

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

**Folder Title:** Ernest Stern Chronological files Director, Development Policy & Vice President South Asia - Correspondence - Volume 5

**Folder ID:** 1850316

**Series:** Vice President of South Asia Region chronological files

**Dates:** 09/01/1975-10/31/1975

**Fonds:** Records of Individual Staff Members

**ISAD Reference Code:** WB IBRD/IDA STAFF-10-06

**Digitized:** 6/25/2020

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

E. STERN  
CHRONFILES

Sep. - Oct.

1975

5



**DECLASSIFIED**  
WBG Archives

The World Bank Group  
**Archives**  
1850316  
A1985-357 Other #: 3 213459B  
Ernest Stern Chronological files (Economic Advisory) - Correspondence - Volume 5

Mr. Robert S. McNamara, President (o/r)  
Mr. J. Burke Knapp, SVP, Operations  
Ernest Stern, VP, South Asia

October 31, 1975

Development Committee - January Meeting

Attached is the draft Agenda for the January meeting of the Development Committee. After clearance with the Chairman it will be circulated to the Executive Directors. I have indicated "no objection" as far as we are concerned.

Attachment

cc: Mr. Cargill  
Mr. Karasmanoglu  
Mr. Vibert  
Mr. Damry

EStern:mp



October 30, 1975

PROVISIONAL AGENDA

1. Adoption of Provisional Agenda
2. Approval of Record of Discussion of Meeting of September 3-4, 1975
3. Current Situation and Prospects of Developing Countries
4. Status Reports:
  - a. Trust Fund (document)
  - b. Third Window (oral)
5. Interim Report of Working Group on Access to Capital Markets
6. Means of Improving the Current Situation Affecting Resource Transfers: Aid Targets and their Implementation
7. Survey of Programs and Capital Resource Situations of Lending Institutions
8. Current Under-Utilization of Productive Capacity in Industrial Countries in Relation to their Aid Effort
9. Current Commodity Issues
10. Administrative Matters:
  - a. Report of Working Group on Observer Invitations
  - b. Place and Date of Next Meeting
11. Press Communiqué
12. Other Business



FILES

October 31, 1975

Ernest Stern, VP, South Asia Region

Visit of Ambassador of Bangladesh  
with Mr. McNamara

1. The Ambassador of Bangladesh paid a courtesy call on Mr. McNamara on October 9. The Ambassador reported on recent developments in Bangladesh, including the issuance of a white paper on the economy.

2. Mr. McNamara responded that the World Bank Group had been deeply involved with Bangladesh since its inception, and he himself had visited immediately after independence. However, he had been much concerned with the lack of progress since then, the poor decision-making structure, and the widespread corruption. He was pleased to hear that the new Government recognized these problems and hoped that they would deal with them effectively. He stressed that we had experienced considerable difficulty in project implementation and urged the Government to give this matter high priority and also to improve its efforts in project preparation. The Ambassador agreed that these areas had been problems but thought that matters would now improve. He went on to say that, in his review of the pending loan program, he had seen little Bank participation in infrastructure, particularly roads and communications. These were urgent requirements in Bangladesh. Mr. Stern responded that one had to establish certain priorities and that for the present we thought emphasis on quick-yielding projects in agriculture and increased utilization of existing capacity were the most important. We did also contribute to the rehabilitation of inland water transport. Some of the road projects that the Ambassador mentioned had been under consideration for some time, but significant improvements could be made at rather modest cost through repair and rehabilitation rather than to undertake major highway construction.

cc: Messrs. Burnester  
Diamond  
Dunn

EStern/lc



Mr. M. Shroff, DECJS

October 31, 1975

Ernest Stern, VP, South Asia

Working Group Paper

Since your draft paper on Aid is preliminary and not circulated for detailed comments, I only have a few personal and equally informal observations.

1. The idea of developing burdensharing targets based on incremental GNP is imaginative.
2. I am dubious that the arithmetic will work out appropriately. It seems to me there are several problems. On the OPEC side, one must surely exclude Indonesia and Nigeria, which count for a substantial portion of the GNP, particularly in the base period, and even later on in group 2. Secondly, you need to work out what the implications of this process are for individual countries within each group. These calculations do not necessarily have to be included in the paper, but they will be a test of the principle. Thirdly, you need to take account of the DAC countries which have reached, or are close to, the 0.7 target.
3. There are also problems with your line of reasoning on the amounts required. The \$4 billion annual additional requirement presumably will have been affected by developments in 1975 and may therefore be larger. Secondly, you have not accounted for the commitment/disbursement lag. Thirdly, you have not accounted for the precommitment lag, i.e. the lag between the budget and the capacity to commit. In the important donors, with the worst performance, i.e. the United States, Germany and Japan, it would be fair to say that at a minimum there would be an 18-month lag between the time they agreed to the principle and their capacity to make actual commitments.
4. It is not at all clear why you assert that all of these resources must be given to multilateral institutions.
5. Both the endorsement of particular growth targets and of alternative aid/GNP ratios will be misunderstood no matter how often you say that these are only interim measures. For instance, I recall that Mr. Shroff commented negatively on Report 802 because it suggested that the 6% development decade target could not be reached. There are alternative ways of dealing with both subjects, and Mahbub will have further suggestions on that.



Mr. Christopher J. Denton, Personnel

October 31, 1975

Ernest Stern, VP, South Asia

Mr. Henry Tenenbaum - Consultant

Attached is the curriculum vitae of Mr. Tenenbaum who, as you note in the covering letter, is interested in being considered as a consultant for the Bank. I should appreciate it if the information would be acknowledged and the cv put into proper channels.

Attachment

EStern:mp



Mr. William Diamond, Director, ASADR

October 30, 1975

Ernest Stern, VP, South Asia

November Status Meetings with Dr. Sen

1. Dr. Sen plans to leave on a trip to Dacca and Delhi on November 29. He will go to Dacca first. We might alert Len and Kraske.
2. We should structure the November review meeting on both countries as a briefing, i.e., important pending issues which he should press the Governments on.
3. He should also like to review at the November meeting the timing of three India projects - Superthermal, Eastern States Foodgrains and Calcutta II.

cc: Mr. van der Meer  
Mr. Alisbah  
Mr. Dunn  
Mr. Street



Mr. Robert S. McNamara, President

October 30, 1975

Ernest Stern, VP, South Asia Region

Governor's Speech, Annual Review and Policy Work

1. You sent me Hollis' memorandum of October 14 with the proposals for the Governor's speech, the annual review and future policy work, and I list below my comments for your use.

Governor's Speech

2. The general theme does not strike me as very interesting, even though it is hard to tell since the proposal is quite sketchy. The items under "International Policies" are repetitious of the 1975 speech and 802 and will, by next September, be old hat. The section on National Policies is much too aggregative - urging people to save more and invest in the "right" sectors is not very meaningful.

3. If you have decided to drop the focus on domestic and external resource mobilization (e.g., financial institutions and financial development), which I still think would give you an attractive handle on a number of important issues, I would suggest two alternative themes. One possibility is the food-production nexus. The advantage is that it could be based on the proposed special topic for the annual review and quite a lot of information is available. The disadvantage is that it comes rather too soon after the World Food Conference, your own Nairobi speech and a year of wrangling about IFAD. An alternative might be to discuss the growing difference between the Third and Fourth Worlds. It seems to me that there is a good deal to be said here, and we should have quite a lot of data. We might spell out the elements of difference - economic structure, trade, growth rate, management capacity, debt - and the suitability of different mechanisms proposed to assist with the immediate economic problem and aid flows generally. The conclusion of the analysis will be, inevitably, that the poorest countries are being helped least - by aid flows, by interim aid mechanisms, by trade measures, by compensatory financing and by many of the New International Order proposals (though one need not say the latter). The advantages of the topic are: (a) that the point needs to be made to clarify international debate on a whole range of issues; and (b) that it provides a solid basis for talking about the IDA replenishment. In any event, I would think it worthwhile to have an outline prepared on this.

The Annual Review

4. I have no problems with Parts I and II. The proposed Special Topic seems suitable, but I have some doubt about its treatment.



Perhaps a section on "Food in the Development Process" is needed but, if so, it should be very brief. The treatment of the other half of the topic - "Increasing Agricultural Production" (it should be food production) - should be completely revamped. I understand neither the relevance nor the utility of the three proposed sub-items. In an Annual Report surely the focus should be on performance, principal trends and major problems. A discussion of project/cost benefit ratios, the comparative advantage of Latin America and South Asia, and the food/energy connection seems inappropriate to the forum. Instead, the topic should cover trends in foodgrain production, major deficit areas, programs initiated since the World Food Conference, external assistance for foodgrain production, world food reserves and national food reserve policies. I would be inclined not to discuss specific Bank programs or assess the impact of Bank projects in the Annual Report.

5. It is also important to face the staff implications of this topic, including the proposed annexes. Given previous experience with this subject, primary responsibility for this topic should be in CPS, as the outline implies. Can this be fitted into Yudelman's work program?

#### Policy Work

6. The paper on policy work is meager. The foodgrain paper is well advanced and, in any case, would not be very different from the Annual Report section. Urban Poverty is an earlier assignment. Of the new topics, I already commented on the proposed debt study in my status report on the UN Follow-up (memorandum of October 21). The proposed work on LDC trade in manufactures lists two venerable proposals. There would seem to be little pay-dirt here but, as you suggested, IFC is having another look at refinancing. It is too bad that we could not add any new element in this area, such as an analysis of the LDC role in trade infrastructure (shipping, insurance, brokerage) or measures to extend the scope for LDC processing of raw materials.

EStern/lis



October 29, 1975

Letter No.339

Mr. Jochen Kraske  
Chief  
World Bank Resident Mission  
Post Office Box 416  
New Delhi, India

Dear Jochen:

Thank you for your letters of September 29 and October 17 and for your good wishes. So far I have found the change from DPS to South Asia interesting and stimulating. It is a pleasure to get back to the area - frustrations and all.

I very much appreciated the political perspective in your October 17 letter and hope you will make this kind of report a regular feature. The appropriate frequency I will leave to you, but perhaps we might count on at least two or three a year. This broad perspective of the political economy is immensely helpful in formulating our views and shaping our expectations. I hope you will be able to get out to the states as frequently as you had intended so that we will get not only the view of the world as seen by the Delhi-wallahs but also how developments in Delhi are seen by others.

As you have already heard from Bilsel, we have been reviewing country programs in the past few weeks in order to get a more realistic assessment of the Bank's FY1976 lending program. For India, we now have a lending level of \$900 million, which consists of IDA, Bank and Third Window lending in proportions which are not yet entirely fixed. While the amount, and the number of projects, are larger than we have been carrying on the schedules, virtually the whole difference is accounted for by finally including the projects to be financed by the Third Window.

Such a lending program, which I think quite desirable in terms of requirements and capacity to utilize effectively, will make heavy inroads on our project pipeline. I had been reviewing our country programs to brief myself and had been struck by the relative paucity of FY1977 projects even before we got the additional FY1976 allocations. Whether or not we can maintain such a lending level depends on many factors, including export performance. But foremost, it depends on



the availability of projects. I know this is a venerable issue in India but not the less important for that. In your next meeting with Gopi, it might be useful to take this up. We need not only GOI action on several projects now listed for FY1977 but need to have 6-8 additional ones identified. The experience of the last two years should be ample proof that the availability of projects can lead to higher lending levels even though the IDA portion is constrained. Perhaps in FY1978 we will have a fourth window.

I too have been impressed by the number of announcements in the paper about changes in export policies. The question of course, as you say, is whether these taken together, add up to a significantly different set of incentives. Our concern is not of course to determine that exports will jump this year, particularly in the current world economic situation, but rather that the subject is receiving serious attention and that there is a reasonably clear idea as to the policy measures which need to be taken and a system to assure that policy makers learn quickly if the agreed measures are inadequate. Tomorrow we will have our CPP review with Mr. McNamara, and I am sure this subject will receive considerable attention; we hope to have some encouraging words from the Mission before we walk into the lion's den.

For your information, I am tentatively planning to visit the Region in January. I have to go to a meeting of the Development Committee in Jamaica on January 8-10 and would hope to leave directly from there. My tentative thinking is that I would like to include all or most of the countries in this first swing, which necessarily means a relatively short stop in each. However, since I also expect to be back either coming from or going to the Annual Meeting, I can be more selective the second time around.

I was sorry to hear that you are having difficulty with the landlord, and I trust this is now satisfactorily resolved. If we are being unduly pigheaded, please let me know.

Best regards,

Sincerely yours,

Ernest Stern  
Vice President  
South Asia Region

EStern:mp



LEHALLE  
INTBAFRAD  
PARIS

OCTOBER 29, 1975

LT

(FRANCE)

MANY THANKS YOUR ASSISTANCE (STOP) IF KLAMSER AWAY IN LATIN AMERICA  
YOU MIGHT TELL HIS OFFICE I WOULD WELCOME HIS STOPPING OVER WASHINGTON  
ON RETURN (STOP) WILL SEND HIM MESSAGE DIRECT IF HIS ABSENCE CONFIRMED  
(STOP) IF BERNARD DECAUX IN PARIS NOVEMBER 10 PERHAPS HE COULD JOIN  
ME FOR LUNCH (STOP) CLARKE SUGGESTS THAT PREFERABLE EEC APPOINTMENT  
MIGHT BE MAURICE FOLEY WHO IN CHARGE BANK AFFAIRS FOR CHEYSSON (STOP)  
HOWEVER WHATEVER YOU AND EUDE ARRANGE WILL BE SATISFACTORY REGARDS

STERN

Ernest Stern  
Vice President  
South Asia Region

ESTERN:mp



Mr. C. R. Willoughby, Director, OED

October 29, 1973

Ernest Stern, VP, South Asia

Project Performance Audit Report on Pakistan First and Second Highway  
Projects (Credits 54-PAK and S-1-PAK and Loan 578-PAK)

Please find attached the comments of the South Asia Region on  
the draft Performance Audit Report on Pakistan First and Second  
Highway Projects.

Attachment

cc: Messrs. Diamond  
Collier/Osgood  
Kaden  
Young

Mr. Jochen Krasko, Chief, ASFND

October 29, 1975

Ernest Stern, VP, South Asia

INDIA - Operation of Resident Mission in New Delhi

General

1. This memorandum outlines in general terms the purposes of the office of the Resident Mission in India ("the Mission") and the functions it will be expected to perform. It is not intended to set out formal terms of reference, but is meant to express guidelines to be interpreted with flexibility and discretion.
2. The Bank will rely on the Mission to provide continuity of information and operational contacts and a sensitive assessment of development trends and problems, and, in general, to achieve close relations with the Indian Government. The Mission will be expected to assist the Government in understanding the requirements of the Bank, and the Bank in understanding the policies, practices and attitudes of the Government, thus promoting closer ties and understanding between the Bank and the Government.
3. There should be the fullest cooperation and interchange of information between the Mission and Headquarters. In this connection, all missions sent out by the Bank shall fully coordinate their activities with the Mission, as elaborated in paragraph 12 below.

Functions

- k. The principal functions of the Mission are:
  - a. to maintain close contact with the Indian authorities and ensure the fullest possible understanding between the Bank and the Government as regards each other's thinking on matters relating to the Bank's activities in India;
  - b. to prepare with the assistance of Headquarters staff the annual economic report on India;
  - c. to monitor on-going projects and to assist in their expeditious and effective implementation, to identify possible new projects and, where Mission capabilities permit, to contribute to the preparation of projects;
  - d. to inform the Government of Bank policies and practices;
  - e. in consultation with Headquarters, to advise the Government on development strategy, policies and programs;



- f. to review on a continuing basis the objectives, development strategy, priorities and activities in the Bank's program in India and to recommend modifications or new approaches wherever deemed appropriate.

Other responsibilities as detailed below are also important and should be given as much attention as time allows.

#### Economic Reporting

5. The Mission, on its own initiative, or at the request of Headquarters, and on a continuing basis, will compile information, report developments, and make recommendations in relation to India's economic situation, programs and performance. The Mission will be expected to prepare studies on specific aspects of India's economic situation, as agreed from time to time with Headquarters.

#### Policy Advice

6. The policies pursued by the Government are of vital importance in assuring the effective utilization of the aid it receives and in the country's progress toward a more viable economic position. The Mission is expected, to the extent it can, to give the Government the benefit of its views on matters of general economic and development policy and programs. In doing so, the Mission will consult with Headquarters to ensure consistency in Bank representations to the Government on these matters.

7. It is not possible to anticipate all the questions and circumstances which may arise, and the Bank will thus rely on the Mission's judgment to decide to what extent and in what sense to express its views. Headquarters should be kept informed of the substance of all such discussions.

#### Operations - General

8. The Mission will be kept informed of significant developments in the progress and determination of the Bank's operational program for India and of similar developments in the processing of individual projects and technical assistance operations. The Mission will be consulted and will be expected to offer timely comments and suggestions on all major issues affecting the design and administration of the program.

#### Operations - Supervision

9. While supervision will be carried out by the South Asia Region Projects Department and by other Headquarters Departments, the Mission will exercise a general watching brief and will keep Headquarters informed of the progress of Bank projects and any difficulties that are encountered or anticipated. On occasion, the Mission may be asked to check and report on specific projects. It is hoped that the Mission will be able to contribute substantially to the more effective and expeditious implementation of lending and technical assistance operations.



---

### Lending Operations - Project Identification and Preparation

10. Assistance in the timely development of the pipeline of lending activities will be one of the primary functions of the Mission. Due to the limitation of personnel resources, the Mission will not be expected, as a rule, to engage directly in the preparation of specific projects. It will, however, be expected to identify possible projects for consideration and elaboration by Headquarters, and where it has the necessary expertise, it may undertake the preparation of projects from time to time as agreed with Headquarters. The Mission will in any case consult and work closely with Bank missions, the Indian authorities, and with other agencies in project preparation, during the preparatory stages of projects, to help avoid laps of duplication or misdirection of efforts which might delay or complicate lending operations.

### Lending Operations - Appraisal

11. Appraisal missions will be expected to coordinate closely with the Mission, and where members of the Resident Mission have special knowledge of particular sectors or projects, they would be expected, to the extent that other priorities on their time permit, to contribute to the work of the appraisal missions. The Mission's comments or preliminary findings and conclusions will, in all cases, be welcomed; these should be timed so as to make a useful input into the Issues Paper/Decision Memorandum stage of project processing at Headquarters.

### Visiting Missions

12. As noted above, visiting missions will be expected to coordinate and work closely with the Mission, and the Mission will be expected to assist Bank missions in every way practicable, including participating wherever appropriate in the activities of these missions. The Mission will be expected to give general guidance to all visiting missions, and their terms of reference will provide for them to keep the Mission fully and currently informed of their schedule and activities while in India. The Mission should advise Bank missions on any aspects on which the Mission's intimate knowledge of local conditions, problems and personalities would be useful, and assist such missions in making contacts with Indian officials. Visiting missions will consult with the Mission on their conclusions and recommendations before departing.

### Staffing of Mission

13. The Chief of Mission will keep Headquarters advised of the staffing requirements of the Mission and will be fully consulted in the selection of all personnel for the Mission, including replacement of existing staff.

---

Aid Coordination and Consortium

14. The Mission should establish and maintain close contact with the representatives in New Delhi of aid-giving countries and international agencies, including especially those which are participating in the India Consortium. The Mission should brief such representatives about the Bank's views and activities in India, and keep the Bank informed of the status of aid commitments and negotiations, and of progress made and difficulties encountered in the major programs receiving assistance. The Mission should obtain the views of such representatives, pass to them the views of the Bank, and in general keep Headquarters advised of its views about aid coordination in India.
15. The Mission should meet informally from time to time with representatives of governments and international institutions participating in the Indian Consortium to assist in accomplishing the purposes noted above.
16. The Chief of Mission will be expected to attend all meetings of the India Consortium.

Other Contacts

17. The Bank would expect the Chief of Mission to visit Headquarters about twice a year. He should consult with Headquarters before planning other visits outside India.

Relation of the Chief of Mission to Headquarters

18. As the Chief of Mission will have both program and project functions, he will report to the Regional Vice President, South Asia. However, the Vice President will look to the South Asia Programs Director to ensure that Headquarters and Mission activities are at all times integrated in support of the Bank Group's objectives in India.
19. Mission communications to Headquarters will normally be directed to the Bank through the India Division. Copies of Mission communications to other parts of the Bank, the Government of India and its agencies, or to local Delhi representatives of donor countries should be sent to the India Division. Similarly, the India Division will provide the Mission with copies of all relevant correspondence to and from the Bank, and also internal papers that relate to the Bank's program in India.
20. The Region should be kept informed of communications by the Mission with Bank officials outside the Region.

cc: Messrs. Clarke, Diamond, Kearns, van der Meer,  
Alishah, Street  
Miss D. Murphy

BAligbah/WDiamond;ebc



CORDERY  
INTBAFRAD  
LONDON

OCTOBER 28 1975

LT

(ENGLAND)

FOR YOUR INFORMATION I EXPECT ARRIVE LONDON NOVEMBER 13 (STOP)  
PARIS HAS ARRANGED APPOINTMENTS FOR WHOLE ITINERARY WHICH INCLUDE  
MEETING FRIDAY NOVEMBER 14 WITH DOUGLAS WILLIAMS ETAL (STOP)  
STAYING AT BROWNS HOTEL THROUGH NOVEMBER 17

REGARDS

ERNEST STERN

Ernest Stern  
Vice President  
South Asia Region

EStern/lc

CARLOS DIAZ-ALEJANDRO  
NUFFIELD COLLEGE  
OXFORD UNIVERSITY  
OXFORD OX1 1NF

OCTOBER 28 1975

LT

(ENGLAND)

EXPECT BE IN LONDON NOVEMBER 14-16 (STOP) ANY CHANCE SEEING YOU IN  
LONDON THAT WEEKEND (STOP) PLEASE LEAVE WORD WITH BANK OFFICE

REGARDS

ERNEST STERN

Ernest Stern  
Vice President  
South Asia Region

EStern/lc



Mr. Robert S. McNamara, President

October 28, 1975

Ernest Stern, VP, South Asia Region

CONFIDENTIAL

Development Committee

1. I have now completed my discussions with selected Executive Directors regarding the future of the Development Committee. The assessment of performance during the past fifteen months is colored by the basic attitudes which were held at the outset and which have not changed much. The Part I country Directors with whom I spoke generally felt that the Committee had done little and that its prospects for making a significant contribution were small. The Executive Directors of the developing countries felt, without exception, that the Committee has been a useful forum for the expression of high level political views and that it is in a good position to make a contribution to the discussion of such major issues as commodity financing, the SDR link and the capital replenishment for the Bank.
2. The developing countries show no inclination for either a change in format or mandate. While the views of the Part I countries on this are more diverse, no one would be prepared to push for abolition or modification of the Committee without LDC support. The most negative views remain those of Germany, whereas those of Canada and the U.K. can be described as negative but tolerant. Japan recognizes that there are problems but has given no thought as to how these might be dealt with and probably would be content with any arrangement. The French take the most positive view as to the accomplishments of the Committee. The views of the United States are the most unformed. It is clear that they are playing with a variety of alternatives as to the future of this Committee, the Interim Committee, and the new development committee created by the energy conference; they have not yet made up their mind as to which course they wish to pursue. Consequently, they do not think it desirable to take any action on a review of the Committee which they prefer to leave to as late as possible.
3. Regarding the review process called for in the Resolution, there is little sentiment for having the Boards initiate any action. I agree with this since the prospect of having the two Boards review the functions of the Committee is likely to be divisive and time consuming. This would mean that the Committee should prepare a report itself. If this is not done through a sub-committee, there is no chance of any significant change in the structure of the Development Committee. Yet there are a number of countries, including the United States, which, as of now, oppose the establishment of a sub-committee. The decision on the review process obviously will be determined by governmental views as to the conclusion to be reached.



4. There is broader consensus on the fact that the Chairman should be changed at the end of the two-year period. What the reaction would be if the present Chairman takes no initiative towards stepping down is hard to say. It is by no means a foregone conclusion that he will do so. However, on the assumption that there will be a change in chairman, there seems to be some agreement that someone from Latin America would be a suitable candidate, even though both the Mexican and Brazilian Finance Ministers would create some intra-Latin American difficulties.

5. I will keep myself informed of any changes in views on these issues, and I suggest that we meet sometime in December to discuss our approach for the January meeting.

cc: Mr. Knapp

EStern/lb



Mr. David Dunn, Chief, ASADD

October 28, 1975

Ernest Stern, VP, South Asia

BANGLADESH - Jute

Upon further reflection it seems to me that three questions might constitute the focus of our further analysis of jute in Bangladesh:

- (a) what does it take to increase productivity of jute farming by x% per year (x being some reasonable target - say 4-5% - to be agreed on);
- (b) what does it take to get present industrial capacity utilized at y% by 1978 (y being some reasonable target like 80%);
- (c) what does it take to increase the share of domestically processed jute (can one aim for 100% by, say, five percentage points annually for the next five years.

Unless one has some such targets defined we will have no common framework and it will remain difficult to judge whether measures are adequate.

Although the Economic Mission perhaps cannot do much to spell out these objectives, we might nonetheless alert them to the general approach. I should also like to discuss with you, et. al., how such objectives can be refined.

cc: Mr. Diamond  
Mr. van der Meer  
Mr. Picciotto

EStern:mp

Mr. Robert S. McNamara, President

October 28, 1975

Ernest Stern, VP, South Asia

INDIA - Urban Work

1. Dr. Sen stopped in last week to drop off the attached note and to expand on his thoughts regarding urban activities. He asked that a copy be furnished to you.

2. His principal point is that a broad attack on urban problems must be seen in a regional context. This requires an integration of all types of projects (rural, transport, power, water) which can be done only if there is a clear responsibility for a regional approach in the Region, into which Region- and CPS-administered projects fit.

cc: Mr. Knapp (w. att.)

Attachment  
EStern/lc

bcc: Messrs. Diamond  
van der Meer  
Rajagopalan  
Alisbah



### COMMENT ON DEVELOPMENT OF URBAN WORK

The purpose for adding an urban category to Bank operations was presumably to focus on problems associated with particular geographical areas (urban areas) and to add a spatial dimension to operations that previously had been carried out almost exclusively along functional lines--industry, power, water supply and transport. Actually, although it was not prevented from undertaking multi-sector operations, the Urban Projects Department was set up as a conventional project department with its own jurisdiction limited to urban transport and low-cost shelter. In some cases, projects of a broad urban nature including substantial elements of water supply and sanitation have been undertaken. Calcutta is probably the best early example. However, for the most part, the Department's activities have developed along conventional lines with particular concentration on the development of a sites and services type of project parallel with the Bank's usual operations in urban areas in the fields of industry, water supply, power and ports.

The greatest opportunity for an effective contribution to urban development would seem to lie in the coordination of efforts in various fields focused on the development of the city as well as <sup>the region.</sup> The need is not so much for new types of projects as for new types of operations--new combinations of projects designed for a particular situation. The true urban focus is multi-sector and its ultimate concern must be regional. To develop a strong urban program along these lines would require a better structure for coordinating efforts in various conventional fields and a greater effort devoted to analysis of particular urban situations and their regional implications and the design of multi-sector operations. A start in this direction could evolve directly from present

operations by creating "centers of concern" for selected major urban areas where urban projects are being undertaken. These centers would provide coordination, direction and advice to the various sector operations in the region, including the main city and the related small towns and rural areas in the hinterland. They could also promote and direct economic studies designed to support operations. They might take the form of working groups on which each technical function is represented -- urban projects as such, water supply projects, industrial projects and public utilities, and complementary rural development. There are various ways this could be organized. But an area approach (as distinct from purely project approach) has necessarily to be an important element of it. This will be particularly important if Mr. McNamara's thoughts on the subject, as expressed in his Address to the Annual Meeting this year, has to be translated into practice. The CMDA project in India would be a useful project to try out one of the possible alternatives, in which the area department takes a much more leading role than it is taking to-day.



October 28, 1975

Dear G.V.,

Thank you for the article, "Why Not Kill the Cow." You are quite right that the simplistic solution neglects the economic importance of cattle as draft animals and providers of dairy products. The emphasis should be, as you note, on improving the breed, better feeding and health care, and increased dairy productivity.

Mr. McNamara has asked me to also convey his thanks for the article.

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

Mr. G.V. Ramakrishna  
Economic Minister  
Embassy of India  
2107 Massachusetts Avenue, N.W.  
Washington, D.C. 20008

bcc: Mrs. M. Lee

EStern/lc

G.V. RAMAKRISHNA  
Minister(Economic)



भारतीय राजदूतावास  
वाशिंगटन, डी० सी०  
EMBASSY OF INDIA  
(ECONOMIC WING)  
WASHINGTON, D. C. 20008

October 21, 1975

*Answered  
10/28*

My dear *Ernie*,

In the context of India's efforts to achieve self-sufficiency in food, the question is being often asked as to why India does not solve her problem simply and instantly by converting her cattle into beef. In the enclosed paper "Why not kill the Cow" I have attempted to explain the economic rationale for not killing the Cow. I hope you will find time to glance through it.

With best wishes,

Yours sincerely,

G.V. RAMAKRISHNA

Mr. Ernest Stern  
Vice-President  
South Asia Region,  
I.B.R.D.,  
Washington, D.C.

Attachment



G.V. RAMAKRISHNA  
Minister(Economic)



भारतीय राजदूतावास  
वाशिंगटन, डी० सी०  
EMBASSY OF INDIA  
(ECONOMIC WING)  
WASHINGTON, D. C. 20008

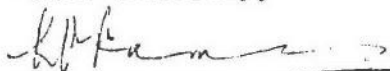
October 21, 1975

My dear Mr McNamara,

In the context of India's efforts to achieve self-sufficiency in food, the question is being often asked as to why India does not solve her problem simply and instantly by converting her cattle into beef. In the enclosed paper "Why not kill the Cow" I have attempted to explain the economic rationale for not killing the Cow. I hope you will find time to glance through it.

With best wishes,

Yours sincerely,

  
G.V. RAMAKRISHNA

Mr. Robert McNamara  
President,  
I.B.R.D.  
Washington, D.C.

Attachment

Mr. Robert S. McNamara, President

October 28, 1975

Ernest Stern, VP, South Asia

UN Special Session Follow-Up Work

Attached is the paper on Compensatory Financing (Item 1), prepared by the Economic Analysis and Projections Department, DPS. I want to draw your attention to the discussion of distribution on pp. 8-9.

cc: Messrs. Knapp  
Cargill  
Hoffman (w. att.)

Attachment  
EStern/lc



Mr. James Dyck, Personnel

October 23, 1975

Ernest Stern, VP, South Asia

1975 Annual Performance Review

In the process of doing Annual Performance Reviews I have come across a fair number, and a high proportion of those I have seen, in which the staff member asks for career development program or guidance and indicates that similar requests in past years have gone unheeded. I can think of no easier way of subverting the credibility of a career development system than this.

At a minimum, it seems to me, such requests should be acknowledged so that people will know that they are not merely crying in the wilderness. Obviously it would be desirable to do more than that, and a next step would be to counsel with staff members as to the realism - in terms of personal capacity and likely availability of positions - of the stated objectives.

cc: Mr. R. Clarke  
EStern:mp

All Staff Members

October 23, 1975

Ernest Stern, VP, South Asia

Annual Performance Review

As you know, the instructions for the 1975 Annual Performance Review emphasize that a meaningful discussion should take place between you and your supervisor. I have asked that every staff member be shown his or her written evaluation as a basis for, or part of, this discussion. Before we submit the APRs to Personnel I should like to be sure that everyone has had a full opportunity for a discussion of his or her performance. If the discussion has been incomplete or if you have not seen your evaluation, please advise your Department Director or Mr. Street before October 31.

EStern:mp



October 23, 1975

Dear Professor Ginsburg:

This is just a note to let you know that I was very sorry that I could not attend the conference to which you so kindly invited me. The agenda looked interesting and dealt of course with subjects very close to me. The papers which you sent were stimulating and made me regret even more that I could not attend. However, as I told you, I have only recently taken over this position and my calendar was rather full with appointments. I tried to rearrange them so that I might attend for part of the conference, but even that did not work out in the end.

With best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

Professor Norton Ginsburg  
Center for the Study of  
Democratic Institutions  
233 North Michigan Avenue  
Chicago, Illinois 60601

EStern/l8

Mr. Robert S. McNamara, President

October 23, 1975

Ernest Stern, VP, South Asia

Capital Structure Paper

In general I think this an excellent paper. My suggestions are provided on a line in/line out basis as requested.

There is one general point on organization. Paragraphs 1.05-1.14 diffuse the thrust of the opening statements. Some space can be saved but, more importantly, impact can be increased considerably by not having these sections serve as a table of contents. I have suggested substantial pruning in this section.

EStern:mp



Mr. Robert S. McNamara, President

October 23, 1975

Ernest Stern, VP, South Asia

Visit of Professor Nurul Islam

Professor Nurul Islam, the former Deputy Chairman of the Bangladesh Planning Commission, has written to tell me that he will be in town the first week of November. He asked in his letter whether he could see you during his stay.

Both Hollis and I expect to see him. His principal interest seems to be in defining an acceptable position outside of Bangladesh, and I expect he has little current information on developments there. It is unclear where he would stand if he were to return. He has been at Oxford for the last year on a fellowship which expires in December. He was ostensibly on a "nine-month leave of absence" from his post as Deputy Chairman. However, the new Government has just appointed a new Deputy Chairman without reference to Professor Islam's position.

Unless you personally wish to see him, there are no reasons from our side for you to do so. Would you let me know?

EStern/DADunn:mp

NURUL ISLAM  
QUEEN ELIZABETH HOUSE  
21 ST. GILES  
OXFORD

OCTOBER 22 1975

LT

(ENGLAND)

WILL BE IN WASHINGTON FIRST WEEK NOVEMBER BUT PLAN TO LEAVE NOVEMBER 8  
(STOP) SHOULD BE PLEASED TO SEE YOU (STOP) CHENERY ALSO EXPECTS BE IN  
TOWN (STOP) LET US KNOW FIRM DATE SOONEST

REGARDS

STERN

William Diamond  
Director  
South Asia Country Programs Department

EStern/lc



Telephone  
OXFORD 52952

QUEEN ELIZABETH HOUSE

21 ST. GILES  
OXFORD, OX1 3LA

PERSONAL AND CONFIDENTIAL

DECLASSIFIED

13th October, 1975

AUG 18 2020

WBG ARCHIVES

Dr. Ernst Stern,  
Vice-President,  
Asia Region,  
International Bank for Reconstruction  
and Development,  
1818 H Street, N.W.,  
Washington D.C.20433,  
U.S.A.

Dear Ernst,

May I repeat my congratulations conveyed to you earlier on your assumption of office as Vice-President, Asia region. There could not have been a better appointment.

I might be in New York in the first week of November, 1975. I would very much like to come over and talk to you and other friends during this period. Would you be there at that time in Washington? Would it be possible for me to see Mr. Macnamara at that time? I would also like to see Hollis as well, if he is there.

Yours sincerely,

  
Nurul Islam.

FROM: The Secretary

October 21, 1975

NOTICE OF INTENTION TO NEGOTIATE

PAKISTAN - SECOND WAPDA POWER PROJECT

The Bank is planning to invite the Pakistan Water and Power Development Authority (WAPDA) and the Government of Pakistan to send representatives to Washington to negotiate a proposed loan of US\$50 million to WAPDA to finance the foreign exchange cost of expanding the power transmission facilities of WAPDA.

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice President, IFC  
President's Council  
Directors and Department Heads, Bank and IFC



FILES

October 21, 1975

Ernest Stern, VP, South Asia

Conversation with Mr. M. Al-Atrash

During my lunch with Mr. Al-Atrash, he mentioned three particular points:

- (a) He expressed the hope that we might be able to give sympathetic consideration to the program loan request of the Government of Pakistan. While he recognized the need for an adequate program, he thought the Government was in a position to make an adequate case.
- (b) He planned to go to Pakistan in November and would let us know the date as soon as it was established. He hoped that we would be able to prepare a brief for him.
- (c) He emphasized the importance of good communication between his office and us. He noted that this had been excellent in the past and hoped to be fully informed of all major matters.

cc: Messrs. Diamond  
van der Meer  
Collier

EStern/lc



Mr. Robert S. McNamara, President

October 21, 1975

Ernest Stern, VP, South Asia

Status of UN Follow-up Work

You selected nine subjects on which brief papers were to be done by mid-October. On the basis of these papers, we would decide which matters required further special attention, which could be integrated in the general work program and which need not be pursued further. As of today, the status is as follows:

1. Compensatory Financing  
(Security Development Fund)      The DPS paper has been delayed but is now expected to be ready in the next few days. The analysis by the Fund staff shows the issues quite clearly and there is no prospect - under any current proposal - for resource transfers of the magnitude mentioned in the Kissinger speech. Some liberalization of the U.S. proposal undoubtedly will emerge from the Fund Board discussions and, hence, some expansion of LDC access to Fund resources. No further action by us would seem to be required except that we should continue to monitor the Fund discussions.
2. International Investment Trust      In his note to you of October 10, Mr. von Hoffman postponed the due dates for the paper to the end of October.
3. International Energy Institute      Paper Completed.
4. Consultative Group on Non-Food Agricultural Products      There is a divergence of views among the technical staff, and Mr. Baum plans to seek outside advice. You will receive a note from Mr. Baum within the next few weeks presenting alternatives.
5. Investment in Mineral Resources      In his note to you of October 10, Mr. von Hoffman postponed the due date for the paper to the end of October.
6. Foodgrain Losses      The attached note from Mr. Martin, though not fully responsive as a background paper, gives the status - i.e. a small technical group has been organized in FAO and the issue will be on the agenda for the Third CGFPI meeting. No further action by us would seem to be required.



October 21, 1975

7. The Debt Problem

DPS has included a mini-outline of a debt study in the material included on Page 3 of Attachment C of Mr. Chenery's memorandum to you of October 14. However, it seems to me that this material requires further elaboration. First, it combines the evaluation of the Bank's portfolio with the assessment of the LDC problem. Addressing these two separate, though obviously related, issues together will make for a difficult, if not unmanageable, paper. Secondly, it proposes to develop a Bank position "with respect to questions likely to be raised in the proposed conference" of debtors and creditors. However, the UN resolution only asks UNCTAD to consider such a conference at its fourth session, which is scheduled for May 3-28, 1976. The debt paper is scheduled for May 1976. It would seem more sensible to do our general analysis separately and to address the questions of creditor/debtor conference once such a conference has been decided on and the questions formulated. Finally, a more detailed outline would help to define the purpose of the analysis more clearly. For instance, I am not sure what is intended by assessing the impact of the debt burden on the development potential of countries or why we should give special attention to the most affected - Most affected by what? There was, I thought, general agreement that the MSA concept was no longer relevant. The debt problem of the poorest may require special treatment, but it is not a very large portion of the debt burden.

8. Export Financing Guarantee

Due from IFC October 31.

9. UN Fund for Natural Resources

Paper completed and sent to Board for information.

## Attachments

cc: Messrs. Knapp  
Baum  
Cargill  
Chenery  
von Hoffman  
Hoffman

EStern/lb

# OFFICE MEMORANDUM

TO: Mr. Warren C. Baum, Vice President

DATE: September 24, 1975

FROM: ~~Edwin M. Martin~~, Chairman, CGFPI

SUBJECT: US and UN Recommendation on Action to Reduce Post-Harvest Waste

Paragraph TIC(2) of the Prospectus for the CGFPI of February 18, 1975, approved by the heads of the three sponsoring agencies, described post-harvest waste in "Storage, Marketing, Processing and Transportation" as a desirable subject for CGFPI consideration. In later discussions on this "Scope of Work," this item was not questioned.

At the first meeting of the CGFPI several participants proposed it as an important subject for early consideration. The Chairman responded that discussion on this topic had been started by him with FAO experts in March and it was hoped that it could be presented for consideration at the second or third CGFPI meeting. This idea seemed to meet with general approval.

Further steps have not been taken pending completion of a World Bank bibliographical study, just received.

Since the adoption of the UN Resolution, we have been in touch with FAO which has organized a small Working Group on the subject. Steps have been taken to organize an informal meeting of representatives of FAO, UNDP, UNIDO, the World Bank and the CGFPI in the near future.

At present we plan to concentrate on "seed production and distribution" as the major new subject for the second meeting and try to have post-harvest waste in hand for the third. It has long been a popular subject, but more for talk than action. There is little specific information on its size and where in the distribution chain it is most serious. Concrete proposals will not be easy. To the considerable extent it takes place at the level of farm and village storage, its reduction is closely linked to progress in rural development and extension generally.

cc: Mr. J.P. Huyser, Director, Investment Centre, FAO, Rome  
Mr. Gordon Havord, Senior Technical Advisor, UNDP, N.Y.  
Mr. Harry Walters, Assistant Executive Secretary, World Food Council, Rome

~ and to Philip Sinnbaum, AID  
EMMartin:gbo



Debt Management (DPS/P&B)

While the burden of debt in developing countries has been increasing in conjunction with the deterioration of the terms of trade, this has been partially offset by inflation. The conventional indicators therefore need to be reassessed. In a policy paper on the implication of debt management for creditworthiness of developing countries, the following will be dealt with:

- assessment of the impact of debt burden on the development potential of Bank member countries with special attention to the most affected countries;
- assessment of the debt management policies of countries with large debt burdens;
- development of guidelines for improving the analysis behind Bank Group's judgements on creditworthiness of countries faced with high debt burdens;
- assessment of the risks that the Bank runs on its own portfolio because of increase in debt burden of developing countries;
- development of Bank's position with respect to the questions likely to be raised in the proposed conference of major donor, creditor, and debtor countries.

Mr. H.J. Costanzo, Executive Secretary,  
Development Committee  
Ernest Stern, VP, South Asia Region

October 20, 1975

Paper on "Capital Structure"

Our current schedule for the "capital structure" paper is to have it available for Board distribution by November 4. This would make Board discussion on December 9 possible. The paper might take several Board meetings, but we expect to be able to complete discussions before January.

bcc: Mr. Haq  
EStern/lis



JOCHEN KRASKE  
INTRAFRAD  
NEW DELHI

OCTOBER 20 1975

LT

(INDIA)

NEXT TIME YOU SEE KAUL PLEASE GIVE HIM MY THANKS FOR EXPEDITIOUS  
RESOLUTION GODAVARI PROBLEM

REGARDS

STERN

Ernest Stern  
Vice President  
South Asia Region

EStern/lc



Mr. R. A. Clarke, Director, PDP

October 20, 1975

Ernest Stern, VP, South Asia Region

Request for a Senior Position for this Region

1. I request an additional N level position for this Region. This Region had 25 senior positions at the beginning of the fiscal year; but since the death of Mr. Ladejinsky, whose N-grade was personal to him, we have had only 24 positions. I now ask for the replacement of the 25th position on a "permanent" basis.

2. The strengthening of our Resident Mission in India has required the appointment of a senior level economist and a senior level agricultural expert. The agricultural expert has taken the senior position vacated by Mr. Alisbah, who had been Deputy Chief of the mission, when he returned to Washington. When a senior-level economist was transferred to New Delhi in August, we had the choice of requesting that Ladejinsky's N-grade be retained on a permanent basis or of using a senior position then vacant in Washington (i.e. the second Departmental Senior Economist in ASA). We decided to use the available senior slot, rather than to ask for a new one, pending a review of the requirement for a second Senior Economist.

3. I have now concluded that it is essential to have a second Senior Economist in the Department in order to strengthen the quality and capacity of the economic staff and to provide the necessary leadership. I therefore request your agreement to the establishment of a new senior position (that is, recovering the Ladejinsky position which existed on July 1).

4. We have identified Mr. Jansen as a suitable candidate for the position, in consultation with the economic staff and the Personnel Department, subject to the establishment of the position.

cc: Messrs. Knapp  
Diamond  
Gilmartin  
Kearns  
Street

WDiamond/WGilmartin/EStern:ls



See Distribution

October 17, 1975

Ernest Stern, VP, South Asia Region

SRI LANKA - Water Supply Project

I talked to Mr. Knapp today regarding the Sri Lanka Water Supply Project. There is no objection to restoring it to the FY1977 operations program.

Distribution:

Mr. Diamond, Director, ASA  
Mr. van der Meer, Director, ASP  
Mr. Rajagopalan, Asst. Director, ASP  
Mr. Shibusawa, Chief, ASADC

EStern/lis

See Distribution

October 17, 1975

Ernest Stern, VP, South Asia Region

Terms of Third Window Loans

You may be interested in the attached draft. It has been discussed and will be issued shortly with only minor changes.

Since a number of procedural steps still need to be completed, we can assume that Third Window financing will not be available before the third quarter. Tentative allocation figures will be available shortly.

Distribution:

Mr. Diamond, Director, ASA  
Mr. van der Meer, Director, ASP  
ASA Division Chiefs

Attachment



## OFFICE MEMORANDUM

TO: Operational Vice Presidents

FROM: J. Burke Knapp

SUBJECT: Terms of Third Window Loans

DATE: October 16, 1975

I would appreciate meeting with you tomorrow at 11:30 a.m. to review the attached draft paper to go to the Board in the near future, setting forth more detailed recommendations than previously, regarding the terms of Third Window loans and the modus operandi of the Third Window Subsidy Fund. Before going to the Board with this paper we plan to discuss it with the group of Executive Directors representing the donor countries. In view of the progress being made in putting together the minimum \$100 million for the Subsidy Fund, it has now become urgent to consult with the donors and I hope to circulate the attached paper to them by tomorrow afternoon.

Attachment

From: The President

OPERATION OF THIRD WINDOW

1. Before any Third Window loans are made it is necessary to decide the terms and conditions of such loans and a number of other matters affecting the operation of the new facility. This memorandum puts forward recommendations on these matters for the consideration of the Executive Directors.

Present Status of Third Window

2. The Resolution establishing an Interest Subsidy Fund for the Third Window (Resolution No. \_\_\_ adopted on July 29, 1975) provides in Section G that the new facility shall become operative and the contributions payable, on the date when contributions or formal notification of intended contributions shall have been received by the Bank in an amount not less than the equivalent of US\$100 million. As of October 16, 1975 contributions totalling \$50 million had been received from Abu Dhabi (\$5 million), Saudi Arabia (\$25 million), and the Netherlands (\$20 million). Formal notification of their intention to make contributions had been received from Canada (\$20 million) and the United Kingdom (\$10 million) bringing to \$80 million the total of confirmed contributions. Pledges of an additional \$47 million equivalent have been made by Australia, Denmark, Kuwait, Norway, Qatar and Venezuela subject to parliamentary approval or other action. It is expected that the contribution of Kuwait (\$20 million) will have been confirmed within the next few weeks and thus permit the Third Window operations to begin.

3. The contributions have been and will be invested as received. The earnings on these investments will be paid to the Interest Subsidy Fund and will be counted towards the minimum \$100 million of contributions required for effectiveness.

Terms of Third Window Loans

4. Because of the concessionary nature of Third Window loans it is proposed that they be made to member governments and that the terms of the loans be the same for all borrowers, following the precedent of IDA. A grace period of seven years and a final maturity of approximately 25 years, both somewhat longer than the average for Bank loans (22 years including 3½ years of grace) are recommended. In cases where the ultimate beneficiary of the loan is not the government, the proceeds would normally be on-lent at the interest rates appropriate for the project, again following the IDA precedent.

5. Interest on Third Window loans would be set at a rate four percentage points lower than the current interest rate on standard Bank loans and would be charged on the outstanding balance. Given the current rate of 8½% per annum, the interest rate on Third Window loans would thus be 4½%. The remaining 4% of interest would be paid to the Bank on the borrowers' behalf from the Interest



Subsidy Fund. In the event that the Interest Subsidy Fund should prove insufficient to provide the full subsidy to the end of the amortization period, the borrower would be obligated under the loan agreement to make up the difference in the final payment or payments.

6. To ensure equal treatment of all borrowers in the event of a shortfall in the Interest Subsidy Fund, all Third Window loans would have the same final payment date. The first loan would have a term of 25 years, but the term of loans approved thereafter would become somewhat shorter; the grace period in all cases would be 7 years.

7. In other respects the terms of Third Window loans would be the same as those of standard Bank loans. Thus, the amortization schedule would provide for equal semi-annual payments of interest and principal by the borrower. There would be the usual commitment charge of 3/4 of 1 percent.

#### Purposes of Third Window Loans

8. Although the terms of all Third Window loans would be the same, the amount of subsidy required by loans of a given size would depend upon the rate at which they were disbursed. Loans that disburse quickly would make a heavier call on the Subsidy Fund than those that disburse more normally because the subsidy would become payable in larger amounts from an earlier date. The difference is most marked in comparing program loans, which typically disburse in less than two years and often in a few months, and project loans which have a typical disbursement "profile" of up to 10 years. Assuming a two-year disbursement period a typical program loan would require subsidy payments 50% higher on a present value basis than a typical project loan. To ensure more equal treatment among countries borrowing from the Third Window, a means would have to be found of compensating for this difference. One way of doing so would be to make program loans for a shorter term than project loans, (a typical program loan of 15 years with 4 years of grace would use up as much subsidy as a typical project loan on the terms proposed above) but to do so would seem inconsistent with the concessionary nature of the Third Window facility. Accordingly, it is proposed to confine Third Window loans to the financing of projects, and to leave program lending to be handled in appropriate cases by the Bank or IDA.

9. In my memorandum of July 15, 1975, on the Third Window, it was estimated (R75-161, paragraphs 8 and 9) that contributions in the amount of \$114 million - the amount then believed to be in sight - would be sufficient to finance about \$500 million of Third Window loans. This calculation was based on the assumption that 10 percent of the loans would be program loans with full Third Window grace periods and amortization. Restricting Third Window loans to the financing of projects would increase this figure to \$525 million. The \$127 million of contributions pledged so far would permit Third Window loan commitments of approximately \$586 million.

#### Currency Used for Investments and Disbursements

10. The question arises whether the currencies received by the Fund should be converted and invested in one or more currencies and whether the disbursements on Third Window loans should be made in one or more currencies. It is concluded that both investment and disbursement should be in a single currency and that the currency should be dollars.

11. If the assets of the Fund are held in a mix of currencies different from that corresponding to disbursed Third Window loans, the value of the assets of the Fund may vary in relation to the obligation of the Fund to pay interest on Third Window loans. Thus, the Fund will bear an exchange risk which could ultimately lead to a shortfall in the assets of the Fund due to an unfavorable movement of exchange rates and this shortfall would have to be borne by the borrowers. This risk would be avoided by matching the currencies in which the assets of the Fund are held with the currencies disbursed on Third Window loans; as a practical matter, this is most easily done by using only one currency for the purpose. The most suitable currency would be the dollar because (a) investment opportunities and liquidity are at present greatest in the U.S. market, which will help to maximize the return on the Bank's investments; and (b) the majority of contributions to the Interest Subsidy Fund are likely to be in dollars.

#### Treatment of Contributions

12. Under the terms of the Resolution (Section D (d)) the present value of contributions is to be determined by the Administrator as of the date of notification. Contributions received after the due date for payment (the 90th day after the Third Window becomes operative) would be discounted at 8 $\frac{1}{4}$ %, the assumed yield on the Fund's investments (see paragraph 14 below), unless the contributors concerned agreed to pay interest at that rate. As indicated above (paragraph 3), contributions made before the due date will earn interest which will be credited to the Interest Subsidy Fund upon effectiveness and taken into account in determining when the minimum level of contributions is reached. In the event that the Third Window does not become operative, these earnings will be returned to the contributors together with their contributions.

#### Investment Policy

13. In order to minimize the risk of a possible shortfall in the Interest Subsidy Fund, which would require borrowers to pay the full Bank interest rate on Third Window loans at some future date, it will be important to establish as accurately as possible the amount of interest that the Fund is likely to earn on its investments during its life. This could be accomplished in part by investing the assets of the Fund in long term bonds at fixed rates of interest. However, even if that were done, the future return on reinvestment of the Fund's earnings could not be exactly determined and could greatly influence the amount available for subsidy. To minimize the risk of borrowers having to pay the full Bank interest rate on their loans



at some future time, the Bank would have to be conservative in determining the amount of Third Window commitments it could make.

14. An alternative, which would eliminate the uncertainty as to the rate of return on the Fund's investments, would be for the Bank to borrow the assets of the Interest Subsidy Fund, pay the Fund interest at a fixed rate on the outstanding balance held by the Bank, and repay the Subsidy Fund in the amounts required to meet the Fund's obligations. From the point of view of the Bank, borrowing the assets of the Subsidy Fund would have the advantage of reducing by a corresponding amount the funds it would otherwise have to borrow in the capital market to finance Third Window loans. An appropriate interest rate on the Bank's borrowings from the Subsidy Fund would be 8½%, which is slightly below the average cost of Bank borrowings, weighted by amount and maturity, during the current fiscal year to date (8.50%). In exchange for a somewhat lower return than it might obtain at this time by investing its assets in the market, the Subsidy Fund would be guaranteed an 8½% return throughout its life.

15. Under the foregoing arrangements the Subsidy Fund would be relieved of exchange risk (see paragraph 11 above), it would know exactly what its interest return would be (see paragraph 14 above) and the only remaining element of uncertainty would be variations in the rate of disbursement on project loans. As the Bank proceeds to make Third Window commitments, it would set aside subsidy funds in an amount indicated to be required by the expected disbursement pattern of each loan, and would continue making commitments until the amounts so set aside equalled the total estimated to be available in the Subsidy Fund. In these circumstances an eventual call upon borrowers to pay more than 4½% on Third Window loans would arise only if the actual disbursement rate of Third Window loans proved to be faster than the original estimates.

#### Summary of Principal Recommendations

16. I recommend that:

- (a) Third Window loans be made on essentially the same terms to all borrowers, with interest at 4 points below the Bank's standard rate, a grace period of 7 years and a final maturity of approximately 25 years. In other respects the terms would be the same as those of standard Bank loans;
- (b) Third Window loans be used to finance only projects;
- (c) The assets of the Interest Subsidy Fund be borrowed by the Bank which would pay interest at 8½% on the balance outstanding from time to time.

Mr. Robert S. McNamara, President

October 17, 1973

Ernest Stern, VP, South Asia Region

Lending Program

1. Attached is the proposed accelerated lending program for South Asia. Out of the 38 projects shown in your Table 4 which show dollar amounts as of October 1, we propose to prepare 32 for submission to the Board. The quarterly distribution expected is 5 projects in the second quarter, 14 in the third and 10 in the fourth (plus 3 completed in the first). The project dates shown do not correspond to the latest timetable, but the timetables will be adjusted as soon as we have your approval of this program.

2. I want to be sure that the assumptions of the proposal are clearly understood. First, I have assumed money will be available. The distribution by country of the proposed lending program is shown in the attached summary. Secondly, while the proposed program of 32 projects is based on our realistic assessment of the problems to be resolved and the amount of work yet to be accomplished, it nonetheless implies no contingency for unforeseen circumstances. If you wish to allow for a contingency, a figure of 30 projects provides greater certainty. Thirdly, we have assumed that the necessary Board presentation slots will be made available in the third and fourth quarters.

3. I should also like to point out that for the Region this proposal involves a major acceleration of the lending program of 25 projects on which we had been planning and involves a substantial depletion of the project pipeline. This level of lending, in terms of project numbers or money, cannot be sustained with our present staff resources, though such levels are justified by the needs of the countries and their capacity to use resources effectively with our assistance. For reasons which I will discuss with you in more detail at budget time, we are not as well equipped in South Asia as we should be to push ahead with our lending program in the priority areas which in all our countries are complex and staff intensive.

Attachments

cc: Messrs. Knapp, Schulmann  
cc and cleared with: Messrs. Diamond  
van der Meer  
Street

EStern/ls



See Distribution

October 16, 1975

Ernest Stern, VP, South Asia Region

Pakistan Country Program Briefing

In the course of our discussion on Pakistan we agreed to:

1. Review our education strategy in Pakistan, with appropriate Regional and Central Projects staff participation. Mr. Rajagopalan to arrange.
2. Meet with the Ambassador and Mr. Mufti to discuss problems of project implementation and preparation. The first step to be a lunch for a general discussion - Mr. Diamond to arrange - and subsequently a more detailed review with Mr. Mufti.
3. Discuss our agricultural strategy after both sector studies are completed and the work program for the UNDP study defined. Mr. Picciotto to arrange.

Distribution:

Messrs. Diamond, Director, ASA  
van der Meer, Director, ASP  
Gilmartin, Chief Economist, ASN  
Picciotto, Asst. Director, ASP  
Rajagopalan, Asst. Director, ASP  
Collier, Chief, ASADA

EStern/lc

Mr. Robert S. McNamara, President

October 16, 1975

Ernest Stern, VP, South Asia Region

Distribution of IMF Gold Profits

The attached IMF document defines the beneficiaries of the direct distribution of gold profits. As predicted, it includes the oil exporters, but there is a request for voluntary restraint.

cc: Messrs. Knapp  
Cargill  
Chenery

Attachment  
EStern/ls



October 16, 1975

Mr. C. A. Burkhardt  
Manager  
Corporate Development Department  
151 Farmington Avenue  
Hartford, Connecticut 06156

Dear Mr. Burkhardt:

I am afraid that I cannot offer many suggestions. In case you are interested in the World Bank I enclose our application form. You might wish to complete it and send it to Personnel. Within the Bank the Treasurers Department would most nearly match your experience. You may wish to explore opportunities at the International Finance Corporation, an affiliate of the World Bank, which deals with private investment in the developing countries.

Sincerely yours,

Ernest Stern  
Vice President  
South Asia Region

Attachment

EStern:mp

CARRIERE  
INTBAFRAD  
PARIS

OCTOBER 15 1975

LT

(FRANCE)

ALPHA PLAN VISIT SEVERAL CONSORTIUM MEMBERS EARLY NOVEMBER TO MEET REPRESENTATIVES OR RENEW ACQUAINTANCES AND TO EXCHANGE VIEWS ON COUNTRY MATTERS AND ISSUES FOR DISCUSSION AT NEXT MEETINGS (STOP) WOULD APPRECIATE YOUR CHECKING FEASIBILITY TENTATIVE ITINERARY

BETA WOULD LIKE VISIT BONN TO CALL ON KLAMSER (STOP) HE WOULD ARRANGE TO INCLUDE APPROPRIATE COLLEAGUES (STOP) WOULD ALSO LIKE CALL BRIEFLY ON SCHULZ AND MOLTRECHT IF CONVENIENT (STOP) IN PARIS WOULD LIKE TO CALL ON NKBO (STOP) ALSO LIKE MAKE COURTESY CALL ON DE LA ROSIERE IF YOU THINK DESIRABLE (STOP) WOULD LIKE MEET WITH WILLIAMS (STOP) THE HAGUE TO CALL ON POSTHUMUS AND COURTESY CALL ON PRONK (STOP) BRUSSELS MULLEMANS AND CALL ON CHEYSSON OR SENIOR ASSOCIATE FOR GENERAL PURPOSES IF YOU THINK DESIRABLE

GAMMA ABOVE VISITS IN NO PARTICULAR ORDER OF PREFERENCE (STOP) MOST CONVENIENT WOULD BE TO START MONDAY MORNING NOVEMBER TEN WITH MEETING IN BONN (STOP) THEN TUESDAY WEDNESDAY THURSDAY AND POSSIBLY FRIDAY FOR PARIS BRUSSELS AND THE HAGUE (STOP) DEPENDING ON TIMING THOSE VISITS I COULD BE IN LONDON FOR MEETING WITH DICK KING AND ASSOCIATES FRIDAY

Ernest Stern  
VP, South Asia Region

*cc - Mr. Diamond*

EStern/lb



CARRIERE

OCTOBER 15 1975

INTBAFRAD  
PARIS

LT

(FRANCE)

PAGE 2 CONTINUED:

OR MONDAY

DELTA HOPE PREPCOM IS PROVIDING A STIMULATING WEEK

REGARDS

STERN

Ernest Stern

VP, South Asia Region

EStern/lc

*Mr. Stern*

**INTRAVRAD**

**OCTOBER 14, 1975**

**DACCA**

**IBF GOVT/TELEX**

**(Ext. 4945)**

**BANGLADESH**

**FOR WEISS**

**THANKS YOUR 1351**

**ALPHA PROPOSED AGENDA ITEMS GENERALLY AGREEABLE SUBJECT FOLLOWING POINTS**

**AAA PRIORITY SHOULD BE GIVEN PROJECTS AND POLICIES WHICH PROMISE QUICK RESULTS IN TERMS INCREASED PRODUCTION (STOP) PRESENT ADMINISTRATIVE RULES AND PROCEDURES DEFEAT ANY ATTEMPTS AT QUICK YIELDING PROJECTS (STOP) IN THIS CONTEXT WE ATTACH GREATEST IMPORTANCE TO EFFECTIVE IMPLEMENTATION**

**BBB DO NOT BELIEVE IT MATTERS GREATLY WHERE PIB LOCATED AMONG SEVERAL ALTERNATIVE POSSIBILITIES AND NOT WORTH CONTESTING GOVERNMENTS PREFERENCE (STOP) ESSENTIAL POINT IS ADEQUATE AUTHORITY TO UNIT TO RESOLVE CONFLICTS AND EXPEDITE ACTION IN OPERATING AGENCIES**

**CCC SUGGEST YOU NOT REPEAT NOT RAISE THIRD ITEM (STOP) I AM NOT CONVINCED WE KNOW WHAT SUCH RECOMMENDATION ENTAILS NOR HOW IT COULD BE IMPLEMENTED (STOP) ALSO FAR FROM CERTAIN THAT INCREASED CENTRALIZATION APPROPRIATE PRESCRIPTION (STOP) BELIEVE APPROACH**



PAGE TWO

TO PERVASIVE PROBLEM WEAK ADMINISTRATIVE STRUCTURE MUST BE STEP  
BY STEP RATHER THAN ACROSS THE BOARD EFFORT (STOP) HAVE ASKED FOR  
REVIEW THIS GENERAL MATTER HERE ABOUT WHICH MORE LATER (STOP)  
MEANWHILE SUGGEST FOCUS ON STREAMLINING PROCEDURES PRINCIPAL  
OPERATING DEPARTMENTS/AGENCIES AND DELEGATING ADEQUATE DECISION  
MAKING AUTHORITY TO THEM

DDD WOULD CAST ITEM SIX IN TERMS OF PROVIDING APPROPRIATE INCENTIVES  
MOTIVATE PRIVATE SECTOR INCREASE PRODUCTION (STOP) THIS SECTOR  
HAS RELATIVELY QUICK RESPONSE CAPACITY OF WHICH GOVERNMENT SHOULD  
TAKE ADVANTAGE (STOP) REFORM PUBLIC SECTOR ENTERPRISES UNDOUBTEDLY  
DESIRABLE AND SHOULD BE NOTED (STOP) INEVITABLY THIS LONG TERM  
PROCESS EVEN AFTER CLEAR COMMITMENT TO REFORM MADE

BETA SUGGEST YOU INDICATE THAT BANK PREPARED ASSIST IN ANY PART OF AN  
EFFECTIVE PROGRAM IMPROVE IMPLEMENTATION CAPACITY

GAMMA I SUGGEST THAT YOU GIVE THE PRESIDENT VOLUME ONE OF REPORT NO. 455B

PAGE THREE

QUOTE DEVELOPMENT IN A RURAL ECONOMY UNQUOTE AND RECOMMEND THAT  
HE READ AS MUCH OF IT AS POSSIBLE  
DELTA DELIGHTED THIS OPPORTUNITY DEVELOPED AND LOOK FORWARD TO REPORT ON  
MEETING

REGARDS

STERN

cc Mr. Dunn

ERNEST STERN, VICE PRESIDENT

SOUTH ASIA

WDiamond/EStern:ecs



Distribution:

Mr. Stern  
~~Mr. Diamond~~  
Mr. Dunn

MONDAY, OCTOBER 14, 1975

OCT 14 10 01 AM 1975

TO: INTBAFRAD WASHINGTON DC SECTION

FROM: INTBAFRAD DACCA

1351, OCTOBER 14 FOR STERN COPY DIAMOND/DUNN

I RECEIVED INVITATION LAST NIGHT TO MEET WITH PRESIDENT AT 12:15 P.M. WEDNESDAY, OCTOBER 15. MEETING STEMS FROM ROUND OF DISCUSSIONS I HAVE BEEN HAVING WITH HIS PRINCIPAL ADVISORS INDICATING SUCH MEETING WOULD BE USEFUL.

SUBJECT TO TIME AVAILABLE AND ON-THE-SPOT JUDGEMENT OF PRESIDENT'S RECEPTIVITY TO OUTSIDE SUGGESTIONS, I PLAN TO RAISE FOLLOWING:

1. NEED TO PREPARE FOR BANGLADESH AID GROUP MEETING NEXT APRIL OR MAY AND IMPORTANCE OF NEW GOVERNMENT'S ESTABLISHING RECORD OF PERFORMANCE IN PROJECT IMPLEMENTATION AND POLICY REFORM AREA.

2. WITH DEMISE OF PIB, NEED FOR MORE EFFECTIVE AGENCY THAN A UNIT IN PLANNING COMMISSION TO ASSURE MORE EFFECTIVE PROJECT IMPLEMENTATION.

3. NEED FOR STREAMLINING AND RATIONALIZATION OF GOVERNMENT STRUCTURE, INCLUDING ESTABLISHMENT OF MORE EFFECTIVE CENTRAL AUTHORITY TO COORDINATE AND ASSURE THE CARRYING OUT OF GOVERNMENT'S ECONOMIC POLICIES AND PROGRAMS. WERE SUCH AN AUTHORITY ESTABLISHED, IT COULD ASSUME THE PROJECT IMPLEMENTATION FUNCTION.

4. DESIRABILITY OF HIGHLIGHTING GOVERNMENT'S COMMITMENT TO PURSUE VIGOROUS PROGRAM FOR POPULATION CONTROL AND CONSIDERATION OF CONVENING MEETING OF NATIONAL POPULATION COUNCIL TO ASSESS PROGRESS, DETERMINE FURTHER MEASURES REQUIRED, AND GENERALLY ACCELERATE ACTION.

5. IMPORTANCE OF REDUCING FOODGRAIN SUBSIDY AND CONCERN OF DONORS IN THIS REGARD.



DESIRABLE OF PROCEEDING VIGOROUSLY WITH REFORM OF PUBLIC  
SECTOR CORPORATIONS AND CONSIDERING STEPS TO FREE UP PRIVATE SECTOR. X

7. IMPORTANCE OF DEVELOPING ADEQUATE PIPELINE OF PROJECTS  
FOR CONSIDERATION FOR FUTURE EXTERNAL ASSISTANCE.

8. NEED FOR MORE EFFECTIVE MOBILIZATION OF DOMESTIC  
RESOURCES, INCLUDING SOME REASONABLE DEGREE OF TAXATION OF  
AGRICULTURAL SECTOR.

9. GENERAL CATCH-ALL ON VARIOUS STEPS NEEDED TO IMPROVE  
PROJECT IMPLEMENTATION, FOR EXAMPLE, DECENTRALISE AUTHORITY AND  
GIVE GREATER AUTONOMY TO OPERATING AGENCIES IN SUCH MATTERS AS  
CONCLUSION PROCUREMENT AND CONSULTANT CONTRACTS AND HIRING OF  
PERSONNEL- IMPROVE PROCEDURES FOR ALLOCATION OF BUDGETARY FUNDS  
TO ENABLE AGENCIES TO MEET LOCAL CURRENCY COSTS OF PROJECTS-  
CORRECT LONG DELAYS IN NEC APPROVAL OF PROJECTS AFTER NEGOTIATION-  
BETTER LONG RANGE PLANNING IN PROCUREMENT AND THE LIKE TO ENABLE  
CONSTRUCTION TO PROCEED PROMPTLY IN DRY SEASON- ETC.

I WOULD APPRECIATE ANY SUGGESTIONS YOU MAY HAVE AS TO  
POINTS TO RAISE WITH THE PRESIDENT. I REGRET THE SHORT NOTICE.

REGARDS WEISS

Mr. W. White, ADM

October 14, 1975

L. Sunderland, ASNVP

Furniture for Office A-513

This is to confirm our conversation of earlier today. You will order for the office of Mr. E. Stern, Vice President, South Asia Region, one three seat sofa, style No. 2863 $\frac{1}{2}$ , and two arm chairs, style No. 2863. All three pieces are to be covered in Kent-Bragaline fabric, style No. 32810. Expected delivery date will be approximately January 15, 1976.



Mr. H.J. Costanzo, Executive Secretary,  
Development Committee  
Ernest Stern, VP, South Asia

October 14, 1975

Survey of Programs and Capital Resource  
Situation of International Lending Institutions

1. It is not clear to me what the strategy is for dealing with this subject. The introductory paragraph seems to suggest that a better understanding of the planning and programming systems of the international lending institutions can be the basis for eliciting general support for an expansion of their capital. The basis for support necessarily is more complex than that. I therefore am not sure what conclusions you plan to extract from the material to place before the Committee in January which would elicit a more precise statement of support for capital expansion than we have already in the September Communique. It may be desirable to identify the institutions where capital expansion programs are under discussion - e.g. it is my understanding that in the case of the IDB, for instance, these discussions are pretty well completed. Identifying particular problem areas, either in terms of institutions or policy areas, would give a better idea of the kind of summary paper that might be useful. A general summary of the material you are requesting does not seem to me to be particularly fruitful, since the governments represented are members of these institutions and are generally aware of their programs.

2. As far as the Bank is concerned, the material you are interested in is contained in our Five-Year Lending Program, the earlier paper on quota increases, and the paper in preparation on our capital structure. You have a copy of the first two; the third should be available by mid-November.

cc: Messrs. Sturc, IMF  
Haq, EPR

EStern/lc



Mr. H.J. Costanzo, Executive Secretary,  
Development Committee  
Ernest Stern, VP, South Asia

October 14, 1975

Aid Targets and their Implementation

1. While I agree in general with the thrust of the proposed outline, the proposed treatment implies more work on this complex subject than can be achieved in a professional manner in the next six weeks -- which I assume is the target. Moreover, there is a long history and much material on the background of aid targets and their implementation, and little, if any, purpose will be served by rehashing this in detail. I would therefore suggest that the paper be more sharply focused on the issues to be addressed by the Development Committee and would start the paper with what is now Item 3. Items 1 and 2 should be treated much more briefly than now indicated in the outline in an annex.
2. In addition to the issues listed, the quality of aid is an important subject, even accepting your desire not to deal with the distribution issue. The French will raise it in any event. Under this heading, a number of points which were agreed to at the Seventh Special Session can be covered -- specifically, untying, the importance of quick disbursing assistance, and selective debt relief as a tool of meeting increased commitments.
3. As the outline now stands, the only issue for which a proposal is made is the achievement of the 0.7% target by the DAC countries. The concept of the paper would have to be reviewed if it is not possible to construct a parallel proposal for the OPEC countries. While it may be useful to discuss the role of the multi-lateral/regional institutions, I would draw your attention to the fact that this is the subject of the second paper.
4. As a final point, I just want to note that while I certainly share your desire to stress the importance of an adequate capital base for the international lending institutions, that subject seems to me quite distinct from the achievement of aid targets. Capital contributions are of course part of ODA, but the issue is much broader than that. Much more important in the context of aid targets, and more relevant to the immediate concern, is DAC and OPEC contributions of concessionary assistance -- e.g. IDA.

cc: Messrs. Sturc, IMF  
Haq, EPR

EStern/lb



Mr. C. Willoughby, Director, OED

October 13, 1975

Ernest Stern, VP, South Asia

INDIA - OED Draft Evaluation Report on the Sixth,  
Seventh and Eighth Loans to ICICI

1. The attached memorandum from Mr. Diamond contains the Region's comments on the draft report.
2. There are two points which I should like to emphasize:
  - The criticism in the draft report of the Bank's sub-project review process reflects a misconception of the objectives of that process and of the benefit which a DFC derives from it. I think that, in general, the benefit is not to be found in specific changes in specific projects, but rather in the general educative impact which our continuing commentary has on the DFC's management and staff, i.e. to be found in later appraisals and decision-making. It would not be entirely inappropriate to compare the review process with the role of the Board on the formulation of Bank Group projects. The comments on a loan proposal never result in changes in the specific project before the meeting, but they very much influence subsequent appraisals and loan negotiations on similar projects.
  - The discussion on interest rates combined some curious economic comments with an apparent confusion between ICICI and the Reserve Bank. Since the second sentence states that, "To a large extent this argument (i.e. the Bank's Mission suggestion) was justifiable ...", even the objective of the remainder of the paragraph is unclear.

cc: Messrs. Diamond, van der Meer, Alisbah, Spall, Loeschner

Attachment \*\*

MPBeutgen/MRowat/WDiamond/EStern:ls

\*\* Memo Diamond to Stern 10.10.75 on same subject.



Mr. Robert S. McNamara, President

October 13, 1975

Ernest Stern, VP, South Asia

Development Committee

Attached are outlines of two proposed papers by the Executive Secretary of the Development Committee for papers to be prepared for the January meeting and the comments we have provided them. As I mentioned the other day, the option of not having the Committee deal with these issues does not exist, but we can be certain that we will have an opportunity to review the papers in draft. Given the time available and the approach the Secretariat is taking, it seems to me both the papers and the discussion will be general and fruitless, and there will be no risk that they will conflict with our discussions on the capital increase or the IDA replenishment.

Attachments

cc: Messrs. Knapp, Cargill  
EStern/lc



Mr. A. Karaosmanoglu, Director, Development  
Policy

October 13, 1975

Ernest Stern, VP, South Asia

Development Committee

1. I have two comments on the proposed outline and schedule sent to you by Mr. Holsen. First, the paper which is required is to be merely an updating of previous projections in light of developments since earlier this year. I therefore doubt that it is desirable or necessary to program a Board discussion. The Board members will get a copy of the document going to the Development Committee, and we can arrange for it to be clearly labeled as staff revisions of earlier estimates. Given the difficulty of the Board discussions on R-802, this seems to me the preferred course of action, although you may wish to check this with Mr. McNamara.

2. On the substantive side, I have stressed to both Mr. Holsen and Mr. Tims before that R-802 never was submitted to the Development Committee, and I do not think it desirable to do so at this time. I therefore believe that Item B in the draft outline is superfluous. We should start with the material in Item A, review for our own information how the estimates in R-802 would be revised in light of actual developments, and present a new set of numbers for capital requirements along the lines of the 802 analysis. The presentation would show how much the earlier estimates are scaled down as a result of lower growth targets, how much of the requirements are expected to be met through trade expansion, and how much is to be met through capital flows.

3. I do not understand the suggestion that no new numbers would be presented, since from the outset this has been the whole purpose of the exercise. Generalized narrative will be of no interest. Finally, I doubt the wisdom of committing ourselves to the Development Committee on the timing of a new study.

4. If you wish, I should be glad to discuss this further with you.

cc: Mr. Haq

EStern/lis



October 13, 1975

Mr. Ghulam Ishaq Khan  
State Bank of Pakistan  
Post Office Box 4450  
Karachi, Pakistan

Dear Ghulam Ishaq,

It was very nice to see you again at the Annual Meeting. I am pleased that my new position will entail a closer association with Pakistan, and with yourself, than has been possible in the last few years.

I have asked several of my colleagues for possible candidates to assist the manager of the cooperative apex bank which you described. Although we have written to a few individuals thus far, we have found none who have the requisite experience and would be available in the near future. It would be helpful if you could let us have as soon as convenient some of the documentation relating to the new institution and a short statement of the specific skills and experience you seek in a foreign consultant. It would also be helpful to know whether you envisage an essentially short-term assignment -- say up to six months -- or a longer stay. You can send me this material if you wish us to pursue this further, or send it to our Resident Representative, Mr. Kirk, with whom your staff may wish to discuss this further.

I am enclosing a paper which recently crossed my desk, which may be of interest to you.

With best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

Enclosure

cleared with: Mr. Diamond  
bcc: Messrs. Diamond, Collier, Picciotto, Kirk

EStern/lis



DECLASSIFIED

MAR 10 2011

Mr. Robert S. McNamara, President

WBG ARCHIVES

October 13, 1975

Ernest Stern, VP, South Asia

CONFIDENTIAL

AID Planning Figures

1. I mentioned the other day the five-year AID planning figures submitted to OMB. The table below gives the summary:

(\$ million)

	Fiscal Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Food & Nutrition	819	839	887	898	901
Population & Health	331	343	348	379	383
Education & Human Resources	145	154	161	155	162
International Organizations <u>/a</u>	256	287	312	338	366
AID Operating Expenses	209	219	229	239	251
Other	192	141	148	140	137
Total AID	1952	1983	2085	2149	2200
Special Sahel Programs	240	215	215	210	210

a/ UN specialized agencies funded from the Foreign Assistance Act; e.g. UNDP.

2. Even if there is an allowance for inflation, and none is indicated, the figures show an essentially unchanged program. One category, not projected here, is the special program for the Middle East. This is likely to be large and quickly disbursing. In addition, U.S. total ODA includes contributions to multilateral agencies and food aid. Although there have been recent increases in food aid, it is doubtful that there will be a significant annual increment through 1980.

3. On balance, the ODA/GNP ratio would undoubtedly decline (after the 1974/75 decline in GNP is offset) except for the Middle East program. This may be statistical salvation but is of little practical help to the most needy countries.

EStern/lis



Mr. Robert S. McNamara, President

October 13, 1975

Ernest Stern, VP, South Asia

International Atomic Energy Agency

1. Attached is a letter from the International Atomic Energy Agency requesting a contribution of \$100,000 to enable them to accelerate the study of regional facilities for the storage and eventual recycling of nuclear fuels. The IAEA and its members attach great importance to such regional centers as a means of limiting the dispersal of nuclear fuel.

2. As you will recall, this matter was first brought to your attention by Mr. Newhouse of the U.S. Arms Control and Disarmament Agency, and you then asked me to discuss the matter in detail with him. This I did in a series of conversations which I reported to you. At the last meeting with Mr. Newhouse, you authorized me to inform him that the Bank would be prepared to make a contribution to this study, provided it had the full approval of the U.S. Government. Mr. Newhouse then referred the matter to the U.S. Treasury, which consulted the NAC staff committee, and subsequently I was informed by Mr. Bushnell that the U.S. Government indeed attached considerable importance to this study and thought that a Bank financial contribution would be very helpful. On this basis, the U.S. delegation advised the Director General of the IAEA to write to you.

3. It is my understanding that the IAEA is interested both in a financial contribution and in possible staff assistance. Regarding the latter, I had indicated that our ability to provide staff depended on the skills required and our own work program. While the U.S. representatives with whom I discussed this are very interested in having Bank assistance, particularly in the assessment of economic feasibility, there is no specific commitment on this. Regarding the financial contribution, we have, as described above, a clear commitment, although no specific amounts were agreed to.

4. Would you let me know how you would like to proceed with this.

Attachment  
EStern/lc



Mrs. M. Amores, Research Files

October 13, 1975

L. Sunderland, ASNVP

Newspaper Distribution

Please cancel the subscriptions for the Sunday New York Times  
and the daily Journal of Commerce now received by the Vice  
President, South Asia Region, in Room A-513.

Mr. Donald K. Bloomfield, Chief, ADMRC

October 13, 1975

L. Sunderland, ASNVP

Distribution of Incoming Cables

Would you please arrange that as a matter of standard operating practice information copies of all incoming cables received from the Bank's resident missions in India, Pakistan, Bangladesh and Nepal be sent to Mr. Ernest Stern, Vice President, South Asia Region. This procedure should take effect immediately. His room number is A-513.





PINK

October 10, 1975

Mr. M. G. Kaul  
Secretary  
Department of Economic Affairs  
Ministry of Finance  
Government of India  
New Delhi, India

Dear Gopi:

It was good to have had the opportunity to see you.

I am grateful that you have undertaken personally to look into the critical matter of the export information being provided to Edward Cunningham's mission. I hope that, by the time you receive this letter, the materials will be in their hands. Similarly, we look forward to hearing your views on (i) the fertilizer authority and demand study described in Bilsel Alisbah's letter of August 19, 1975, and (ii) the award of the civil works contract on Godavari Barrage. The first has a bearing on the impending fertilizer project negotiation tentatively scheduled for November. The second is essential for adhering to the 3½ year construction period and thereby minimizing the risk of the old weir collapsing.

I mailed yesterday a letter, of which you had seen a form, concerning the report you propose to circulate to the Consortium this year. I would like once again to reiterate that we would be happy to provide whatever assistance you need in this connection. As Bill Diamond has already told you, we think it would be useful if you would advise high level officials of Consortium countries in your personal discussions that you are going to circulate such a report to the Consortium early in 1976.

Finally, on debt relief, we are proceeding to prepare a note on how the subject of Consortium aid could be approached if you decide not to seek the usual general agreement on debt relief next year. This does not involve abandonment of debt relief, which we would continue to urge, but rather the abandonment of a general agreement on the subject in the light of the certain absence of the United States, the likely absence of Canada, and the probable views of Japan and Germany. Meanwhile, you said you would continue to think about this subject, sound out some countries, and let us know as soon as possible your thoughts concerning the approach to debt relief next year. As I mentioned, I hope to visit some major donor



Mr. M. G. Kaul

- 2 -

October 10, 1975

countries within the next month. It would be helpful to me to have your views before then. Bill may also be able to work additional discussion with Germany into his schedule in connection with the IDA meeting at the end of November should that prove desirable.

Warm regards.

Sincerely yours,

Ernest Stern  
Vice President  
South Asia Region

BAIisbah/WDiamond/EStern:mp

cc: Mr. Diamond  
Mr. Gilmartin  
Mr. Kraske  
Mr. Pilvin  
Mrs. Hamilton

In Sterns

October 9, 1975

Mr. M. G. Kaul  
Secretary  
Department of Economic Affairs  
Ministry of Finance  
Government of India  
New Delhi, India

Dear Gopi:

You will remember that, during his meeting with Minister Subramaniam on September 3, Mr. McNamara urged India to strengthen its case for development support to the Consortium by explaining the potentials and prospects for an increasingly viable economy during the coming five to ten years. He indicated that such a presentation would also be of great help to the Bank Group in negotiating the forthcoming IDA replenishment, given India's large share in IDA resources. The Minister stated at that time that India would be able to make a submission on these lines by December/January.

I am writing to you to suggest some of the topics such a paper might cover. I would suggest a focus on two main areas. After a short review of recent economic developments and immediate prospects, the first main section might discuss India's medium-term strategies and prospects, with special attention to such key areas as agriculture, exports and energy. Since the report will be done before a new Plan document is ready, you might note that the current view on strategies may be subject to change in the process of Plan formulation and approval. A second section should discuss India's medium and longer term trends in aid requirements and the volume, type and composition of external resources necessary for essential investment and import purposes. This section should, of course, discuss expected assistance from outside the Consortium as well as from Consortium members, and make the case for debt relief, assuming you want to make it.

You will recall the discussions in Washington with Mr. Diamond and the correspondences you have had with him on the subject of debt relief. As you know, it is our view that, unless something unforeseen occurs, it will be impossible to achieve a general debt relief arrangement this year. Nevertheless, you can and will no doubt wish to make the economic case for debt relief as a component of bilateral aid. As you know, several members of the Consortium recognize the importance of this type of aid to India, given its special problems. In fact, it may be appropriate to discuss overall aid requirements in such a way as to underline India's need for debt relief.



October 9, 1975

I have kept in mind the distinction which you would presumably wish to make between the paper to be distributed well in advance of the Consortium meeting and the statement which you will wish to make at the meeting itself. A certain amount of duplication need not be of concern and, indeed, may be desirable for purposes of emphasis. The paper, as we see it, would deal with the medium and longer term economic issues and indicate the broad strategies which are currently being pursued or are under consideration. The paper would also permit a more extended treatment of some issues than the oral statement. The oral statement should follow the usual pattern of concentration on the current economic situation and short-term aid requirements. Your statement would also seem to be the appropriate place for a review of the progress made so far in implementing the Prime Minister's new economic program, particularly as it affects problems like rural indebtedness, land redistribution and agricultural wages. And, given the fact that so many Consortium members lose no opportunity to raise questions about the latest position on population control and education, you might also want to mention them, as you usually do.

The suggestions I have made above should not involve work which you are not in any case undertaking. Such a paper would serve both a useful substantive purpose in providing Consortium members early with authoritative information on the way India views its economic future, as well as a symbolic one in indicating both the role that India expects the Consortium to play in support of India's development effort, and the importance India attaches to that role.

We attach great importance to the presentation of an effective statement. Its importance justifies devoting adequate time to it; I personally feel January/February would be quite satisfactory. Meanwhile, I, or my colleagues here and in New Delhi, would be pleased to discuss any aspect of the presentation if this would be helpful.

With best wishes.

Yours sincerely,

Ernest Stern  
Vice President  
South Asia

cc: Dr. Sen

cc: Messrs. Knapp  
Diamond  
Gilmartin  
Pivlin  
Kraus  
Alisbah

October 9, 1975

Letter No. 118

Mr. Alexander Kirk  
Resident Representative in Pakistan  
Post Office Box 1025  
Islamabad, Pakistan

Dear Alex,

Thank you very much for your letter of September 24. I too regret that I did not have the opportunity to see you during the Annual Meeting but look forward to making your acquaintance in January, when I hope to visit the region.

I have talked to Dave Ball about Joe Wheeler's proposal and, as you probably know already, Dave does not think that such a round table would be a good idea. Also, Bob Hooter's responsibilities have been changed and he is no longer concerned with South Asia. I understand from AID that his replacement, Mr. Gardiner, does not expect to be in the region in November.

I would like to mention two problems of which you will already have heard from the Division. The first relates to the gates for the Tarbala Tunnel, about which Hugh Collier sent you a cable on the 6th. The importance of accelerating the availability of water needs no comment, and it is hard to understand how the Government could fail to give priority to the vessel which was carrying the gates for the tunnel. I consider this a matter of considerable importance, and you should feel free to bring this to the attention of Mr. Kazi. I understand that the vessel will be passing Karachi again within 30-60 days and there can be no excuse for not giving it priority berthing this time.

The second issue relates to the upcoming Economic Mission. Although formally an updating mission, the scope of work has been expanded. Our principal concern is to assess longer term development strategy which is evolving in Pakistan and to assist, where we can, in its formulation. When the delegation was here during the Annual Meeting, they asked for technical assistance in the preparation of the plan and asked us whether we could make available some Pakistani economists. It is unclear to us whether they are interested in technical assistance from others. If they are only interested in Pakistani economists, it is obviously something they need to work out directly with the individuals concerned. If they are interested in technical assistance



Mr. Kirk

- 2 -

October 9, 1975

in general, it may be possible to find some people who have experience in Pakistan and who might be available for a two- to three-month period. Norman Hicks will want to explore this, and you might wish to discuss this with the appropriate officials. We also need to know more precisely the specific areas in which Pakistan is looking for technical advice.

Best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

cc & cleared with Mr. Diamond  
cc: Mr. Gilmartin  
Mr. Collier

EStern/lis



South Asia Region Assistant Directors,  
Senior Economists, Division Chiefs  
Ernest Stern, Vice President, South Asia Region

October 9, 1975

Seventh Special Session of UN General Assembly

Attached is a report on the Seventh Special Session of the UN. A copy of the final resolution is attached. The document may be of interest to you and your colleagues since the session dealt with many aspects of the economic framework affecting national development efforts.

cc: Mr. Gilmartin, w/att.  
Attachment - Sec H 75-701



Mr. P. Nichols, Chief, FDPAL  
Mr. C. Denton, Chief, FDPFD  
Ernest Stern, VP, South Asia Region

October 9, 1975

Mr. B. S. Grewal

Attached is the personal history of Mr. Grewal, who is interested in a position with the Bank, possibly in agriculture. He can be reached at the phone number shown in the right corner. Mr. Grewal is known both to Mr. Dasmry and Mr. M. M. Ahmad (Deputy Secretary, Development Committee), whom you may wish to consult.

We do not have a suitable position in this Region at present. However, please review other prospects and have the appropriate officer contact Mr. Grewal while he is still in Washington.

cc: Mr. Street

Attachment



Mr. James M. Kearns, Director, OPD

October 8, 1975

Ernest Stern, VP, South Asia Region

Comments on Draft Memorandum on  
Loan/Credit Documentation Procedures

1. Our comments on the covering memorandum from Mr. Knapp are marked on the copy which I am returning. Most of the changes are stylistic. However, I do attach some importance to the proposed change in Paragraph 9. The proposed deletion in Paragraph 10 I also think important since the sentence seems to obfuscate the fairly clear statement of responsibility for the drafting of sector and subsector sections in Paragraph 9.
2. Regarding Attachment 3, in Paragraph 6 indent 3 I assume that the drafting refers to the work on sector, subsector and projects sections of the President's Reports, but the Division Chief would in all cases want to receive these two sets of drafts together, whereas the present language leaves this optional. In Paragraph 7 the white cover staff reports are to be forwarded to the Program Department for review, whereas the present process is that the yellow cover is forwarded for comment. At least in this Region, we intend to keep it that way. In the same paragraph, the guidelines on the timing of the submission are very vague, and you might wish to make it clear that at the receipt of the yellow cover report, the program staff will have completed its preparation of the other sections of the President's Report. In Paragraph 9, we think it essential to add the words in the second sentence, as follows: "The staff Projects Report and the sector, subsector and projects sections of the President's Report are given to the country as soon as negotiations are authorized."
3. I also note that in the staff Projects Report, although the sector and subsector portions are to be reprinted from the President's Report for the introduction summary, there is apparently no discussion of the sector and subsector portions under A and B. It is not at all clear to me how one can have a summary which could be significantly different from the narrative discussion.

Attachment

cc: Messrs. Diamond  
van der Meer  
Street

EStern/lc



Mrs. A. Swift

October 8, 1975

L. Sunderland, ASNVP

Addtion to Mailing List

Would you please add the following name to the outside mailing list for the monthly World Economic Indicators, report series 700/75/\_\_\_, effective immediately.

Mr. Robert Muscat  
Director  
Division for Program Evaluation  
and Policy Analysis  
United Nations Development Program  
866 United Nations Plaza  
New York, New York 10017

Mr. G. Street, Program Coordinator, ASA

October 8, 1975

Ernest Stern, VP, South Asia Region

Mr. L. Weiss

As I mentioned to you, Mr. Weiss raised the question of his title when he was here during the Annual Meeting. Your office has prepared the attached list of Bank field representatives. As you can see, every representative at the "O" level has the title Chief of Mission except Mr. Weiss. I see no reason, therefore, not to change his title to Chief of Mission. If Messrs. Dunn and Diamond agree, please check with Mr. Weiss that this is satisfactory and then inform Personnel to process the change in title.

Attachment

cc: Messrs. Diamond  
Dunn  
Ms. Dowling

EStern/lc



bpm.  
✓

## OFFICE MEMORANDUM

TO: Mr. Robert McNamara, President

DATE: October 8, 1975

FROM: Ernest Stern, Vice President, South Asia Region

SUBJECT: BANGLADESH: Meeting with Ambassador Siddiqui

1. Mr. M. R. Siddiqui, the new Bangladesh Ambassador to the United States, has an appointment with you on October 9 at 6:00 p.m. The Ambassador represented his country here and at the United Nations during the liberation struggle. He is 50 years old and is a businessman from the Chittagong District. He was Minister of Commerce in 1972/73 but after the 1973 elections he was not included in the new Cabinet, allegedly because of corruption. Thereafter, in addition to being a member of Parliament he was active in running family business interests in Chittagong, including several small manufacturing plants. He is a chartered accountant and prior to Bangladesh independence was Founder-director of an insurance company, two jute manufacturing corporations and a bank in East Pakistan. He was President of Chittagong District Awami League from 1964. A copy of his official bio data is attached.

2. The Embassy has informed us that they do not expect him to raise any issues at this meeting, which has been requested as a courtesy call.

3. Since the Annual Meeting, the following events have occurred. The negotiations for the Program Credit for \$100 million have been completed. Board presentation is scheduled for October 28. As you recall, one of the issues discussed at the Annual Meeting was the continued problem of project implementation. Since the Annual Meeting the Government has moved the Project Implementation Bureau from the President's Office to the Planning Commission and it is rumored that they are looking for a job in an international organization for the current head of the PIB, Mr. A. K. M. Ahsan, the senior civil servant of the country. The Dacca Office believes the move may reflect personality conflicts. We will have to wait and see whether the PIB can be effective in its new location. Our Dacca Office is keeping a close watch on developments in this field.

4. Another issue you discussed with the Finance Minister, Mr. Mallick, at the Annual Meeting was the expected level of IDA aid to the country in the future. You said that Bangladesh would be imprudent to count on more than \$150 million (the present level) to \$175 million over the next few years. /1

5. At the Annual Meeting the Government recognized the scarcity of projects in the pipeline and asked for another Technical Assistance Credit to help in preparing projects. One is tentatively scheduled for this year, subject to discussion with UNDP (and the Government) on our respective roles in technical assistance in Bangladesh.

/1 I also attach a review of the position with respect to this year's program.  
Attachments

FKing:mms

Mr. Mustafizur Rahman Siddiqi was born on March 1, 1925.

Passed M.A. in Commerce from the University of Calcutta in the year 1947. Passed B. Com. from the University of London in 1954. Qualified as Chartered Accountant from England in 1955. Passed from the Institute of Taxation, London (final examination) in 1954. He was elected Fellow of Royal Economic Society and Royal Statistical Society in 1955. ...

He was founder Managing Director of Eastern Insurance Co. Ltd., S.K.M. Jute Mills Ltd., Founder Director of Eastern Mercantile Bank and A.K. Khan Jute Mills Ltd. He was formerly Director of Pakistan Shipping Lines Ltd., and Pakistan Insurance Corporation. At present Managing Director of M/S SIDKO LIMITED, NATIONAL MOTORS LIMITED, CRESCENT MOTORS LIMITED, THERAPEUTICS (BANGLADESH) LIMITED, ALPINE TRADING CO., and Director of A.K. Khan & Co., Limited. He is also Chairman of Dawn Brothers Ltd.

He was member of the Executive Committee of the Chittagong Chamber of Commerce and the then Pakistan Federation of Chamber of Commerce, Chairman of Pakistan Insurance Association. He was Founder Chairman of Management Association of the then East Pakistan. He was a member of the Advisory Council of the Ministry of Commerce, Government of Pakistan. He represented Pakistan in the ECAFE Conference at BANGKOK and TEHRAN. He was Deputy Leader of Pakistan Trade Delegation to ITALY and member of Pakistan Trade Delegation to the Republic of CHINA and INDONESIA.

He was first elected member of the NATIONAL ASSEMBLY OF PAKISTAN in 1962 and again in 1970. During Liberation War he was in charge of Eastern Zone. Later on he went to the U.S.A. as Head of Bangladesh Mission in Washington. In 1972 he joined Bangladesh Government as Commerce Minister. In 1973 he called on the Heads of the State of Canada, U.S.A., U.K., France, Germany, Italy and Holland as Special Envoy of Prime Minister of Bangladesh. The same year he was re-elected member of Jatiya Sangsad (Parliament).

He is a dedicated social worker and held the position of District Governor of Lions International in the then East Pakistan and in Bangladesh for four times. In 1961, he received the highest award in Lionism "The Humanitarian Award" for exceptionally meritorious work during the cyclone and tidal bore of 1960. At present he is the International Counsellor. He is also President of Bangladesh-Japan Society.

He has travelled widely. He is married and blessed with five sons.



BANGLADESH  
FY 1976 Lending Program  
(US\$ Million)

Inland Water Supplementary Credit (Approved by Executive Directors)	4.6	
Fourth Imports Program Credit (Documents circulated for Board consideration October 28)	100.0	
Karnafuli Irrigation Project (Negotiations completed, Board consideration scheduled for December 2.)	19.1	<u>1/</u>
Rural Training Project (Negotiations completed. Board consideration scheduled for December 16.)	13.0	
Rural Development Project (Negotiations scheduled for November and Board consider- ation for January)	16.0	
	-----	
Sub-total	152.7	
Muhuri Irrigation Project (Negotiations completed; Board presentation - expected in May - and final credit amount depend on receipt of bids for major construction contract)	25.0	
Second Technical Assistance Project	5.0	
	-----	
Total	182.7	

1/ Excludes refinancing of Engineering Credit S-14

October 7, 1975

**Professor V. M. Dandekar**  
**Chairman**  
**National Sample Survey Organization**  
**Government of India**  
**Sardar Patel Bhavan**  
**New Delhi 1, India**

**Dear Professor Dandekar:**

As you know, the Development Research Center of the World Bank and the ESCAP have undertaken a joint research project to examine the available household surveys with information on the socio-economic characteristics of different income or expenditure groups in the developing countries of Asia and the Pacific. It would be desirable to include India among the countries studied, both because of its importance in the region and because of the wealth of information on various employment characteristics of different expenditure groups, available from the 27th Round of the NSS.

I understand that Pravin Visaria, who is a consultant on this project, held discussions with you and your colleagues earlier this year and also met with the Directors of Economics and Statistics in the States of Gujarat and Maharashtra. These discussions have led to some mutually advantageous proposals for additional tabulations for which the data are available in computer-readable form.

I was happy to learn from Visaria that you had broadly supported the idea of additional tabulations and also the proposal to limit them to a few States on the ground that the results would help to assess the advisability of similar tabulations for other States. This is being explored for Rajasthan and Madhya Pradesh. The results of any analysis, of course, will be shared with the appropriate state authorities for their comments and advice.

The World Bank attaches great importance to a better understanding of the socio-economic characteristics of different income groups and their differential roles in the development process. We believe that this



Professor Dandekar

- 2 -

October 7, 1975

project, including the proposed research in selected States of India, can make a significant contribution to this. I hope that you and the Executive Committee will be able to support this project.

With best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

cc: Mr. Provin Visaria  
World Bank  
934, Rama IV Road  
Bangkok 3, Thailand

cc: Messrs. Gilmartin  
Alisbah  
Abluwalia

MAbluwalia/MWolf/EStern:ls

Mr. Robert S. McNamara, President

October 7, 1975

Ernest Stern, VP, South Asia Region

Financial Sector

1. Since the financial sector is a subject of current interest, I commend the attached paper to you, despite its academic prose. The principal point, stated succinctly on Page 2, is that the evolution of the financial sector should be in line with the development of the economy; different types of financial institutions are required at different stages of growth.

2. I think this is correct and my concern has been that we may lose sight of this proposition in our desire to improve the work in two sectors (industry and finance) which are only partly connected. To combine them would give a cast to our financial sector work principally suitable for the more industrialized, higher income countries.

Attachment  
EStern/lb



October 7, 1975

Mr. G. V. Ramakrishna  
Economic Minister  
Embassy of India  
2107 Massachusetts Avenue, N.W.  
Washington, D.C. 20008

Dear G.V.,

Enclosed are two copies of a draft letter to Gopi. I should be grateful if you would pass him a copy. The report referred to in the letter is one of the items I would like to discuss at our 12:30 meeting tomorrow.

Best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

Enclosures

bcc: Messrs. Diamond  
Gilmartin  
Alisbah

EStern/lc

DRAFT  
October 7, 1975

Mr. M.G. Kaul  
Secretary  
Department of Economic Affairs  
Ministry of Finance  
Government of India  
New Delhi, India

Dear Gopi:

You will remember that during his meeting with Minister Subramaniam on September 5, Mr. McNamara urged India to strengthen its case for development support to the Consortium by explaining the potentials and prospects for an increasingly viable economy during the coming five to ten years. He indicated that such a presentation would also be of great help to the Bank Group in negotiating the forthcoming IDA replenishment, given India's large share in IDA resources. The Minister stated at that time that India would be able to make a submission on these lines by December/January.

I am writing to you to suggest some of the topics such a paper might cover. I would suggest a focus on two main areas. After a short review of recent economic developments and immediate prospects, the first main section might discuss India's medium-term strategies and prospects, with special attention to such key areas as agriculture, exports and energy. Since the report will be done before a new Plan document is ready, you might note that the current view on strategies may be subject to change in the process of Plan formulation and approval. A second section should discuss India's medium and longer term trends in aid requirements and the volume, type and composition of external resources necessary for essential



October 7, 1975

investment and import purposes. This section should, of course, discuss expected assistance from outside the Consortium as well as from Consortium members, and make the case for debt relief, assuming you want to make it.

You will recall the discussions in Washington with Mr. Diamond and the correspondence you have had with him on the subject of debt relief. As you know, it is our view that, unless something unforeseen occurs, it will be impossible to achieve a general debt relief arrangement this year. Nevertheless, you can and will no doubt wish to make the economic case for debt relief as a component of bilateral aid. As you know, several members of the Consortium recognize the importance of this type of aid to India, given its special problems. In fact, it may be appropriate to discuss overall aid requirements in such a way as to underline India's need for debt relief.

I have kept in mind the distinction which you would presumably wish to make between the paper to be distributed well in advance of the Consortium meeting and the statement which you will wish to make at the meeting itself. A certain amount of duplication need not be of concern and, indeed, may be desirable for purposes of emphasis. The paper, as we see it, would deal with the medium and longer term economic issues and indicate the broad strategies which are currently being pursued or are under consideration. The paper would also permit a more extended treatment of some issues than the oral statement. The oral statement should follow the usual pattern of concentration on the current economic situation and short-term aid requirements. Your statement would also seem to be the appropriate place for a review of the progress made so far in implementing

Mr. M.G. Kaul

- 3 -

October 7, 1975

the Prime Minister's new economic program, particularly as it affects problems like rural indebtedness, land redistribution and agricultural wages. And, given the fact that so many Consortium members explicitly raise the question about the latest position on population control and education, you might also want to mention them, as you usually do.

The suggestions I have made above should not involve work which you are not in any case undertaking. Such a paper would serve both a useful substantive purpose in providing Consortium members early with authoritative information on the way India views its economic future, as well as a symbolic one in indicating both the role that India expects the Consortium to play in support of India's development effort, and the importance India attaches to that role.

We attach great importance to the presentation of an effective statement. Its importance justifies devoting adequate time to it; I personally feel January/February would be quite satisfactory. Meanwhile, I, or my colleagues here and in New Delhi, would be pleased to discuss any aspect of the presentation if this would be helpful.

With best wishes,

Yours sincerely,

Ernest Stern  
Vice President  
South Asia Region



October 7, 1975

Mr. C. S. Krishna Moorthi  
Vice President  
Asian Development Bank  
Post Office Box 789  
Manila, Philippines

Dear Krishna,

The attached documents show the consultants hired by the Bank, by nationality, for 1971-1974. This data on consultants is not exactly what you asked for, since it does not show where they worked, nor does it include consultants hired by borrowers with loan financing. However, I am told it would take a considerable effort to generate such data, and I assume you would not wish us to exert ourselves quite so much.

Best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

Attachments



Mr. James M. Kearns, Director, OPD

October 7, 1975

Ernest Stern, VP, South Asia Region

Organization for Industry and Financial Markets Activities

Attached is a note along the lines we discussed. It consists of comments on the present text and provides, where appropriate, alternative or additional language. I believe a discussion of the proposed changes would be enhanced considerably by describing the problem more fully and by posing at least one arrangement which distinguishes between industry and finance.

Attachment

EStern/lis



Comments on the Draft Memorandum on  
Organization for Industry and  
Financial Markets Activities

1. Definition of the Problem. The statement of the "present problem" is weak since it deals only with organizational aspects. A prerequisite to an assessment of the adequacy of an organization must be an agreement on the objectives. I would formulate these as follows:

"The expansion of Bank Group activities has placed into sharper focus two areas of relative weakness -- inadequate understanding of the role financial institutions play in development and the lack of a strategy for industrial development. As a result, operations of different units of the Bank Group can overlap and, occasionally, conflict. The expanded lending program, the emphasis to expand commercial agriculture and the focus on urban poverty require that:

- a) The Bank Group understand the function of financial institutions at different levels of development, assist the evolution of such institutions in a coordinated way and assure that its support for the financial sector is both internally consistent and conforms to appropriate fiscal and monetary policies, and
- b) The Bank Group develop a more precise industrial strategy in each country to guide operations, policy advice and technical assistance."

Different people may define the objectives differently, but whatever form they take, some common basis needs to be agreed to.

2. Organizational Alternatives. I agree with the statement in Paragraph 9 that one should not seek to integrate IFC operations into the Bank and that the focus should be on coordinating policy. However, before posing the organizational alternatives, one should also discuss the substantive linkages. I would therefore add to Paragraph 9 along the following lines:

"An important issue is the scope of the policy work. It is clear that the financial sector affects agriculture and services as well as industry -- the relative importance depending on the level of development of the country. While there are major issues of industrial finance, there are equally important problems of financing exports, agricultural inputs and municipalities. One approach, therefore, would be to develop integrated work on the financial sector which would affect operations in many other sectors as well as direct assistance to financial markets.

An alternative approach would be to combine work on industry and finance. There are advantages and disadvantages to either approach, and the details are spelled out below. On balance, combining industry and finance may be beneficial in the context of the higher income, more developed countries while keeping the functions separate may enable us to service the lower income, less industrialized countries better."

3. Unitary Bank Group Management. Paragraphs 10 and 11 can easily be made compatible with the above, since a unified Bank Group approach to both sectors is desirable. Paragraphs 12-14 should be moved into the next section. A new Paragraph 12 would simply say that Annexes B and C (Can we make them A and B and put the CMD work program at the end?) describe two possible approaches to integrated Bank Group management of a combined industry/finance sector; the new Annex C describes integrated Bank Group management of the financial and industrial sector separately.

4. I assume the list of advantages and disadvantages (Paragraphs 18 and 19) apply to both Option B and C, but this is not clear. I would add that a major disadvantage is the excessive focus in financial sector work on industry. (Even in the U.S. the largest agricultural co-ops are among the top 1000 corporations.)

5. Option C essentially would establish a central policy group for industry with a clearer mandate to develop an industrial strategy for the Bank. This approach would be balanced better if industrial projects were decentralized at the same time. Similarly, there would be a central policy unit for financial sector work with responsibility for analysis and policy on the role of the sector in development, guidance to the operating units, and support for the special financial aspects of the rural and urban poverty programs. I hope I can leave it to OPD to draw a suitable chart for this. I have no strong views as to the level at which these jobs should be established except that they should not be so constructed that they constitute yet another independent unit with which the Regions must coordinate.

6. One final point. The present proposal misses a point which I think crucial -- i.e. work in these two sectors at present is so uncoordinated because in neither sector do the Regions have a clear mandate, capacity or much of a work program. Strengthening that aspect will limit the flights of the central units to tighter orbits.

EStern/ljs  
October 7, 1975



Mr. J. H. Collier, Chief, ASADA  
Mr. W. Hicks, ASADA  
E. Stern, VP, South Asia Region

October 6, 1975

Program Loan to Pakistan

During the Annual Meeting, the Pakistan delegation suggested several times that we were being tougher on them than on others in considering their request for a program loan. In this connection, the attached may be of interest. You might want to take a copy along for Mr. Baqai.

cc: Mr. Diamond  
Attachment



October 6, 1975

The Honorable Dr. Bhekh Bahadur Thapa  
State Minister of Finance  
His Majesty's Government of Nepal  
Katmandu, Nepal

Dear Bhekh,

It was very nice to see you during the Annual Meeting. One of the attractions of my new job is a closer association with you than was hitherto possible. As we discussed in September, I hope you will bring any problems regarding Bank operations to our attention at an early stage. Mr. Thomas is always available to you, as are Messrs. Diamond and Shibusawa here in Washington, but feel free to let me know directly whenever you think it necessary. Sometimes, of course, we may have a basic disagreement; but more often than not, the problems can be resolved and it is best not to let them fester.

Regarding Mr. Pradhan, I regret that I too have failed. We have again explored a number of possibilities, but we have been unable to identify any suitable vacancies. The essential problem is that for a position appropriate to Mr. Pradhan's seniority and experience, promotion is very largely from within.

I have heard that the UNDP is looking for senior staff, and you might want to bring Mr. Pradhan's interest to I.G. Patel's attention.

With best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

bcc: Messrs. Diamond  
Shibusawa  
Nichols, Personnel  
Thomas, IBRD, Katmandu, Nepal

EStern/lb



Mr. Robert S. McNamara, President

October 6, 1975

E. Stern, VP, South Asia Region

Trust Fund

1. Attached is the table you asked for at the President's Council this morning. As you can see from the figures, no country is going to get rich out of this. Higher income countries plus OPEC would absorb about half the total.

2. As you know, the question of eligibility is still under discussion and the amount of profit of course uncertain. Both factors will affect the total available for direct distribution and the country figures. The attached figures therefore should be seen as orders of magnitude only.

Attachment

EStern/lr

Notional Share of LDCs 1/ in  
Direct Distribution of Profits from the Trust Fund

	<u>Share of 2/ Direct Allocation</u>	<u>Amount 3/ (\$ million)</u>
1. <u>Oil Exporting Countries</u>	<u>16.0</u>	<u>160</u>
of which:		
Algeria	1.3	13
Indonesia	2.7	27
Iran	2.0	20
Nigeria	1.4	14
Saudi Arabia	1.4	14
Venezuela	3.4	34
2. <u>Other Europe and Middle East</u>	<u>20.9</u>	<u>209</u>
of which:		
Egypt	1.9	19
Spain	4.1	41
Turkey	1.6	16
Yugoslavia	2.1	21
3. <u>Other Asia</u>	<u>28.7</u>	<u>287</u>
of which:		
Bangladesh	1.3	13
India	9.8	98
Malaysia	1.9	19
Pakistan	2.4	24
Philippines	1.6	16
Thailand	1.4	14
4. <u>Other Western Hemisphere</u>	<u>22.5</u>	<u>225</u>
of which:		
Argentina	4.6	46
Brazil	4.6	46
Chile	1.6	16
Colombia	1.6	16
Mexico	3.8	38
5. <u>Other Africa</u>	<u>11.9</u>	<u>119</u>
of which:		
Ghana	0.9	9
Morocco	1.1	11
Sudan	0.7	7
Zaire	1.2	12
<u>TOTAL</u>	<u>100.0</u>	<u>1,000</u>



- 1/ The IMF category of "Less Developed Areas" does not include a number of countries in Europe, which are listed as "Other Europe". For the purpose of this calculation, this group has been included in LDCs. "Other Europe" consists of Finland, Greece, Iceland, Ireland, Malta, Portugal, Romania, Spain, Turkey, Yugoslavia. LDCs thus defined account for 33% of IMF quotas; the IMF category of "Less Developed Areas" accounts for 27.7% of quotas. Quotas are current quotas.
- 2/ The share in the direct allocation is the country's quota as a share of the LDC total.
- 3/ Assumes that \$1.0 billion would be available for direct distribution. Actual amount of course will depend on the eventual eligibility criteria and the actual price of gold.

October 6, 1975.

Mr. G. Street, Program Coordinator, ASNVP

October 3, 1975

E. Stern, VP, South Asia Region

Recruitment

1. I should like to meet with all candidates for M or N level positions in the Region before a firm offer is made. This would apply both to transfers from within the Bank Group and to any outside recruitment.

2. Candidates for any economist position, in either the Program or the Projects Department, should be interviewed by Mr. Gilmartin. His concurrence must be obtained before any offer is made. In case of disagreement between the Department and the Chief Economist, please bring the matter to my attention.

cc: Messrs. Diamond (o/r)  
van der Meer  
Shibusawa  
Nichols, Personnel  
Gilmartin

EStern/lS



October 3, 1975

Mr. Ayhan Cilingiroglu  
Buyukelci Sokak  
No. 12-3  
Ankara, Turkey

Dear Ayhan,

It was very nice to hear from you, and we are glad to know that all is well with you and the family.

I have talked to several of your former colleagues informally, and I think there should be no difficulty in your returning to the Bank next year, even though Personnel seems to have lost your file (temporarily I trust). There have been many changes in the Bank since your time, and it would be advisable to visit and to explore, in some detail, where the type of work you are interested in is being carried on. Meanwhile, I learned today that Personnel is writing to you regarding a possible mission, at the suggestion of Hans Fuchs. If that does not work out, perhaps one of the OECD projects can be made to include a trip to Washington.

Let me know how things develop. I shall be very glad to help expedite things at this end.

Best regards,

Sincerely,

Ernest Stern  
Vice President  
South Asia Region

EStern/lc

October 3, 1975

Dear Mr. Lowenthal:

Thank you for your letter of September 23.

Based on my conversations with Messrs. Diebold and Lewis regarding the manuscript, I am sufficiently assured that major problems have been eliminated to agree to have my name listed as a member of the Study Group.

Sincerely,

Ernest Stern

Mr. Abraham F. Lowenthal  
Acting Director of Studies  
Council on Foreign Relations  
58 East 68th Street  
New York, New York 10021



Mr. S. van der Meer, Director, ASP

October 3, 1975

E. Stern, Vice President, South Asia Region

INDIA - Civil Works

Could I have a list of projects in India with a civil works component, approved since the 7.5% preference policy went into effect; which of these went to ICB; and which FY76 and FY77 projects will have civil works which could go to ICB.

cc: Mr. Alisbah

EStern/lis

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Ernest Stern *ES.*

SUBJECT: INDIA - Your Meeting with Mr. Y.B. Chavan

DATE: October 2, 1975

1. Mr. Y.B. Chavan, the Indian Minister of External Affairs, whom you are scheduled to see October 7, is in Washington for a meeting of the bilateral India-U.S. Commission. This Commission was set up as a step toward normalization of relations between the two countries during Kissinger's visit to India. The meeting was scheduled originally to be held several months ago, but Chavan cancelled his trip in reaction to the resumption of U.S. arms sales to Pakistan.
2. Our Indian sources believe that this is strictly a courtesy call, to maintain the contact established when he saw you frequently in his capacity as Finance Minister. Mr. Chavan is not expected to raise any substantive issues concerning India's relations with the Bank Group.
3. Mr. Chavan's biographical data are attached. His position was somewhat ambiguous during the recent political events in India. During the 1970 Congress Party split, there had been some talk about whether his loyalties were basically to Mrs. Gandhi or to Morarji Desai. Doubts about his loyalty were raised again this summer, and there were even rumors -- never confirmed -- that Mr. Chavan was under house arrest. In any case, Mrs. Gandhi appears to have been sufficiently confident of her position to have retained him in the Cabinet.
4. In addition to a discussion of recent developments in India, I suggest you raise three points:
  - (a) Exports - We attach great importance to the steps the Government has taken in the areas of food production, energy and export growth. Obviously a great deal remains to be done in all areas, particularly in exports. The Government's objective of a real growth rate of 8% is ambitious, and it is not yet backed by an implementation program. We know that Mr. Subramaniam is chairing a Cabinet committee on exports which, undoubtedly, will develop additional proposals. We would hope that effective measures to increase the growth of exports would have the support of his Cabinet colleagues.
  - (b) Producer-Consumer Dialogue - India is one of the participants in the producer-consumer meetings. It attended the meeting which failed earlier this year and will attend the Preparatory Committee meeting in October. It would be of interest to hear Mr. Chavan's views on this process and on the results which he expects.



October 2, 1975

---

- (c) IDA Replenishment - You mentioned to Subramaniam the importance of the IDA replenishment, the difficulties we are likely to face and the role major LDCs might play in support. Obviously, India's own economic performance is crucial, but on the diplomatic front India can help to support a substantially enlarged IDA and to restrain the growth of institutions competing for grant funds.

5. A copy of the summary of the Government's review of the current economic situation, sent to you in preparation for your meeting with Mr. Subramaniam, is attached.

Attachments

cc: Mr. J.B.Knapp

AOHamilton/BAlisbah/EStern:ebc

Mr. Y.B. Chavan, Minister of Finance

Mr. Chavan is 62 years old and a law graduate of Indian colleges. He was a participant in the independence movement as far back as the early 1930s; he held numerous executive positions at the State level in the Congress Party in the 1940s and 1950s. He was first elected a member of the Legislative Assembly for Bombay in 1946, and was Chief Minister of the State from 1956-62. He was elected unopposed to the Lok Sabha (Lower House of Union Parliament) in a 1964 by-election. From 1962-66, he was Defence Minister, Government of India, and from 1966-70, he was Minister of Home Affairs. He became Minister of Finance in June 1970, replacing Morarji Desai after the split of the Congress Party, and Minister of External Affairs at the end of 1974.



## OFFICE MEMORANDUM

TO: Files

DATE: September 2, 1975

FROM: Martin Wolf *MW*SUBJECT: INDIA -- Government Review of the Current  
Economic Situation

1. I attach a short summary of GOI's recent review of the current economic situation. The following points should be made about this GOI note:

- (i) The tone is optimistic, at least for next year, with a target of 11½ million tons for foodgrain production, a projection of 5 to 6 percent growth of industry and of 5 to 6 percent growth of national income. These forecasts are perfectly reasonable if the harvest estimate is correct. The upturn would not, however, amount to much more than the usual effects of a good monsoon, and does not necessarily imply any substantial improvement in the long-run trends. The tendency for GOI euphoria over temporary improvements in India's situation has been frequently noted in past Bank reports.
- (ii) The foodgrain projection itself seems to be not unreasonable. The rabi crop of 1975 was about 4½ million tons, and the monsoon seems to have been excellent. Thus, a kharif crop of 66-70 million tons is probable, especially after the lowering of fertilizer prices, which should lead to increased consumption. The discussion of the long-term agricultural development program reiterates points already agreed between GOI and the Bank.
- (iii) There is some elaboration in this paper of the Prime Minister's announcements about social policy in the rural areas. The problems that are going to arise in implementing minimum wage and land ceiling laws, or in replacing rural money lenders by viable official institutions, without simply accumulating bad debts, are all quite obvious. Nothing said here gives any confidence that there will be greater success than in the past in these areas.
- (iv) There seems to be substantial evidence that short-run problems with the supply of essential industrial inputs have eased. With a favorable monsoon, electricity generation should rise; coal production increased substantially last year and may well do the same next year; the steel supply situation has improved and domestic crude oil production is projected to rise by one million tons. A rise of 40 percent in fertilizer production is also projected. There can be no doubt that with capacity utilization dismal in all these essential industries, (as well as in others), significant industrial growth can be achieved in the medium-term.

September 2, 1975

Moreover, there are signs that the potential is being used at last, although one must remember that it has existed unutilized for a long while. It would be wise, therefore, to wait for performance rather than believe in projections. It must also be remembered that, in the long-term, investible resources may become a constraint on continued growth in capital intensive sectors. A rapid growth in industrial production in 1975-76 should not, therefore, automatically be seen as the beginning of a new growth trend, but rather as a cyclical upturn, after several years of stagnation.

- (v) India's success in controlling inflation, has been remarkable, and must be judged an important achievement.
- (vi) Procurement performance continues to be very disappointing. Continued poor procurement will necessitate high food imports, virtually irrespective of total foodgrain availability.
- (vii) There have been no major fiscal developments since the budget, which was discussed in the context of the economic report. Apparently, the budgetary deficit is higher for 1975-76 so far, than for the corresponding period of 1974-75.
- (viii) A low rate of growth of money supply and of bank credit has been maintained into the early part of 1975-76.
- (ix) First quarter balance of trade figures are quite encouraging, with exports 22 percent higher than for the corresponding period of last year, and imports virtually at the same level. The Government has made a whole series of marginal improvements in the export policy environment, but, given its own recognition of the unfavorable world situation, it is difficult to believe that these will lead to achievement of the target of 8 to 10 percent volume growth. Certainly, nothing has yet been produced that relates these policy measures, and any production plans, to the export targets.

2. The Indians claim that "the Indian economy is now poised for a major phase of rapid economic expansion." Although it is both undeniable and encouraging that the short-term situation has improved, it would be wise to preserve a healthy scepticism about prospects for an Indian breakthrough into rapid growth.

Attachment  
MWolf:il

cc: Messrs. Weiner, Stern, Diamond, Baneth, Gilmartin, Alisbah, Pilvin,  
India Division.



## Summary of

### "The Current Economic Situation: A Review"

1. Introduction. The principal characteristics of the economic situation in India during 1974-75 were analyzed in the annual Economic Survey, which adopted a cautiously optimistic outlook for 1975-76. Greater optimism is now warranted. The Annual Plan for the current fiscal year has fixed a target of 114 tons for foodgrains of which the target for Kharif crops is 69 million tons. The expected increase in the supply of power, coal and steel, improvements in the performance of public sector enterprises, and expected increases in productivity are likely to result in a 5 to 6 percent increase in industrial production in 1975-76. Containment of inflation has been remarkable since the beginning of the current fiscal year, and exports have also increased. On the social front, the implementation of the new economic program should provide some relief to the poorer sections of society.

2. Agriculture. Agricultural production suffered a setback during the Kharif season of 1974. For the current year the Planning Commission has fixed a target of 114 million tons of food production. In order to achieve this target, the following strategies are being pursued:

- a) increase in the creation of irrigation potential;
- b) maximum utilization of existing potential;
- c) better availability of power, fertilizer, seeds, plant protection facilities, credit and technical know-how;
- d) development of new varieties of rice, jowar, bajra, etc.; and
- e) reduction in the price of fertilizer.

3. The new economic program announced by Prime Minister Indira Gandhi on July 1, 1975, contains several items relating to the rural scheme. All state governments and union territory administrations were requested to implement land ceilings laws. State governments have initiated drafting legislation to make bonded labor illegal. Steps are being taken to secure a moratorium on the recovery of debt from landless laborers, and to reevaluate and improve minimum wage legislation. In addition, small farmers development agencies are to be increased from the existing 87 to 160 projects in the Fifth Plan.

4. Industrial Production. The rate of growth of industrial production increased from one to three percent between 1973-74 and 1974-75. There are indications that there will be a significant acceleration in the rate of growth of industrial production in 1975-76. Major sources of increased industrial production will be higher utilization of available industrial capacity, and an increase of 25 percent in the Annual Plan outlay.

5. Prices and Food Procurement. At the start of the current fiscal year the wholesale price index showed a tendency to rise. However, since the declaration of emergency, the Government has been able to control the expansion of bank credit and to immobilize the black money market. The overall price index for the week ending July 12, 1975 was 2.1 percent lower than a year earlier.

6. The offtake of foodgrains from government stocks was substantially higher during the first six months of 1975, as compared with the same period in 1974. The Government imported about 5.5 million tons of foodgrains during 1974-75 to sustain the public distribution system. Procurement from the current rabi wheat crop is 3.6 million tons so far, compared with a total of 4.3 million tons in 1972-73.

7. Fiscal Development. The major concern of budgetary policy during the current year is to accelerate the tempo of investment without disturbing price stability. The Central Budget for 1975-76 emphasized the stimulation of the economy by providing incentives for saving and investment. In accordance with the new economic program, the personal income tax exemption has been increased to provide relief to lower income groups. Tax collection has also improved.

8. Foreign Trade and Balance of Payments. The total value of India's imports were 48.6 percent higher in 1973-74 than in 1974-75. This was accompanied by a 28.7 percent rise in exports over the same period. Due to the recent developments in the world economy, the outlook for exports is uncertain. However, because of the state of India's reserves and the inflow of external assistance, there should be no difficulty in financing imports of essential commodities, particularly foodgrains.

9. The Government is aware of the need to promote exports. In order to increase export of non-traditional products, import entitlements have been increased by 10 percent for engineering goods, chemicals and allied products, leather and leather goods, cotton textiles, and ready-made garments. Under the import policy for 1975-76, all units which export at least 20 percent of their production will be eligible for licenses on the basis of consumption of imported raw materials, and they will be entitled to preferred sources of financing. In addition, export duty on carpet backing and hessian has been removed. Furthermore, a Cabinet Committee on Exports, under the Chairmanship of the Finance Minister, has recently been created. The Committee is to provide the necessary leadership and guidance at the highest administrative level to ensure that the volume of exports grows.

10. A Committee to consider the problems of the engineering industries and to suggest steps to stimulate export of engineering goods, was established some time ago. Several recommendations of this Committee have been put into effect:

- (i) Automatic approval for production earmarked for exports beyond authorized capacity.



- (ii) Improved arrangements for supply of inputs for exports production.
- (iii) Simplification of the procedures for allocation of steel.
- (iv) In cases where the prices of steel are revised upward by 10 percent or more, the contracts entered into by the exporters will be protected against revised prices.
- (v) In respect of export of capital goods and turnkey projects, the rate of cash assistance obtained at the time of concluding the contract will be protected till the completion of the contract.
- (vi) For determining cash assistance 25 percent of the rates of such cash assistance will be added towards the fixed cost of production.
- (vii) Import duty on raw materials imported against advance licenses will not be charged if such imports are approved by the Advance Licence Committee.
- (viii) Export obligations in future will be imposed only by one authority namely the Licensing Committee.
- (ix) The procedures regarding approval on deferred payment proposals have been simplified.
- (x) In cases where IDBI financing is not required the exporters can enter into firm commitments with foreign buyers without the prior approval of the RBI and the ECGC.
- (xi) A High powered Standing Committee on Export Finance has been set up under the Chairmanship of the Deputy Governor of the Reserve Bank of India to deal with general problems faced by exporters with regard to export finance.
- (xii) Decisions have been taken for liberalization of facilities for grant of foreign exchange for travel abroad in connection with export contracts, making available pre-shipment credit at a concessional rate of interest up to 180 days for specified medium and heavy engineering goods and arrangements for collection of specialized data and information and the taking up of preliminary studies by consultants.

September 2, 1975

MANFRED BLOBEL  
INTBAFRAD  
BANGKOK

SEPTEMBER 26 1976

LT

THAILAND

FINE SEE YOU DECEMBER ONE

REGARDS

STERN

Ernest Stern  
Director  
Development Policy

EStern;ls



FROM: BANGKOK

INCOMING TELEX

5F

Distribution: Mr. Stern E1243

SEPT 26, 1975

581 FOR ERNEST STERN

MANY THANKS URTEL 555 SEPT 17. AFTER MUCH FURTHER THOUGHT  
CANNOT SEE ALTERNATIVE OTHER THAN UNSATISFACTORY MAKESHIFT  
ARRANGEMENTS THAT WOULD IN THE END BE MUCH LESS PRODUCTIVE  
THAN MY ORIGINAL PLAN WHICH WOULD ENABLE ME START FRESH ON  
DECEMBER ONE AND DEVOTE MYSELF FULLY AND WITHOUT INTERRUPTION  
TO MY NEW TASKS

BLOBEL

NA③

248473A IBRD URV③

248423A IBRD UR

COMMUNICATIONS  
SECTION

1975 SEP 26 AM 11:02

RECEIVED

*For Blobel.*

*Fine. See you Doc*

Mr. Gordon Street, ASNVP

September 25, 1975

Ernest Stern, VPD

Country Program Briefings

Would you arrange with Mr. Van der Meer and Mr. Shibusawa for a series of briefings on our country programs, starting October 6. I would like to review, country by country, projects under implementation and those planned for FY1976 and 1977. The objective is to provide a quick overview of the scope of each project, its objectives and any significant problems. Each session should be scheduled for one hour, and not more than 2 per day. Since this may require more than one session for the larger countries, those might be arranged by sector.

I would like to keep attendance small but leave it to Messrs. Van der Meer and Shibusawa to decide on the appropriate participants in each case.

Please schedule the meetings in consultation with Ms. Sunderland.

cc: Messrs. Van der Meer  
Shibusawa

EStern/lS



September 22, 1975

Mr. M. C. Grossman  
Economic and Planning Project  
National Development Planning Agency  
Jalan Taman Suropati 2  
Jakarta, Indonesia

Dear Mort,

Thank you very much for your good wishes and undeserved compliments.

I am glad to hear that you will be talking to Subramaniam about exports. We attach very great importance to this effort. While I am encouraged that the Government is now talking about an 8 percent rate of growth in the volume of exports, I am discouraged by the fact that there seem to be no specifics behind the intention. With so massive an effort, it is essential to have some ideas about the major sectors in which this growth is to take place (e.g. food products, agricultural non-food, engineering goods, other manufactures, etc.) and the sectoral policies necessary to reinforce the general incentives. Without laying out a campaign in detail, there is little hope that such an ambitious target can be achieved. Perhaps your discussions can move this along.

With best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy



SA-Chuan  
file

September 15, 1975

Mr. Jochen Kraske  
Chief  
World Bank Resident Mission  
Post Office Box 416  
New Delhi  
India

Letter No. 298 289

Dear Jochen,

I hope you and your family had a pleasant trip and that you are settling in satisfactorily in Delhi. As you no doubt know from the numerous memo copies you have received, we had a series of extensive discussions prior to the Annual Meeting and when the Indian delegation was here. A good deal of attention has been focused on export performance, both as a criterion for the development of non-IDA lending and as a basis for judging the future of program lending. These points were made at several levels, including in the meeting between Mr. McNamara and Mr. Subramaniam.

During a private luncheon with Manmohan Singh and G. V. Ramakrishna, I tried to spell out in some detail the kind of basic information on exports that we need at least to start to formulate views on the realism of and potential success of the Indian program. I gave Manmohan a copy of the attached tables as a guide to what was required. Obviously, there is no particular magic to this draft format, and it undoubtedly will be modified as the material becomes available. The essential point, though, is that we need to know in volume terms the composition of the estimated 8% annual growth rate in exports. This cannot be specified with any precision since if reliance is placed on general incentives, quite unexpected commodities will of course make a significant contribution. Nonetheless, in the short term, established exports inevitably will reflect the overall target. Secondly, we need to have some estimate of the destination of exports, since there is an important difference between continuing rapid growth to the centrally planned economies, which yields no or very little free foreign exchange, and export growth to other areas. I believe Manmohan Singh recognizes the importance of providing this information and agreed to do so.



Mr. Kraske

- 2 -

September 15, 1975

The industrial imports credit mission which is coming out will ask for it.

I wanted you to have this background and the tables so that you can remind him and others of the kind of information which is absolutely essential, not only for a decision on the size of this year's program loan but on the future of program lending as a financing tool in India.

Best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy

Attachment

bcc: Messrs. Diamond, Alisbah  
EStern/lr

Chron

September 9, 1975

Mr. S. S. Mahta  
The Industrial Credit and Investment  
Corporation of India Limited  
163 Backbay Reclamation  
Bombay 20  
India

Dear Mr. Mahta:

I should like to express my appreciation to ICICI for its most worthwhile service in publishing two volumes, Financial Performance of Companies and Economic Rates of Return: ICICI Projects. I am most grateful that you were kind enough to send me copies.

I need hardly tell you of the problems we have in trying to understand the private industrial sector in India. Hence the information on financial patterns among your clients, although not statistically representative as you note, is certainly valuable and most welcome to us as I am sure it is also to all those who are closely interested in the Indian economy.

As for the account of your experience with economic rates of return, the Bank, as you know, is most appreciative and admiring of your contribution to our joint exercise on this subject, and we are delighted that you have now made the record of that contribution available to the public. It is an expert and useful documentation of the advantages as well as limitations of cost benefit analysis in practical application.

I look forward to further association with you and ICICI in my forthcoming assignment with the South Asia Region in the World Bank. Meanwhile, my thanks again for sending the two publications.

Sincerely,

Ernest Stern  
Director  
Development Policy

WGilmartin/nk