as of June 30, 1952.

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Attachments 3

cc: Mr. Cavanaugh
Mr. Rutland (2)

REDeely/hg

DECLASSIFIED

MAY 20 2022

WBG ARCHIVES

NET AMOUNT OF DOLLARS SUPPLIED

Table No. 1

(Expressed in thousands of dollars)

Country	Estimated Withdrawals				
	First Half 1951	Second Half 1951	First Half 1952	1952 - 1951	1951 - 1950
<u>OECD Countries:</u>					
Belgium	\$ 381.6	\$ 202.6	\$ 5,288.7	\$ 16,324.0	\$ 11,474.0
Denmark	(850.0)	(850.0)	(850.0)	—	—
France	(5,311.5)	(5,311.4)	(5,283.3)	—	—
Italy	—	—	—	10,000.0	—
Luxembourg	(216.2)	(213.1)	(215.2)	—	—
Netherlands	(3,475.8)	(3,957.8)	(3,651.6)	6,758.0	1,570.0
Switzerland	—	—	(2,685.2)	—	—
Turkey	(27.7)	179.3	427.1	22,231.5	12,766.0
Sub-Totals	<u>(9,499.6)</u>	<u>(9,950.4)</u>	<u>6,969.5</u> <u>(1,599.1)</u>	<u>\$ 55,313.5</u>	<u>25,810.0</u>
<u>Overseas Territories:</u>					
Belgian Congo	—	—	3,841.2	20,174.5	13,724.5
<u>Non-Participating Sterling Area:</u>					
Australia	8,911.5	27,231.0	26,244.2	29,908.0	5,000.0
Pakistan	—	—	710.7	13,339.0	4,200.0
South Africa	(45.1)	8,735.5	8,959.0	1,814.0	350.0
Iraq	—	—	2,696.3	4,466.0	2,500.0
Sub-Totals	<u>8,866.4</u>	<u>35,966.5</u>	<u>38,610.2</u>	<u>49,527.0</u>	<u>12,050.0</u>
TOTALS	<u>\$(633.2)</u>	<u>\$ 26,016.1</u>	<u>25,481.9</u> <u>10,892.3</u>	<u>\$ 125,015.0</u>	<u>\$ 51,584.5</u>

Treasurer's Department
August 14, 1952

DECLASSIFIED

MAY 20 2022

WBG ARCHIVES

Table No. 2

DOLLARS USED FOR OTHER BORROWERS
FOR PURCHASES IN INDICATED COUNTRIES

(Expressed in thousands of dollars)

<u>Country</u>	<u>First Half 1951</u>	<u>Second Half 1951</u>	<u>First Half 1952</u>
Belgium	\$ 219.0	\$ 2,053.1	\$ 787.8
Denmark	--	--	11.1
France	3.2	172.0	161.6
Germany	--	--	10.6
Italy	--	48.2	64.2
Netherlands	--	--	21.2
Sweden	1,163.2	106.4	122.7
Switzerland	--	--	156.6
United Kingdom	455.2	1,302.2	608.9
	<u>\$ 1,840.6</u>	<u>\$ 3,681.9</u>	<u>\$ 1,944.7</u>

Treasurer's Department
August 14, 1952

DECLASSIFIED

Table No. 3

MAY 20 2022

WBG ARCHIVES

BOND SALES

June 30, 1952

Estimated Amount of Bank's Own Bonds
In Certain Countries

(In millions of dollars)

Austria	\$ 2.0
United Kingdom	.5
South Africa	.5
Canada	10.3
Switzerland	4.0
Italy	2.0
France	3.2
Dutch West Indies	4.0

Sales of Bank's Portfolio Bonds
In Certain Countries

(In thousands of dollars)

Belgium	\$ 2,500.0
France	250.0
Switzerland	3,860.6

Treasurer's Department
August 14, 1952

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25 D. C.

TEL. BABYLONE 17-10
CABLE ADDRESS - INTBAFRAD PARIS

PLEASE REPLY TO
PARIS OFFICE ADDRESS
67, RUE DE LILLE
PARIS (7^e), FRANCE

P. 880

July 25, 1952

Mr. Leonard B. Rist
Director, Economic Department
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Leonard:

As you know, OEEC is now preparing its Fourth Report which will appear in the fall and which will provide the economic background for the annual NATO "burden sharing" exercise. In collecting statistical material for this report, OEEC wishes to have figures showing, from the point of view of the European balance of payments, the net amount of dollars which European countries and countries in their monetary areas have received from the International Bank.

This information will be fitted into standard tables which will show the sources of dollars for Western Europe in 1951 and in the years ahead. In order that the information about the Bank's operations may be uniform with the other material which OEEC is collecting, we have been asked to show the net amount of dollars supplied in the first half of 1951, in the second half of 1951 and in the first half of 1952 to: (a) Member countries of the OEEC (by country); (b) overseas territories of Member countries; (c) the non-participating sterling area.

Presumably, OEEC wishes us to include among European dollar receipts from the Bank:

- no separate*
- a) Dollar disbursements out of direct loans to countries in the monetary areas included in OEEC;
 - b) Dollars spent in Europe by the Bank's borrowers ~~outside those monetary areas.~~

From these figures they would wish to have deducted:

- i) Payments of interest, amortization and service charges made by countries in European monetary areas in respect of Bank's loans;

Mr. L.B. Rist

ii) European acquisitions of the dollar bonds of the Bank and of dollar obligations out of the Bank's portfolio; in so far as these acquisitions have been in the nature of switching operations, they do not, of course, represent a reduction in Europe's dollar resources;

all switching ✓

(iii)

iii) Conversions into dollars by the Bank of European currencies, such as Swiss francs.

OEEC also asked for our opinion about the reasonable prospects for Europe of receiving dollars from the Bank in the years 1952/53 and 1953/54. Such a prophecy might be somewhat hazardous.

We should be grateful if you could have prepared for us the statistical information which will enable us to satisfy, as far as possible, OEEC's requirements.

Best wishes,

Yours sincerely,

Walter

Walter Hill
Special Representative in Europe

*disbursed
2nd. date
of loans
signed*

*1952/53
1953/54*

Mr. L.B. Rist

(ii) European acquisitions of the dollar bonds of the Bank and of dollar obligations out of the Bank's portfolio; in so far as these acquisitions have been in the nature of switching operations, they do not, of course, represent a reduction in Europe's dollar resources;

(iii) Conversions into dollars by the Bank of European currencies, such as Swiss francs.

OEEC also asked for our opinion about the reasonable prospects for Europe of receiving dollars from the Bank in the years 1952/53 and 1953/54. Such a prophecy might be somewhat hazardous.

We should be grateful if you could have prepared for us the statistical information which will enable us to satisfy, as far as possible, OEEC's requirements.

Best wishes,

Yours sincerely,

Walter Hill
Special Representative in Europe

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RECONSTRUCTION AND DEVELOPMENT

8-22-52
John R. ...
like ...

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25 D. C.

TEL. BABYLONE 17-10
CABLE ADDRESS - INTBAFRAD PARIS

PLEASE REPLY TO
PARIS OFFICE ADDRESS
67, RUE DE LILLE
PARIS (7^e), FRANCE

P.842

July 17, 1952

Mr. Leonard B. Rist
Director, Economic Department
International Bank for
Reconstruction and Development
Washington, D.C.

Dear Leonard:

The report on the internal financial situation of member countries by an OEEC group of experts under the chairmanship of Mr. Lionel Robbins (the "Robbins report")⁽¹⁾ has now been discussed by representatives of governments, in the OEEC Economic Committee. The Economic Committee has attempted to throw cold water on the report, which, you will remember, was distinguished for its clear recommendation that member countries rely more on monetary policies designed to prevent inflation.

The Economic Committee⁽²⁾ states in effect that the report is too narrow: in viewing the problem of inflation solely from the point of view of its effect on the balance of payments, the report in the opinion of the Economic Committee, ignores the possible effect which stricter monetary policies may have on domestic production and employment, and especially on production for defense. While recognizing that in the long run, it is "undeniable" that the objectives of increased production and financial stability are compatible, the Economic Committee implies that in the short term maximum production may be prevented by too-strict credit policies. The Economic Committee would therefore have preferred that the experts examine more closely the role of budget policy and of direct controls, in combating inflation.

We are informed by the OEEC Secretariat that the United Kingdom, Norway and the United States were the most forceful critics of the Robbins report. The U.K. representative, Mr. Eric Roll, is chairman of the Economic Committee, and personally wrote the first draft of the comments. The United States representative was Mr. John Lindeman, of M.S.A. M.S.A. is now of course anxious to see Europe's defense

(1) C(52)173, airmailed to Washington with P.759/D on June 20, 1952.

(2) C(52)206, airmailed to Washington with P.831/D on July 9, 1952.

Mr. Leonard B. Rist

production as high as possible, and would not be as inclined as Mr. Marget, the United States "expert", to emphasize the need for strict credit policies.

We shall pass on to you any additional comments that may be made on this report.

Best wishes,

Yours sincerely,

Walter

Walter Hill
Special Representative in Europe

INTERNATIONAL BANKING CORPORATION
NEW YORK, N. Y.

MAR 21 9 35 AM '47

Mr. Leonard B. Rist

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for strict credit policies.

We shall pass on to you any additional comments that may be
made on this report.

Best wishes,

Yours sincerely,



Walter Hill
Special Representative in Europe

Handwritten initials

OFFICE MEMORANDUM

TO: Mr. Leonard B. Rist
DATE: July 1, 1952

FROM: Hector Prud'homme *HP*

SUBJECT: Proposed Working Party Meeting on Financing of Investments - OEEC
(Malagodi Report - Comments requested by Mr. Hill)

The purposes of this Working Party meeting are two:

1. to consider, but not necessarily to act on:
 - (a) whether it is desirable for the Bank to launch the fairly considerable effort which will be involved in taking up the policy questions raised in recent communications from the Paris office; and
 - (b) how best to divide the work to be done among different Departments of the Bank.
2. to give the Paris office technical comments on each of the seven points relating to the bonds which would be issued under Mr. Malagodi's scheme.

The immediate purpose of the meeting is to agree on comments to send off to Mr. Hill.

Part of the function which Hill performs is to explain to various delegates at EPU and committeemen of OEEC how the Bank operates, and by explaining this, to forestall a tendency on the part of some representatives to go off halfcocked with schemes which seem to be based on wrong assumptions about the Bank's policies and capabilities. Thus far it has been largely a holding action on the part of the Bank. The procedure has been to show, if possible, that functions to be performed by some new method or new institution are functions which the Bank is already empowered to perform, and that what are sometimes considered obstacles to Bank operations (shortage of European currencies) may equally be obstacles in the way of performance of new institutions.

It is along this line that I read Hill's request for technical comments on Malagodi's seven points relating to bonds. Hill says that such comments "would make it possible to see clearly if there is anything in Mr. Malagodi's proposals that would make it worthwhile setting up a new mechanism".

Malagodi's seven points are listed on pages 2 and 3 of the memorandum which has already been circulated, dated at Paris 17th of June 1952, and identified as C/WP7/W(52)3. Hill puts forward his preliminary and personal comments, and in effect asks for confirmation or extension of them. Hill's comments are:

- (i) Bank loans also require the guarantee of the Government of the borrowing country;

- (ii) The Bank has already issued loans in dollars, with modest participation from certain European member countries;
- (iii) Corresponds to the Bank's practice;
- (iv) In the case of the Bank the guarantee is several and not joint, but the United States Government guarantee (which would be absent from Mr. Malagodi's scheme) was not unimportant in connection with bond issues;
- (v) We are all in favour of transferability and flexibility;
- (vi) Provision in Articles of Agreement (Article VII, Section 9);
- (vii) Bank bonds do not possess this feature.

Malagodi's points 2, 3 and 5, and Hill's observations thereon do not necessarily join. These bonds would be relatively freely bought. Interest coupons due and matured bonds would be transferable between countries. Malagodi is presumably suggesting the issue of bonds sold, with a gold or stable-currency clause, in European national currencies. Hill merely points out that the Bank has issued dollar loans, of which there are holders in certain European countries.

OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen *MMR*
FROM: Hector Prud'homme *H*
SUBJECT: OEEC Coal Working Party Meetings

DATE: June 23, 1952

Prud'

You told me you had seen Walter Hill's letter of June 13 to Mr. Hoar on the above subject. However, I am not sure that the attached studies by the French, Belgians and the Germans have been through your Department. I am therefore sending you, both the original of Hill's letter of June 13, and the documents just as I got them. These documents would mean much more to Mr. Lipkowitz than they do to us. I suppose he will have had an opportunity to see them in Paris.

We have not replied from this Department to Hill's letter, because you telegraphed Paris about Lipkowitz. It seems sufficient that Hill should know that Lipkowitz would discuss the OEEC Coal Working Party schedule in Paris. Further, from our telephone conversation, I gathered you do not think it necessary for us to have Lipkowitz in attendance at the meetings of the five engineering experts, and that it will be sufficient if we pick up their work towards its completion, about three months hence.

Encls.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25 D. C.

TEL. BABYLONE 17-10
CABLE ADDRESS INTBAFRAD PARIS

PLEASE REPLY TO
PARIS OFFICE ADDRESS
67, RUE DE LILLE
PARIS (7^e), FRANCE

P.733

June 13, 1952

Er
Mr. A.S.G. Hoar
Director, Loan Department
International Bank for
Reconstruction and Development
Washington, D.C.

Mr. Rudhomme
he should write back
quickly on his left-hand
schedule.
Er

Dear Stanley:

As scheduled, the Working Party of Experts set up by the Deputies of the Stikker Coal Production Group at Essen met yesterday, June 12.

6/17
with
Er
later
to day.
Er
The meeting lasted one day only. The Working Party had before it lists of projects which at its previous meeting on May 15 it had asked governments interested in financial assistance to prepare. Lists of projects were submitted by Germany, France, Belgium and the Saar. Copies of these lists are attached. The meeting was informed that Italy, Austria and Turkey would submit projects at a later stage, their initiative having probably been prompted in the hope that some money might eventually become available.

The discussion centred on four points:

- (a) The British member of the Working Party (an official of the Coal Board) suggested that no further progress could be made until the various lists had been put on a comparable basis. The discussion on this subject took up most of the meeting. It was agreed eventually that the OEEC Secretariat should make an attempt at securing comparability and that the amalgamated list should only consist of projects which would yield additional coal before the end of 1953 but could not be carried out without external financial assistance. The difference in approach by the French and the Germans, for example, largely arises from the fact that the industry is nationalised in France and is still privately owned in Germany. In other words, the French can easily switch funds within the

Action P.3

industry from one project to another which, in Germany, can only be done within individual coal mining companies and to the extent that the Government, or its agencies, may supplement the funds of individual companies.

- (b) The suggestion that the committee should there and then establish principles which might be used as tests in the establishment of priorities was not supported and that issue was left rather vague.
- (c) The Working Party decided to propose to the next meeting of the Deputies, probably on July 7, the creation of a 5-man committee of mining engineers whose task it would be to screen the projects on the basis of the comparable list to be drawn up by the Secretariat. The UK, France, Belgium, Holland and Germany are to appoint one qualified mining engineer each to this committee. It was felt that this small committee of experts would require at least three months to do this job. If the Deputies agreed to this proposal the 5-man committee would eventually report to the Working Party which, as the Chairman told me, would then itself screen the conclusions.
- (d) Finally, the various suggestions are to be embodied by the Secretariat in a short interim report to the Deputies of the Ministerial Coal Production Group.

Subject to changes, the time schedule may be approximately as follows. The Working Party will meet again, probably on July 1, to consider the results of the Secretariat's efforts in producing various lists of projects on a comparable basis; it will also give its formal approval to the short interim report addressed to the Deputies of the Ministerial Coal Production Group. The Deputies are scheduled to meet on July 7 to consider the interim report and, if they agree to the Working Party's proposal, will then authorise the appointment of the 5-man committee of experts. The committee of experts in turn may start work towards the end of July, but is expected to take three months to do its difficult job. Their conclusions are then to be considered by the Working Party and, insofar as a financial problem emerges, the Deputies or presumably the Ministerial Group itself, will

then have to think again. By that time, however, the Schuman Authority is expected to be set up. With the exception of the meetings scheduled for July 1 and July 7 the course of events is therefore quite unpredictable at this stage.

In view of the recent improvement in the coal supply and demand position I asked whether, in considering the projects submitted by interested countries the committee would take a fresh look at the original coal production targets. I was informed that the standing OEEC Coal Committee was in fact re-examining the future trend of consumption and that its findings would be available by the end of this month. Further, it was pointed out to me that the 5-man committee would certainly consider projects in relation to estimated consumption.

I was asked at the meeting whether the Bank would be willing to have an observer sit in with the 5-man committee of engineers who will screen the projects submitted to the Working Party. I said that the Bank was interested in following these coal discussions and it might be quite useful to have an expert on coal join the 5-man committee for perhaps a fortnight in order to familiarise himself with the coal industry over here and explain to it the kind of tests which the Bank would apply if it were ever asked to consider any financing. Further, I said that it would certainly be useful for an expert Bank representative to attend the meeting of the Working Party when it came to consider the conclusions of the 5-man committee in the latter part of this year.

The Dutch Chairman asked me what type of expert the Bank might send. I said that the Bank was considering sending Mr. Lipkowitz who was an economist by training but had been "living" with coal on and off ever since. The Chairman felt that an economist with a good knowledge of coal mining would be able to make a better contribution than a mining engineer.

In the light of these facts I am glad we took the risk, in our cable of May 29 (No. 45), of advising against a special journey by Mr. Lipkowitz for yesterday's meeting. Nor could I recommend a \$1,000 trip for the meetings of the Working Party on July 1, and of the Deputies on July 7, since both meetings are likely to last no more than one day each and are likely to deal mainly with procedural matters. Nevertheless, I should be interested in having a few hints based on the study

Action

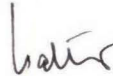
Mr. Hoar

- 4 -

of the attached documents. On the other hand, I think it would certainly be advantageous, from the Bank's point of view, if Mr. Lipkowitz could join the 5-man committee for about a fortnight; I imagine the Deputies will decide at their meeting on July 7 when this committee will begin to function. Similarly, I think Mr. Lipkowitz' presence here would be valuable during the succeeding stage when the Working Party comes to consider the conclusions of the 5-man committee. As has happened many times before, previous schedules have been completely changed.

Best wishes.

Yours sincerely,



Walter Hill
Special Representative in Europe

Enclosures: 6

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 5/2/52

TO-	Name	Room No.
1	Mr. Bist <i>Rose</i>	
2	Liphovets	
3	Stok	
4	<i>Roan</i>	

CONFIDENTIAL

FOR-

<input type="checkbox"/>	Action	<input type="checkbox"/>	Initialing
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Preparing Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Previous Papers
<input type="checkbox"/>	Filing	<input type="checkbox"/>	Noting and Returning
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input type="checkbox"/>	Information	<input type="checkbox"/>	Signature

REMARKS

Stevenson, Pridhamm & I have written a draft reply for Hoar which is more positive, asking Kell's advice as to whether Bank should send observer (probably Liphovets) to later meetings before Working Party's news get crystallized.

S. Liphovets

FROM- Walter Hill *W.H.*

Confidential

P.575

May 2, 1952

Mr. A.S.G. Hoar
Director, Loan Department
International Bank for
Reconstruction and Development
Washington, D.C.

Dear Stanley:

The meeting of the Deputies of the OEEC Ministerial Coal Production Group turned out to be an essentially political meeting and an attempt to pass on to the Bank the task of solving a political problem.

The Germans gave the Committee to understand that they could not achieve the agreed coal production targets without external financial assistance. While strongly suspecting that the Germans do not necessarily need foreign financial assistance, at any rate in the near future, and certainly not as much as they claim they need, the Committee hesitated to say so, for fear that the Germans would use this as an excuse for not fulfilling their targets. The British Delegation, under Sir Laurence Watkinson, First Secretary, Ministry of Fuel and Power, did not even wish to have a working party examine the validity of the German claims, since the Germans might interpret this as a move by their principal competitor to prevent them from obtaining external financial assistance. The Committee would have liked to hand the problem over to the High Authority, but, as you know, this does not yet exist and estimates with respect to the date of setting it up vary from July, 1952, to January, 1953.

MSA, represented by Mr. Lister, their expert on coal economics, having their eye on Congress, also felt that, while this problem was one for the High Authority to tackle, there was need for action now.

Consequently, by the time I arrived in Essen in the morning of April 29, Mr. Spierenburg, the Dutch Chairman of the Deputies of the Ministerial Group, as well as Sir Laurence Watkinson and others, suggested that the Bank

might get them out of the difficulty by assuming the role of the Schuman Authority pending its creation, in the sense of determining the technical and financial justification of Germany's claims, and undertaking any financing that might be justified. To this end, the Germans were to be persuaded to have their production plans separated into a programme necessary to achieve production targets in 1953, to be looked at by the Bank, and a longer-term programme, to be dealt with eventually by the High Authority.

Specifically, a technical working party might be set up looking into German production plans for 1953; the Bank would participate in the working party with a team of experts and the findings of the party would then be considered by the Bank from the point of view of financing.

In any discussions with the various groups, I aimed at steering clear of any commitments of the kind suggested, while maintaining an attitude of goodwill. Your brief fitted the occasion perfectly.

In the end, the Committee, with the agreement of the Germans, decided to distinguish between production programmes in 1953 and long-term plans. A Working Party of the Ministerial Group will examine the former, while it is assumed that the High Authority will eventually deal with the latter.

As you will see from the attached copy of its Terms of Reference, the Working Party will examine, but only from a technical point of view, the projects in the short-term programme of those countries that feel the fulfilment of their production targets in 1953 may be hampered by inadequate funds. At the specific request of the UK Delegation, the Committee will have no power to examine the "ground of insufficient finance", nor to suggest whether finance could be made available by cutting back on other investment plans, and the like, because they - and the others - wish to avoid giving the impression of prejudicing Germany's claims. At my request it was agreed to omit in the Terms of Reference, the Press Release or any other written or spoken reference to the meeting a statement to the effect that the findings of the Committee are to be submitted to the Bank for investigation and possible financing. I pointed out that we wished particularly to avoid giving rise to false hopes, that I was not in a position to say whether or not the Bank could undertake this kind of job and that we had not at this stage sufficient information to enable the Bank to express a view.

*Agreed
to not
negative ?*

Mr. Hoar

- 3 -

MAY 20 2022

WBG ARCHIVES

On the other hand, I did not object to being invited to the Working Party as "observer" in which capacity we had attended numerous other OEEC meetings. The Committee changed an earlier version in which the Bank was included in the list of participating countries.

I am glad I did go to Essen. In our absence, we might have had the problem of disentangling an embarrassing situation.

As things stand, all concerned, including the Germans led by Dr. Westrick, Secretary of State at the Ministry of National Economy, know the Bank's attitude. The Bank, in turn, is quite free to decide its course of action. I said to Mr. Spierenburg that the issues may become clearer as the work of the Working Party was proceeding, and that the position might be reviewed informally when the time came for the Deputies to discuss its Report on (probably) July 7. If by that time the Parliaments of the remaining signatories of the Schuman Plan (Belgium, Luxemburg, Italy) have approved the Treaty, the High Authority would be set up quickly and the question of the Bank holding the fort may no longer arise.

In any case, from talks I have had with German mine managers, they will buy all their equipment locally. Some coal mining companies may be short of marks; but there is talk of raising the price of coal. In any case, it should be quite possible for the German Government to cut back some of the other investment plans. Sir Laurence Watkinson expressed to me his confidential view that production in the United Kingdom was expected to increase, helped by an influx of workers from the textile industries and that by 1954 the European shortage of coal may give way to keen competition for markets between the British and the Germans. My own view is that it might be a thankless job for the Bank to undertake the job of the High Authority pending its creation and that it would be far better, as you suggested in my brief, for the Bank to follow discussions with interest and sympathy and to await the creation of the High Authority as a body capable of taking a European view on these delicate issues involving arbitration between national claims for assistance.

Best wishes.

Yours sincerely,

W.H.

Walter Hill

Special Representative in Europe

Enclosures: MCPG(52)9, Working Party No.2 of the MCPG on Investments - Draft terms of Reference, Press Communiqué - Essen, Wednesday, April 30 Survey of West German Coal Mining Industry.

cc: Mr. Rist
WH/c

RECORDS AND DELETION
INFORMATION
DIVISION

MAR 2 10 12 AM 1952

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NM 5 10 13 AM 1952

DISPATCHED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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Yours sincerely,

Walter Hill

Special Representative in Europe

Enclosures: MOPG(52)9, Working Party No. 2 of the MOPG on Investments - Draft terms of Reference, Press Communiqué - Essen, Wednesday, April 30 Survey of West German Coal Mining Industry.

cc: Mr. Rist
WH/c

OFFICE MEMORANDUM

TO: Mr. Leonard Rist

DATE: January 24, 1952

FROM: Walter Hill *W.H.*

P.98

SUBJECT: OEEC Programme to Expand European Output

Last August the OEEC Council of Ministers set a Western European target for 1956 of a 25% increase in gross national product over 1951. It was assumed that this would involve an increase of 33% in industrial production. As we reported in our letter of November 2, 1951, (P.1160), working parties of senior experts were established to report on the practical possibilities for expansion in key sectors, on any special difficulties to be overcome, and on the measures necessary to that end, taking as a basic assumption that over-all production would in fact expand by 25%. Reports were accordingly prepared covering coal, electricity, iron and steel, agriculture and manpower. In addition, the OEEC Secretariat has prepared a report on housing. (a) The Secretariat has also prepared a preliminary analysis of these reports, pointing out common problems raised by them, noting certain discrepancies in the approach to the different sectors and raising questions for future study. (b) On December 21, 1951, the OEEC Council established a special senior working party to define the general problems which must be solved if the over-all production of Western Europe is to be increased by 25%, to prepare the way for action on recommendations arising out of the sector studies, and to suggest future lines of work. (c) The nature of the next steps in the OEEC effort to pave the way for higher production in Europe will not be known until this working party has reported. In the meantime it is of some interest to summarize the results so far obtained, and to evaluate the exercise both as one of the principal activities of OEEC and from the point of view of its interest to the Bank.

Each sector study estimates the level of consumption which will prevail once there is an over-all increase in output of 25%. It then attempts

(a) These reports can be referred to as follows:

Sector	Code No.	Date sent to Washington	Letter No.
Coal	CO(51)10(1st Rev.)	Jan.3, 1952	P.4/D
Electricity	EE(51)11	Nov.28, 1951	P.1268/D
Iron and Steel	IS(51)24	Out of print - will be sent as soon as available.	
Agriculture	AG(51)40	Jan.14, 1952	P.40/D
Manpower	MO(51)45	Dec.4, 1951	P.1292/D
Housing	C(51)400(1st Rev.)	Jan.22, 1952	P.97/D

(b) C(52)7, sent to Washington on Jan.15, 1952, with P.56/D

(c) C(51)394 (Final), sent to Washington on Jan.14, 1952, with P.40/D

to discover whether by following present policies member countries can, in fact, adjust their production to this level by 1956. Where this is not possible it then suggests measures which might be taken to intensify the effort.

The coal experts estimate that on the assumption of a 25% increase in gross national product European coal requirements, which in 1951 amounted to 480 million metric tons, will amount in 1956 to between 540 and 550 million metric tons. In the same period, coal available from domestic production will increase from 451 million tons to 515 million tons. The study thus reveals the striking fact that even with the expansion programs now in progress, Western Europe will in 1956 still rely on the outside world, particularly the United States, for about 30 million tons of coal, the same gap as in 1951. There will be a particular shortage of some grades of coal, notably coking fines. This gap remains, furthermore, despite the fact that member countries plan to invest in their coal mines over \$2.2 billion in the five-year period. The coal experts felt that the position could only be bettered by taking measures to promote economies in the use of coal, and to assure a greater expansion of production than now envisaged.

The situation revealed by the coal report was considered to be of such gravity that a special meeting of the Council of Ministers was held on January 11 to consider means of improving the situation. At that meeting, and following a strongly critical declaration by Mr. Paul Porter, the Acting Special Representative in Europe, the Ministers declared their intention of making Western Europe independent of coal imports from the United States as soon as possible.^(d) Furthermore, they appointed a Ministerial Coal Production Group composed of Dr. Stikker (Chairman), Lord Leathers, Dr. Erhard and the French Minister of Industry and Power, who will, in the near future, study the coal production problem, make proposals to the Council about an additional expansion of output and additional measures to promote efficiency in coal consumption. During the Ministers' meeting, Mr. Blücher, the German delegate, supported by Mr. Porter, suggested that OEEC examine the availability of finance from the International Bank.

The report on electricity, much less comprehensive than the coal study, foresees the expansion of electricity production from 248 billion kwh in 1951 to 347 billion kwh in 1956, and estimates that member countries' expansion plans are sufficient to meet this growth in consumption, provided, however, that

- (1) average weather conditions prevail for the generation of hydroelectric power
- (2) necessary finance is available to carry out existing plans (no estimate is made, however, of the amount of finance needed)

(d) C(52)11, sent to Washington on Jan. 15, 1952, with P.49/D

- (3) high priority is granted to electrical equipment manufacturers for the purchase of materials in short supply, especially copper, and
- (4) the shortage of skilled labor that exists in some countries can be overcome.

Present expansion plans are
~~The report on iron and steel likewise estimated that present expansion plans will be sufficient to cover requirements in 1956 provided, however, that exports decline. The report foresees consumption requirements of 63 million metric tons in 1956 compared with 47 million tons in 1951. Under present plans, production should rise to 70 million tons in 1956 compared with 56 million tons in 1951. When later reviewed by the regular Iron and Steel Committee of OEEC, this report was criticized for ignoring the possible shortage of iron ore. In fact, it is the Iron and Steel Committee believed that unless additional steps are taken to ensure an increase in iron ore supplies, the steel production targets might not be reached. The Secretariat, in reviewing the report, noted that the experts had been cautious in setting the 1956 production target, for fear of aiming at larger steel supplies than the market could absorb. The Secretariat felt that this caution was not justified, and that the target should err if at all on the large side.~~

are estimated at

to estimate has been

The concern was made that the targets set appeared to fall short of the amount of steel the market could undoubtedly absorb.

It was estimated
 The report on agriculture estimates that a 25% increase in gross national product in Europe would mean an increase in the demand for food of between 12 - 16% by 1956. European production of food might possibly be increased by this percentage provided an "extraordinary great effort" were made to promote farm mechanization, apply better technical methods, put new land under cultivation, improve farmers' access to credit, and reduce trade barriers to the movement of food in Europe. Even such an "extraordinary effort" would not increase production enough to reduce Europe's heavy reliance on imported food. In the analytical paper prepared by the Secretariat, this problem with its implications for Europe's future balance of payment was underlined. The Secretariat also felt that the agricultural experts were conservative in evaluating the possibility of production increases.

The implications of this for Europe's future balance of payments were stressed & the observation was made that possibly agricultural production could be increased even more than previously estimated.

As far as manpower is concerned, it was pointed

~~The report on manpower points out that the 25% increase in output could be attained by 1956, given an annual increase of 1% in the working population, and an increase in productivity of 3.5% per year. There is still a danger, however, of shortages in particular economic sectors (e.g. coal, agriculture), and in particular countries, though in other countries there might still be some structural unemployment. The problem to be attacked, therefore, is that of the mobility of labor. The report recommends that OEEC should establish the following two objectives in the field of manpower to be achieved within the five-year period.~~

It is recommended

- (a) Effective manpower organization in each nation.

- (b) Elimination of restrictive rules, formalities, and other obstacles to the free movement of workers across national boundaries, thus aiming at facilitating interchange between the different labor markets in Europe, and maintaining full employment.

In carrying out this program OEEC should concern itself more than in the past with questions of internal administration.

In discussing
~~The Secretariat's report on housing, takes account of the fact that lack of housing is an impediment to increasing production in the key sectors as well as in other branches of industry, and suggests that member countries attempt to increase the rate of dwelling construction from about 900,000 a year at present to 2 million a year by 1956. The report recognizes that the full expansion will not be possible during the peak years of the defense effort. Maximum effort can, therefore, only be reached during the latter years of the period when resources can be shifted from defense. Special attention will have to be given to the problem of financing construction, and in this connection the Secretariat notes that~~ *and to*

in order to
 "any measures which would facilitate the free movement of capital in Europe, and the use of savings in countries other than the country of origin, ~~would also facilitate the financing of new building. In this connection it may be recalled that in 1950 a project was laid before the OEEC which recommended the setting up of a European Investments Bank, and that the International Federation of Building and Public Works at its last assembly held at Stockholm in July, 1951, called upon the competent organizations to investigate the possibility of setting up an International Institute of Real Estate."~~

It was also pointed out
 The report points out further that

it was observed that in all probability
 "the fact that countries ~~may~~ *might* apply for loans from the ~~International Bank for Reconstruction and Development~~ *IBRD*, although mentioned, pro mem, as another means of international financing. ~~It is probable that such loans will only be granted for carrying out housing programmes concerned with industrial activity"~~

Attention was called to
 In its report summarizing the studies made in each sector, ~~the Secretariat points out certain discrepancies in the methods employed in various sector studies and calls attention to two general problems which were outside the competence of experts in specific sectors but which require further study. In the first place, the effect of a 25% economic expansion on the balance of payments of Western Europe has still to be examined. The coal and agriculture studies revealed that present expansion plans do not permit any reduction to be foreseen in the heavy dependence of Europe upon the outside world in these sectors. The Secretariat points out that in most~~

~~spheres it is possible~~

~~"to choose between policies which will make a greater or smaller contribution to the solution of the balance of payment problems, and proper decisions on the alternative courses of action open, require to be based on a broad assessment of the vigour needed to solve this major problem".~~

In the second place, ~~the sector studies have assumed or recommended levels of capital investment which are fixed without reference to the over-all level of savings and investment in member countries.~~ *st*
~~The Secretariat believes that~~ *has been suggested that the projected level of investment*

~~"most countries will judge that the over-all total of investment under prospect is inconsistent with the present trend of savings and the avoidance of inflation. Eventually, measures to encourage savings and restrain non-essential investment will have to be considered".~~ *and that it would be necessary, eventually, to consider measures to encourage savings & restrain non-essential investments.*

The future lines of OEEC's studies on increasing production remain, ~~as noted, to be determined.~~ *altho a number of objectives seem to be under consideration;* The initiators of the exercise seem to have had, however, a number of objectives in mind.

- (1) The common declaration by member countries that it is their policy to make strenuous efforts to increase output provides important political support to those officials and citizens of each country who all along have been urging such a policy. The OEEC program is an important weapon to use against those who warn of a danger of over-production. ~~Even in the sector studies this fear occasionally crept in (regarding the production of coal, steel and food), and was reflected in recommendations for organizing "assured markets".~~ Mr. Paul Porter in the Ministers' Meeting of January 11, replied to such fears when he stated, "Of all the reasons given for depending upon American coal, financed by American aid, fear of over-production is the reason which I would least enjoy explaining to the American Congress". *(e)*
- (2) The target of a 25% increase of over-all output by 1956 and of a 33% increase of industrial production constitutes a test by which all future activities of OEEC can be judged.

SECRET
ECONOMIC AND SOCIAL

- (3) The OEEC exercise is capable of identifying specific commodities likely to be in short supply unless there is further effort. It has shown, for example, the glaring deficiency of coal and a possible shortage of iron ore. The sector studies also point to spheres in which technical improvements are required.

The Bank may find that OEEC's economic expansion program, if it is pursued along the lines already followed, is interesting from two points of view:

- (1) The recommendations may be used as a guide by member countries in reframing their investment priorities;
- (2) In revealing economic sectors where additional investment is required, e.g. coal, the exercise may point to types of loan application which the Bank might consider with particular care.

Two other aspects of investment will not be covered by the program as foreseen at present:

- (1) The total level of investment in each country is not yet being examined to see whether it is in line with the country's resources.
- (2) OEEC will not, by itself, formulate specific bankable projects. This can only be done by individual countries or by special international authorities as they are established.

Furthermore, as shown by the above description of the work done so far, OEEC has not yet defined objectives with regard to Europe's balance of payments in 1956, so that the studies made on economic expansion have not been based on any specific assumptions about the balance of payments. The program, therefore, still takes insufficient account of one of the chief preoccupations of the Bank, the credit worthiness of its European members. *loan applicants.*

In view of its potential interest in the Bank we shall continue to follow the work in OEEC on the expansion of output. Mr. Marjolin told me that at a later stage when the financing of investment will be discussed it would be useful for us to participate in the deliberations.

I am sending a copy of this memorandum to Mr. Prud'homme.

(3) The OREC exercise is capable of identifying specific commodities likely to be in short supply unless there is further effort. It is shown, for example, the glaring deficiency of coal and a possible shortage of iron ore. The sector studies also point to spheres in which technical improvements are required.

The Bank may find that OREC's economic expansion program if it is pursued along the lines already followed is interesting from two points of view:

- (1) The recommendations may be used as a guide by member countries in reexamining their investment priorities;
- (2) In revealing economic sectors where additional investment is required, e.g. coal, the exercise may point to types of loan application which the Bank might consider with particular care.

Two other aspects of investment will not be covered by the program as foreseen at present:

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- (2) OREC will not, by itself, formulate specific bankable projects. This can only be done by individual countries or by special international authorities as they are established.

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