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Friedman Presidential Chronfiles -

JN-1 - Aug 14, 1989

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Irving S. Friedman Chronfiles - Correspondence 10

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance

DATE: August 14, 1970

I am attaching some suggested language on supplementary finance to be used in our promised progress report to the Trade and Development Board.

I thought you might like to see it this morning as the Trade and Development Board meeting will be taking place during your absence.

I have just received Mr. Demuth's draft and see that it is close in language.

ISA

cc: Mr. Demuth

President has seen

(Returned)

SEP 8 1970

12:15 p.m.

Report by the Representative of the IBRD on Supplementary
Financing to be submitted at the Tenth Session of the
Trade and Development Board

The Board will recall that on September 12 of last year, it adopted resolution 60 (IX) on Supplementary Financial Measures. The resolution was transmitted by the Secretary-General of UNCTAD to the President of the Bank on that same date.

The resolution invited the competent organs of the Bank to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them. The Board's resolution asked the Bank to consider such arrangements on the basis of the conclusions of the Inter-Governmental Group and of the views expressed at the Board and directed the Bank's attention particularly to the conclusion of the Inter-Governmental Group that "it is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing".

The Bank staff directed its attention to possible arrangements as requested by UNCTAD, but was mindful of the principle of additionality expressed in the resolution.

Shortly after agreement was reached, in July of this year, on the amount of new resources which the Part I members of the Bank intend, subject to legislative action, to contribute to the Third Replenishment of IDA, the President of the Bank inquired whether those countries would be prepared to consider contributing additional funds for the purposes of a scheme of supplementary finance. The response to those enquiries indicate that

there would, at best, be very limited support among the governments of Part I countries for making any such additional contribution to IDA for the purposes of supplementary finance, at least during the period of the Third Replenishment. Under these circumstances, the President of the Bank believes that detailed consideration by the Bank of a scheme for supplementary financial measures would serve no useful purpose at this time. The President intends to keep supplementary finance under continuing review.

Mr. Robert S. McNamara

August 13, 1970

Irving S. Friedman

Address to Board of Governors

Attached hereto are the requested comments on the factual accuracy of your Copenhagen address.

Other material has been sent to Mr. Maddux.

Attachment

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: August 12, 1970

FROM: Alexander Stevenson *AS*AUG 13 1970
9 20SUBJECT: Comments on the Draft of the President's Copenhagen Address

I have had the draft dated August 7, 1970 checked and I set out below a few comments and suggestions which result.

On p.1 lines 16-17, the figures for loans, credits and investments refer to total Bank Group operations. We have assumed, and Mr. Maddux has confirmed, that they set the tone for the rest of Section I, and that the other figures in the section should also be for the Bank Group, and not, as in the present draft, for the Bank only. This gives rise to the following changes.

P.1, lines 19-20, "\$2.1 billion" should be replaced by "\$2.3 billion", "\$300 million" should be replaced by "\$400 million", and "\$700 million" should be replaced by "almost \$1 billion". The relevant figures, as confirmed by Controller's, include time deposits, government obligations, unrestricted currencies and Swiss francs due from banks and, for IBRD only, special reserve fund and petty cash, as follows (\$US millions):

	<u>FY 1968</u>	<u>FY 1969</u>	<u>FY 1970</u>
IBRD	\$ 1,167	\$ 1,707	\$ 2,049
IDA	106	110	206
IFC	32	31	11
Total	<u>\$ 1,305</u>	<u>\$ 1,848</u>	<u>\$ 2,266</u>

P.2, lines 5-6, Again referring to Bank Group, "\$214 million" should be replaced by "\$230 million", and 25% should be replaced by "20%". The underlying figures are (\$US million):

	<u>FY 1968</u>	<u>FY 1969</u>	<u>FY 1970</u>
IBRD	\$ 169.1	\$ 171.4	\$ 212.9
IDA	8.0	10.4	6.7
IFC(income)	6.2	7.5	9.2
IFC(sales & others)	-	0.2	1.0
	<u>\$ 183.3</u>	<u>\$ 189.5</u>	<u>\$ 229.8</u>

August 12, 1970

P.3, lines 7-8, We cannot get close to the figure for agricultural projects implied in this statement, even by excluding multipurpose projects with agricultural applications. I would suggest deleting the phrase "exceeded the total number in the entire previous history of the Bank" and substituting for it "amounted to more than 50% of the total number in the entire previous history of the Bank." The basic data, taken from the July 1, 1970 Statement of Loans of the Agriculture Projects Department (number of projects by fiscal year) are:

	<u>1948-1968</u>	<u>1969</u>	<u>1970</u>	<u>1969 and 1970</u>
IBRD	87	20	12	32
IDA	<u>33</u>	<u>13</u>	<u>21</u>	<u>34</u>
Total	120	33	33	66

These totals include about 25 "multipurpose" projects.

P.3, lines 1-9, I would suggest deleting the expression "more education projects --- in these past two years than" and replacing it by "as many education projects ---in these past two years as". The figures (number of projects by fiscal year) are:

	<u>1948-1968</u>	<u>1969</u>	<u>1970</u>	<u>1969 and 1970</u>
IBRD	7	7	7	14
IDA	<u>15</u>	<u>4</u>	<u>4</u>	<u>8</u>
Total	22	11	11	22

P.3, line 15 - The expression "80% more countries" should be revised to read "about 75% more countries." The figures (number of countries each fiscal year receiving Bank and IDA loans, including the East African Community) are as follows:

1964	34	
1965	34	
1966	31	
1967	40	
1968	<u>38</u>	
Average 1964-68	<u>35</u>	= 74.3%
1969 and 1970, each	61	

P.6, lines 7-9, I do not like the reference to "the past decade and a half". We have no acceptable data for years before end-1955 (for debt outstanding) or before calendar 1956 (for debt service payments), and even the figures that we have for these earliest years do not compare in quality or coverage with data for more recent years. Further, the principal base period referred to in the Annual Report is the past decade (1960-1969). Therefore, beginning in line 7, I would suggest changing "past decade and a half" to "past decade;" deleting "five-fold" and replacing it by "four-fold", and deleting "17%" and replacing it by "12%" and deleting "7% per year" and replacing it by "6½% per year." The relevant data are (\$US billions):

	<u>1959</u>	<u>1969 (est)</u>
Debt Outstanding, end-year	16.2	60.0
Debt Service Payments	1.7	5.3
Exports of LDC's	25.8	48.1

P.15, lines 1-2, The sentence beginning "I suggest ..." seems elliptical. I would propose that it read "I suggest that goal should be to accelerate the slow decline in fertility that will occur in the absence of family planning programs."

P.15, lines 4ff, I have tried out this sentence on several people and they all have difficulty with it. If I understand the text correctly, the reference to "6 or 7 billion less" refers back to "a few decades." But does it not take until the second half of the twenty-first century for the population to be 6 or 7 billion less than it otherwise would be? I question the wisdom of using figures from a year so far in the future.

P.16, line 21, "More than" should be "At least."

P.21, lines 3-16, This is a point which is on the periphery of factual comment. While each individual statement in the precis of Mr. Pearson's Columbia speech (p.21) may be defensible, the effect of them all is to put the 19th century in too favorable a light. Particularly, if one looks at it through the eyes of an LDC viewer, the character of the nineteenth century economic, social and technical changes may not appear "balanced and fundamentally progressive." Epidemics and lack of public health are certainly not a "good thing." And I wonder if many Africans would regard the migration of Europeans to new lands as a "safety valve." Also, much European migration had its origin in misery at home, e.g. in Ireland after the "great hunger" of the potato famine. This impression would be mitigated by omitting the first full sentence on p. 21 ("Here..today") and making quite clear that migration to new lands was a safety valve for the countries from which emigrants came.

P.21, lines 22-23, The results of population growth will be affected by the population structure. I suggest the sentence beginning "Population..." be reformulated as follows: "Population growth, released by public health improvements, can produce an increase in the work force of over 2 percent a year."

P.22, line 4, We have looked again at the figures relating to unemployment and in the light of further related work, we think that the numerical statement about the rate of under-employment and unemployment in the cities of Asia and Latin America would be difficult if not impossible to substantiate.

P.22, lines 9-10, While the point which the figures on "marginal men" is designed to illustrate is an excellent one, the numerical values would be hard to substantiate and their plausibility depends on how this "marginal" category is defined. I would suggest substituting "may" for "will" in line 10.

P.23, line 5, The same comment applies as for p.22, line 4.

P.23, line 19, The figure of \$10,000 for the per capita income of the U.S. in the year 2000 looks to us as on the low side - our projection, for what it is worth, exceeds \$11,000. I would suggest substituting "at least" for "approximately."

AStevenson:js

ADDRESS TO THE BOARD OF GOVERNORS

The year that has passed since we last met has been a pivotal one. It marked the beginning of the second quarter-century of the Bank's existence, and prefaced the opening of the Second Development Decade. In our meeting twelve months ago I sketched out our plans for maintaining the momentum of the Bank Group's accelerated activity, stressed the need for fashioning a more comprehensive strategy for development, and welcomed the publication of the Pearson Commission Report.

Today, I would like to:

- . Report to you on the Bank's operations in FY 1970.
- . Review progress toward meeting the projected goals of our Five-Year Program.
- . Discuss the responses to the key recommendations of the Pearson Commission.
- . And comment upon the objectives of development in the Seventies.

I. THE BANK GROUP'S OPERATIONS IN FY '70

Let me begin by touching upon our operations during the past fiscal year. For that period, new loans, credits, and investments totalled \$2.3 billion. This compares with \$1.88 billion in 1969 and \$1.0 billion in 1968.

Our cash and liquid security balances continued to rise and on June 30 of this year totalled \$2.1 billion, up \$300 million from June 30, 1969 and \$700 million from June 30, 1968. As I indicated to you at our last meeting, we believe that our plans for expanded operations -- particularly at a time of uncertainty in the world's capital markets --- ought to be backed by a high level of liquidity.

This provides greater flexibility in our financing, and enables us to ride out market fluctuations over which we have no control. We propose to continue that policy.

The Bank's administrative expenses are, of course, rising as operations expand and as price inflation continues. But despite increases in operating costs, profits in FY 1970 amounted to \$214 million: the highest in the Bank's history, and up more than 25% over 1969. Approximately one-half of the increase is to be retained in the Bank to support future concessionary lending and \$100 million is recommended for transfer to the International Development Association.

II. THE FIVE-YEAR PROGRAM

The Bank Group's performance in 1970 was that of a vigorous and growing organization. But as I stressed last year, I believe the organization should shape its strategy to a longer time frame than year-to-year planning can provide. For that purpose, we have developed a Five-Year Program and in measuring any given year's performance, we should look to the larger framework of that Plan to assess our progress.

One objective is to double the Bank Group's operations in the five-year period 1969-1973, as compared with the period 1964-1968. Should we succeed, it will mean that we will have approved loans, credits and investments during these five years that aggregate \$12 billion of high-priority development projects -- projects whose total cost will represent some \$30 billion.

We have now completed the first two years of that Five-Year Program, and I can report to you that we are on schedule, and that I remain confident that we can reach our goals, as formidable as they are.

They are formidable not merely, or even mainly, because of their quantitative magnitude, but because of their qualitative character. The Bank Group over the past two years has not simply been trying to do "more" -- but to do more of what

will best contribute to the optimal development of the developing nations.

Over the past 24 months we have made specific and significant shifts in that direction:

- . We have intensified our efforts in the agricultural sector -- to guarantee more food for expanding populations, to promote agricultural exports, and to provide a necessary stimulant to industrial growth. Our agricultural projects in 1969 and 1970 exceeded the total number in the entire previous history of the Bank.
- . We have also financed more education projects -- projects designed to reduce the drag of functional illiteracy on development -- in these past two years ~~than~~ in all prior years put together.
- . We have broadened our geographical scope considerably so that we could be of service to more countries and in particular to more small and very poor countries. In each of the years 1969 and 1970 we loaned to a total of 61 countries, 80% more countries in each year than in the average year 1964-1968. Further, in the same two-year period, we have served 14 countries (including such very poor countries as Indonesia, Rwanda, Chad, Dahomey, Democratic Republic of the Congo, and Nepal) which had received no loans or credits in the previous five years.
- . We have begun work in the field of population planning -- admittedly more modestly than the urgency of the problem demands -- at the specific request of countries such as India, Indonesia, Jamaica, and Tunisia.
- . We have made a start at broadening the concept of development beyond the simple limits of economic growth. The emerging nations need, and

are determined to achieve, greater economic advance. But as I will state more fully later, we believe economic progress remains precarious and sterile without corresponding social improvement. Fully human development demands attention to both. We intend, in the Bank, to give attention to both.

- We have initiated a new and expanded program of Country Economic Missions in order better to assist the developing nations in their formulation of overall development strategies, and at the same time to provide a foundation for the donor nations and international agencies to channel their technical and financial assistance in as productive a manner as possible. Practical planning in the development field calls for current and comprehensive socio-economic data. The World Bank Group will gather, correlate, and make available this information to the appropriate authorities. As this program gains momentum we will schedule regular annual reports on the 30 largest of our developing member countries -- we recently issued the first in this new series -- and biennial or triennial reports on another 60 countries.

III. THE PEARSON COMMISSION RECOMMENDATIONS

I want to turn now to the attention given to the recommendations of the Pearson Commission. As you know, the Commission's work was financed by the Bank, but with the stringent safeguard that it should be completely independent in its investigations, and that its conclusions should represent the candid consensus of the Commissioners themselves, speaking their minds frankly. The Report was addressed not to the Bank itself, but to the world at large, and its purpose was to take an entirely fresh and impartial look at every significant factor in the global development scene.

A. Recommendations Relating Specifically to the Bank

At our last annual meeting, which coincided with the publication of the Report, I indicated that we in the Bank would undertake a thorough analysis of each of the Commission's recommendations that touched upon our own activities. There were 33 such recommendations. Accordingly, we have given the most careful consideration to these proposals. So far, during the course of the year, we have issued detailed memoranda to the Executive Directors on 31 of them for discussion and review. In the great majority of instances, I have concurred in the Commission's recommendations.

The Commission, for example, recommended that the policies of the International Finance Corporation should be reoriented to give greater emphasis to the development implications of its investments, and not be content to stress simply their profitability. I fully agreed with that viewpoint, and, after review by the Executive Directors, IFC issued in January a new Statement of Policies which incorporates the recommendation.

The Commission was concerned, as well, over the danger of the excessive use of export credits -- a practice that can inadvertently lead to a country's assuming an unforeseen external debt of unmanageable proportions. To guard against this hazard the Commission recommended that the Organization for Economic Cooperation and Development and the Bank develop what it termed "a strong early warning system" which can help developing countries avert sudden debt crises. We are in agreement with this proposal and will seek to implement it.

Another recommendation dealt with the issue of establishing new multilateral groupings which could provide for annual reviews of the development performance of recipients and the discharge of aid and related commitments by donors. I concur, and with the approval of the governments concerned, we are currently organizing

new groups for the Republic of the Congo, Ethiopia, and the Philippines, and reactivating the groups for Thailand and Nigeria.

The Commission felt that the Bank should participate in discussions of debt-servicing problems, with a view to searching out new solutions to that increasingly complicated question. We agree and have initiated a series of studies of the debt-servicing difficulties facing a number of our member nations. The external public debt of developing countries has increased five fold over the past decade and a half, and debt service payments have grown annually at a rate of 17% while foreign exchange receipts from exports have risen only 7% per year -- obviously such trends cannot be allowed to continue indefinitely.

The Commissioners, in another proposal, stated that the World Bank should assist in the establishment of international centers, within developing countries, for essential scientific and technological research that could be practically applied to urgent problems. The case of agriculture is particularly important, since the work on new wheat and rice strains, for use on irrigated land, has dramatically demonstrated what can be achieved. But as encouraging as these discoveries have been, it is clear that a food crisis in the 1980s and 90s is unlikely to be avoided unless additional research is devoted now -- in the 70s -- to the improvement of rain-fed cultivation of rice and wheat, as well as to other essential food resources such as sorghum, maize, oilseeds, grain legumes, and livestock.

What we require is not simply incremental improvements in agriculture, but whole new technologies that are fully adaptable and workable within the framework of local conditions. The Bank is seeking to find ways in which it can assist in stimulating and supporting such a program.

Among the very few recommendations of the Commission with which I disagreed, there is one on which I should comment. This was the suggestion that the International Development Association may require reorganization. By implication, the Commission appeared to be saying the Bank would operate as a bank and not as a development agency, and therefore IDA should be set up independently to go its separate way.

Such a conclusion appears to reflect the view that because the Bank obtains its funds by borrowing in the world's capital markets whereas IDA is financed by appropriations from governments, the two will of necessity follow very different lending policies. But such is not the case. Subject only to creditworthiness considerations, I believe the two organizations should lend on the basis of identical criteria. The source of the funds to be lent is irrelevant to the economic case for their investment. What most contributes to the development of the borrowing country should be the decisive factor in both Bank and IDA operations.

If the Bank were in fact subordinating the development interest of its borrowers to other considerations, a proper solution, in my opinion, would be to change the Bank's policies -- not to reorganize IDA. Any policy which could be justified for IDA as consistent with its development function can, I believe, be equally justified for the Bank, and the Bank should adopt it.

There is occasional criticism of both our Bank loans and IDA credits because of the stringent conditions on which they are negotiated. But those very conditions are specifically designed to assist the borrowing country. Their purpose is to insure that the Bank Group's resources are used for the optimum development of our borrowers. Economic losses and financial waste are, after all, of no benefit to any country's development. Our standards of prudence and performance should be

just as strict for IDA credits as they are for Bank loans. Indeed, it is the poorest countries, those who benefit most from IDA, who can least afford losses or waste.

B. Recommendations to Others

As I have noted, the Pearson Commission Report was addressed not specifically to the Bank, but to the world at large. And it is clear that three of its most far-reaching recommendations dealt with:

- . Establishing and meeting a realistic target for the flow of external assistance to the developing countries.
- . The design of better criteria and the formation of new machinery to measure and assess the performance of both the donor and the recipient nations in the development field.
- . And the urgent need to find acceptable and effective measures to reduce excessive rates of population growth in those countries where the promise of a better future is being swept away by a tidal wave of unwanted births.

The first of these recommendations -- the formulation and achievement of a realistic target of development assistance -- is making encouraging progress. Action by the development community on the other two issues is far from satisfactory.

Let me discuss for a moment the former.

C. The Aid Target

Not only is the Pearson Commission's proposal on this matter one of its most important recommendations for the 1970s, but the whole background of the question is worth recalling.

In 1960 the UN General Assembly adopted a resolution to the effect that "the

flow of international assistance and capital should be increased substantially so as to reach as soon as possible approximately 1% of the combined national incomes of the economically advanced countries." This concept was elaborated on by the United Nations Conference on Trade and Development in 1964, and was endorsed as well by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development. At the second meeting of UNCTAD in 1968 the target was redefined to mean 1% of Gross National Product (GNP), and was adopted again by resolution.

As the Pearson Commission points out, the irony is that although the 1% target was in fact exceeded during the five years prior to its formal adoption by the DAC in 1964, it has not been fully met in any year since.

What is perhaps not fully understood by the public is that the target of 1% of GNP has not, in the strict sense, been an aid target at all. In practice, it has described the total flow of financial resources from the richer nations to the poorer nations, and has not distinguished between conventional commercial transactions, and concessional, development-oriented aid as such. Commercial transactions can contribute to the development process. But private capital flows are simply not available on the terms required for many of the priority projects -- schools, for example, or roads, or irrigation -- which the developing countries need so badly. The Commission concluded, therefore, that the flow of official development aid was indispensable. And yet in relation to GNP in the developed world, official development aid fell by a third during the 1960s.

It was for these reasons that the Commission strongly recommended that a separate target be established for official development assistance -- a target equivalent to 0.7% of GNP -- and urged that this target be reached by approximately the middle of the decade, but in no case later than 1980.

This is a target calling for a very substantial effort. Since the total official development aid of the member governments of DAC amounted in 1969 to 0.36% of their combined GNPs, the Commission was in effect recommending that government aid, in relation to GNP, be doubled in the Seventies.

What has been the response to this recommendation?

To the surprise, perhaps, of the skeptics, it has on the whole been very positive. With but a single exception, no member government of DAC has rejected the target, and several -- including Belgium, the Netherlands, Norway and Sweden -- have fully accepted it. Canada and the United Kingdom have agreed in principle on the size of the commitment, but have not set a firm date for its achievement. France is already meeting the target, and both the Federal Republic of Germany and Japan have stated they will move toward it.

Among the first consequences of the decisions of governments to increase their official development aid, and reflecting their concern over the growing burden of debt, was their agreement to support a Third Replenishment of IDA, for the years 1972, 1973, and 1974 at a rate of \$800 million per year, as compared to \$400 million per year in the previous period.

Though it is true that the United States has noted that it cannot commit itself to specific quantitative aid targets, the U.S. Administration did provide strong support to the substantial increase in the replenishment of IDA and has stated it intends to propose expanding the flow of U.S. aid from the present low levels.

In 1949, at the beginning of the Marshall Plan, American economic aid amounted to 2.79% of GNP and 11.5% of its federal budget. In 1970, the AID programs constitute less than 0.3% of GNP, and less than 1% of the budget. The United States now ranks tenth, among the 14 DAC members, in the proportion of GNP devoted to aid.

No one can question that American domestic problems -- particularly in the social and economic fields -- require increased attention and financial support. But it is wholly unrealistic to suppose that this can only be achieved by cutting off aid to desperately poor nations abroad. Economists have pointed out that in the next ten years the U.S. will increase its income by 50% and that the GNP in 1979, at constant prices, will be \$500 billion greater than in 1969. It would appear that the country is wealthy enough to support a just and reasonable foreign aid program, and at the same time deal effectively with domestic needs. And to me it is inconceivable that the American people will accept for long a situation in which they -- forming 6% of the world's population but consuming 40% of the world's resources -- contribute less than their fair share to the development of the emerging nations.

As I have noted elsewhere, the decision to respond both to the pressure of domestic problems, and the urgency of essential foreign assistance, will in the end be dependent upon the response to a far more basic and searching question -- a question that must be faced not in the U.S. alone, but in every wealthy, industrialized country of the world. And that question is this: Which is ultimately more in a nation's interest: to funnel national resources into an endlessly spiraling consumer economy -- with its by-products of waste and pollution -- or to dedicate a more reasonable share of these same resources to improving the fundamental quality of life both at home and abroad?

Following the end of World War II, the world witnessed a massive transfer of resources from the wealthy nations to both the war-torn and the less-developed nations. This began as an unprecedented act of statesmanship. Over the years, however, this capital flow was increasingly influenced by narrow concepts of national self-interest.

Some nations saw it as a weapon in the cold war; others looked upon it as a means to promote commercial gain. But today these views are waning. More and more, the concept of economic assistance is being accepted as a necessary consequence of a new philosophy of international responsibility -- a philosophy which recognizes that within the world community rich nations have the same responsibility of assisting less privileged nations that the rich citizens of a single nation have toward its poor. It is not a sentimental question of philanthropy. It is a straightforward issue of social justice.

More and more governments are accepting this conclusion and there are, therefore, solid grounds for concluding that the decade of the Seventies will witness a substantial increase -- both in absolute amounts, and in proportions to the GNP --

of the critical flow of official development aid from the wealthier nations to the poorer nations.

D. Better Coordination and Assessment of Effort

But as the Commission points out, the global development effort is currently fragmented into an almost bewildering number of overlapping and uncoordinated activities. This leads inevitably to duplication of effort, inefficient planning, and a scattering of scarce resources. What is required is organizational machinery that can effectively and authoritatively monitor and assess the performance of donor and recipient countries alike, reduce the proliferation of unstandardized reporting, and effect more coherent, cooperative and purposeful partnership throughout the entire development community.

This is particularly important if we are to rally the necessary public understanding and support in the industrialized countries for the critical tasks of global development that lie before us.

The Commission recommended that the President of the World Bank call an international conference on this matter this year. However, within the United Nations system, of which the Bank is a part, these functions are the responsibility of the Economic and Social Council. That body is presently considering proposals for new machinery for review and appraisal of development programs at the national, regional, and international levels. Under the circumstances it would be premature for the Bank to take action at this time. The problem itself, however, remains and we must find ways -- and find them soon -- to secure a far greater measure of coordinated management of the combined capabilities of the national and international agencies participating in the development process. Such an objective is, in itself, one of the most productive goals we could pursue as the new decade begins.

But if the issues of an official development aid target, and improved management within the development community are among the most important recommendations of

the Pearson Commission for the short-term, the most imperative issue for the long-term is population planning.

E. Population Planning

The Commission faced this problem squarely, without hedging its views. "No other phenomenon," it stated flatly, "casts a darker shadow over the prospects for international development than the staggering growth of population It is clear that there can be no serious social and economic planning unless the ominous implications of uncontrolled population growth are understood and acted upon."

Are the "ominous implications of uncontrolled population growth" being acted upon effectively? If one is to be candid, the answer would have to be no. With the exception of Singapore and Hong Kong, which are special cases, in only two developing countries, Taiwan^{a/} and Korea, is there clear evidence that the rate of population growth has been significantly reduced by family planning programs.

It is worth asking why.^{b/}

One prominent authority in the population field has pointed out that the prospects for the success of family planning throughout the world are at one

^{a/} Even Taiwan, which through a most effective population planning program has reduced its growth rate from 2.8% in 1965 to 2.3% in 1969, will -- if it succeeds by 1985 in reaching a point where couples only replace themselves -- see its present population of 14 million rise to 35 million before it becomes stationary.

^{b/} I am indebted to Bernard Berelson, President of the Population Council; Professor Ronald Freedman of the University of Michigan; and Oscar Markavy, Population Program Officer of the Ford Foundation, for much of the material in this section.

and the same time promising, and dubious: promising if we do what in fact can be done; dubious if in fact we continue as we are.

The task is difficult for many reasons, but primarily because of its sheer overwhelming size. Consider the magnitude of the factors involved: there are dozens of countries plagued with the problem -- each of them different, each of them possessing their own particular set of social and cultural traditions. There are thousands of clinical facilities to be established; hundreds of thousands of staff workers to be recruited, trained and organized in the administration of the vast national programs; hundreds of millions of families to be informed and served; and nearly 1-1/4 billion births to be averted in the developing world, if, for example, by the year 2000 the present birth rate of 40 per 1000 population were to be reduced to 20 per 1000. What we must understand is that even if an average family size of two children per couple is achieved, the population will continue to grow for an additional 65 or 70 years and the ultimate stabilized level will be far greater than at the time the two-per-couple rate is achieved.^{a/}

Thus, even with gargantuan efforts the problem is going to be with us for decades to come, but this fact, rather than being an excuse for delay, is only all the more an imperative for action -- and for action now. Every day we fail to act makes the task only more formidable the following day. Every additional birth is not only another mouth to feed; it is another potential parent.

^{a/} If, for instance, by the year 2000, the developed countries were to reach the point at which couples only replace themselves, and the developing countries were to further reduce their birth rate to reach that point by the year 2050 -- and both these achievements appear unlikely -- the world's present population of 3.5 billion would not become stationary before the year 2120, and would then stand at fifteen billion.

What must we do?

First, we must have a feasible goal. I suggest that goal should be to gain a few decades on what would occur to fertility in the absence of family planning programs. The achievement of this goal would mean a substantial increase in the quality of life for both the parents and the children of the developing countries -- in better health, better education, better nutrition, and in many other ways -- as a direct result of populations totalling some 6 or 7 billion less than would otherwise be the case.

And what must be done to achieve this goal? Five ingredients are needed:

1. The political will to support the effort.
2. The required understanding and the willingness to act on the part of the people.
3. The availability of effective, acceptable birth control methods.
4. An efficient organization to administer the program.
5. Demographic data and analyses to evaluate results and point to program weaknesses requiring correction.

Where do we stand on each of these?

To begin with, there has recently been a dramatic increase in political support for population planning. The latest example is the case of the Philippines, a country with a severe population problem, but a country in which it has been understandably difficult to take the open, public decisions that are required. President Marcos faced the delicate issue frankly in his State of the Nation message to his Congress a few months ago:

"With a soaring birth rate, the prospects for a continued economic development are considerably diminished. Indeed, there is a strong possibility that the

gains which we have carefully built up over the years may be cancelled by a continuing population explosion After a careful weighing of factors, I have decided to propose legislation making family planning an official policy of my Administration."

His Minister of Foreign Affairs put the matter with equal candor:

"The control of population is essentially an economic, cultural, and political problem. One of the most hopeful means of bringing the birth rate down to near replacement level is the Department of Education's plan to introduce this entire subject into the curricula of schools and colleges Underlying this approach is a clear recognition that education has the twofold obligation to reinforce, and where necessary, to help change public mores. Educational institutions, from the elementary to the postgraduate years, can perform no more useful service in the seventies than to illuminate the principles of human survival and to dedicate themselves to preserving and enhancing the quality and diversity of life."

In 1960 only three countries had population planning policies, only one government was actually offering assistance, and no international development agency was working in the field of family planning.

In 1970 (as indicated in the attached table) 22 countries in Asia, Africa, and Latin America -- countries representing 70% of the population of those continents -- have official population programs. ^{At least} ~~More than~~ 14 other countries, representing a further 5% of the population, provide some assistance to family planning, though they as yet have no officially formulated policy. And among the international agencies, the UN Population Division, UNDP, Unesco, WHO, FAO, ILO, UNICEF, OECD, and the World Bank have all stated a willingness to participate in population planning activities.

There are geographical differences (in Asia, some 87% of the people live in countries with "favorable family planning policies", while in Latin America and Africa the figure is only 20%), but political acceptance of family planning programs is widespread. Even where the political support is currently more apparent than real, it is becoming stronger with each passing year.

If, then, the first requirement for the success of family planning is political support at the top -- and that is improving -- where are the roadblocks?

The first is in the lack of access of the citizenry to the information and assistance required. Surveys indicate that the interest in family planning among people everywhere is high, but that their understanding is often tenuous at best and tragically erroneous at worst. Millions of parents, even in remote areas of the world, want fewer children, but they simply lack the knowledge to achieve this. Programs must be developed to provide them with the information they seek.

But political support and widespread knowledge are still not enough. The techniques of family planning must, themselves, be adequate, appropriate, and available. The means we currently have at hand are much better than those of a decade ago, but are still imperfect. They can be used to accomplish much more than has been already achieved, but concurrently a massive program to improve them must be initiated. Our knowledge in this field is so incomplete that though we know that certain techniques do work, we are still not completely clear on how or why they work. The fact is that compared to what we need to know, our knowledge remains elementary, even primitive.

The clear consequence of this is that there must be a greatly expanded research effort in basic reproductive biology. At present, I know of only four locations in the world in which as many as four full-time researchers are working in this field.

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Some \$275 million a year is spent on cancer research. But less than \$50 million a year is spent on reproductive biology research, and this includes all the funds allocated, worldwide, by public and private institutions alike. The estimate is that an optimal program of research and development in this field would require \$150 million a year for a decade. That is an insignificant price to pay in the face of a problem that -- if left unsolved -- will in the end exact social and economic costs beyond calculation.

Finally, a population planning program to be successful requires a strong administrative organization and a comprehensive data analysis and evaluation service^{a/}. With but one or two exceptions, none of the developing countries has established adequate support in either of these areas. I know, for example, of only one location in the world where as many as three researchers are working full-time on the social science aspects of population planning. A number of governments have made a start at strengthening the organizational structure of family planning, but progress is thwarted by bureaucratic difficulties, lack of technical assistance, and inadequate financial support. It is in this area that the international institutions can be most effective. Additional effort is required from all of us, including the Bank. Many of our members are appealing for greater support. They want our advice as well as our financial help, and I propose to organize our capability to provide them with more of both.

The additional funds required to attack the population problem on all fronts -- for reproductive biological research, for social science research, and for better organization and administration -- are relatively small, less than 50¢ per capita ^{curbo?}

^{a/} In only a handful of developing countries is there a significant percentage of women of reproductive age following fertility control practices -- the percentage of women in developed countries who are doing so is six times as great.

per year. But the time that will be required to achieve results will be greater than many have realized. This is all the more reason for accelerating our pace. An OECD study concluded that in 1968 family-planning programs in developing countries accounted for only 2-1/2 million averted births, compared to the total of 1-1/4 billion that must be averted in the next three decades if a 1% rate of growth is to be reached by the year 2000. If we are to achieve an average fifteen-fold increase in the effectiveness of the program over the next 30 years, we must accelerate our efforts now.

The Pearson Commission emphasized that the population problem will not go away. It will be resolved in one way or another: either by sensible solutions or senseless suffering. If we want a sensible solution, with the corresponding enhancement of the quality of life for hundreds of millions of children, as well as for their parents -- all of whom clearly have the intrinsic right to something more than a degrading subsistence -- then we must get on with it.

IV. THE OBJECTIVES OF DEVELOPMENT IN THE SEVENTIES^{a/}

I want to emphasize the last point and relate it to the objectives of development in the Seventies. The profound concern we must feel for the rapid growth of population stems precisely from the menace it brings to any moral standard of existence. We do not want fewer children born into the world because -- to quote the more extreme critics of population policy -- we do not like their color or fear their future enmity of suspect that they will in some unspecified way encroach upon the high consumption standards of already industrialized lands. This is not, as is sometimes claimed,

^{a/} Barbara Ward, Albert Schweitzer Professor of International Development at Columbia University, who for more than a decade has stimulated my thinking in the field of development economics, contributed much to the ideas in this section.

an exercise in concealed genocide, perpetrated by the already rich on the aspiring poor. It has one source and one only -- the belief that without a slowing down and control of the population explosion, the life awaiting millions upon millions of this planet's future inhabitants will be stunted, miserable, and tragic or, if you prefer the hackneyed but fitting phrase of the philosopher, Hobbs, "nasty, brutish and short."

This fact, this risk takes us far beyond the population explosion. We have to see population as part -- a vital, (critical) part but still only a part, of a much wider social and political crisis which grows deeper with each decade and threatens to round off this century with years of unrest and turbulence, [a "time of troubles" during which the forces of historical change race over the rapids of obstruction and frustration and threaten our frail, twentieth century society with ultimate disaster.] *was this bit of report re-...*

We cannot divert these forces. They are an essential part of the process by which mankind is adapting the whole of its life to the advances in science and technology. About one-third of humanity has moved far in the transfer to modernization and relative affluence. Now the rest of the human species jostle behind. They certainly have no intention of renouncing or missing the wealth and prosperity, above all, the power locked up in modern technology.

these nations "Modernization" is a central thrust throughout the still-developing lands, but *they* are seeking to modernize under quite unprecedented conditions. Technology and scientific modernization is now more complicated ^{and} more hazardous than it was for the industrial nations a century ago. This is in fact the real root of the crisis.

Mr. Lester Pearson in a speech given at the Columbia University Conference

In February this year, gave a cogent and relevant resume of the historical differences between nineteenth and twentieth century development which I ^{emphasize?} [recommend] to your attention. Here I will simply emphasize the contrast between the balanced and fundamentally progressive character of economic, social and technological change in the nineteenth century, and the growing evidence of fundamental imbalance and hence regressive forces at work in the unfolding of the same processes of modernization today.

In the nineteenth century population, held back by epidemics and lack of public health, caused the work force to grow by less than 1 per cent per year -- in other words, by about the amount the technology of the times could usefully absorb and employ. Agricultural productivity rose and temperate land was opened up for European use all around the globe. The cities grew as centers of manufacturing ^{but} [and] by the time technology demanded fewer [and] more sophisticated workers, and public health had lowered the death rate, education and city living had produced [a] more stable population ^{growth}. In any case vast migration of Europeans to new lands ^{were} [were] a further safety valve.

Today, every one of the nineteenth century conditions is reversed.

Just as the censuses of the 1950s first alerted the world to the scale of the population explosion, so today surveys made in the 1960s of unemployment, of internal migration, of city growth, begin to lay bare for us a new world [?] [topography] of vast social imbalance and deepening misery.

Population ^{growth}, released by public health, ^{improvements} [produces] an increase in the work force of ^{ever} [at least] 2 percent a year. Yet technology becomes steadily more capital intensive and absorbs steadily fewer men. Although agricultural productivity is now on the rise, the new techniques are de-stabilizing in the sense that they widen income inequities and release still more workers from the overcrowded land. And where

today can the rural migrants go? The world is already allotted, the land occupied by the nineteenth century modernizers.

So the cities fill up and urban unemployment steadily grows. We must recognize something like a 20-25% rate of under-employment and un-employment in the expanding cities of Asia and Latin America. Very probably there is an equal measure of worklessness in the countryside. The poorest quarter of the population in developing lands risks being left almost entirely behind in the vast transformation of the modern technological society. The "marginal" men, the wretched strugglers for survival on the fringes of farm and city, may already number more than half a billion. By 1980 they will surpass a billion, by 1990 two billion. Can we imagine any human order surviving with so gross a mass of misery piling up at its base?

Let us for a moment look at this misery in the developing world in the realities of human suffering and deprivation:

- . Malnutrition is common.

The FAO estimates that at least a third to a half of the world's people suffer from hunger or nutritional deprivation. The average person in a high-standard area consumes four pounds of food a day as compared with an average pound and a quarter in a low-standard area.

- . Infant mortality is high.

Infant deaths per 1000 live births are four times as high in the developing countries as in the developed countries (110 compared with 27).

- . Life expectancy is low.

A man in the West can expect to live 40 per cent longer than the average man in the developing countries and twice as long as the average man in some of the African countries.

. Illiteracy is widespread.

There are 100 million more illiterates today than there were 20 years ago, bringing the total number to some 800 million.

. Unemployment is endemic and growing.

The equivalent of approximately 20 per cent of the entire male labor force is unemployed, and in many areas the urban population is growing twice as fast as the number of urban jobs.

. The distribution of income and wealth is severely skewed, and in some countries becoming more so. In India, 12 per cent of the rural families control more than half of the cultivated land. In Brazil, less than 10 per cent of the families control 75 per cent of the land. In Pakistan, the disparity in per capita income between East and West, which amounted to 18% in 1950, became 25% in 1960, 31% in 1965, and 38% in 1970.

. The gap between the per capita incomes of the rich nations and the poor nations is widening rather than narrowing, both relatively and absolutely. At the extremes that gap is already more than \$3,000. Present projections indicate it may well widen to \$9,000 by the end of the century. In the year 2000, per capita income in the United States in terms of today's prices is expected to be approximately \$10,000; in Brazil, \$500; and in India, \$200.

At least a quarter of the human race face the prospect of entering the twenty-first century in poverty more unacceptable by contrast than that of any previous epoch. Frankly I do not see this as a situation in which any of our shared hopes for a long peace and steady material progress are likely to be achieved. On the contrary, I agree with Mr. Lester Pearson's somber belief that "a planet cannot,

any more than a country, survive, half-slave, half-free, half engulfed in misery, half careering along towards the supposed joys of almost unlimited consumption." That way lies disaster, yet that is our way today unless we are prepared to change course -- and to do so in time.

How then should we react to these deepening risks? I must assume that we will react, for, to carry on any of our activities as political leaders, government officials, business and labor leaders or responsible citizens, we must take for granted a certain minimum rationality in human affairs, and it is not rational to confront historical pressures on a far greater scale than, say, those of the revolutionary periods of the eighteenth and nineteenth centuries without accepting the consequences.

So I would like to end my report to you with four possible points for your agenda.

The first is that we accept the full scale of the world crisis. Over the last decade the developing nations have achieved the historically unprecedented rate of growth of 5 per cent a year. This has been made possible in part by a reasonably sustained level of external assistance. Yet, as the 1970s open, the evidence piles up that economic growth alone cannot bring about that steady social transformation of the whole society without which further advances cannot occur. We have in short to admit that economic growth, even if pushed to the 6 per cent annual rate proposed as a target for the '70s both by the Pearson Commission and by the United Nations Committee on the Second Development Decade, will not, of itself, be enough to accomplish our development objectives. Growth is a necessary but not a sufficient cause of successful modernization. We must secure a 6 per cent growth rate. We must deploy the resources necessary for it. But we must do more. We must ensure that in such critical fields as population planning, rural renewal, fuller employment and

decent urbanism, positive policies under-pin and hasten the social transformation without which economic growth itself becomes frustrated and its results impaired.

This brings me to my second point. I have already discussed at some length the difficulties attendant upon any strategy for family planning. I think we have to admit that in other equally critical fields as well we still lack the needed understanding and expertise. It must be our first purpose in research and analysis to make good these gaps.

We do not want simply to say that rising unemployment is a "bad thing" and something must be done about it. We want to know its scale, its causes, its impact and the range of policies and options which are open to governments, international agencies and the private sector to deal with it.

We do not want simply to sense that the "green revolution" requires a comparable social revolution in the organization and education of the small farmer. We want to know what evidence or working models are available on methods of cooperative enterprise, of decentralized credit systems, of smaller-scale technology, and of price and market guarantees.

we do not want simply to deplore over-rapid urbanization in the primary cities. We want the most accurate and careful studies of internal migration, town-formation, decentralized urbanism and regional balance.

These issues are fully as urgent as the proper exchange rates or optimal mixes of the factors of production. The only trouble is that we do not know enough about them. As we enter the '70s we have, in field after field, more questions than answers. But this only adds to the urgency and determination with which we must go in to the intellectual attack.

This urgency in turn affects my third point. I need not belabor it. It is simply that we cannot allow the basic business of developing the underdeveloped parts of this planet to fail for lack of resources -- both the resources needed for research and experiment and the much larger resources needed to back the policies which we already feel to be successful.

Let us look for a moment at this question of resources. For the so-called security of an ever spiralling arms race, we are ready each year to spend \$180 billion and the figure steadily goes up.

Four years ago, in a speech in Montreal, I tried to point out that more and more military hardware does not provide more and more security. There is a point of diminishing returns beyond which further financial expenditures on military forces do not yield increased returns and do not provide greater strength. I believe then, and I believe today, that most of the nations of both the developed and the developing world are beyond that point of diminishing return.

It is tragic that, in comparison to the \$180 billion spent on military forces, for the fundamental security of societies hopeful and progressive enough not to explode into lethal revolution, the developed nations hesitate to maintain even the present \$7 billion of public aid expenditure. That thirty times more should be spent on our military forces than on our constructive hopes appears to me the mark of an ultimate, and I sometimes fear, incurable folly. If there were only a 5 per cent shift from arms to development we would be within sight of the Pearson target for public development assistance. And who among us, knowing the methods and audits of arms planning, will not admit that such a margin could be provided from convertible waste alone?

This brings me to my last point. There are really no material limitations to

Classification of Developing Countries in Relation to Governmental Population Planning Policies
(number of years in which their population will double, at current growth rates, indicated after each country)

Population size (millions)	Governments With Official Population Policy	Governments Providing Assistance to Family Planning but Without An Official Population Policy	Governments With No Population Planning Policy and No Assistance to Family Planning
400 and more	India 27		
100 - 400	Pakistan 21 Indonesia 24		
50 - 100		Nigeria 27	Brazil 25
25 - 50	Philippines 21 Thailand 21 Iran 24 UAR 25 Turkey 26 South Korea 28		Mexico 21 Burma 31
15 - 25	Morocco 21	Colombia 21	Sudan 22 Afghan. 28 Congo(DR) 32 Ethiopia 33 N.Vietnam 33 S.Vietnam 33
10 - 15	Kenya 23 Malaysia 25 Ceylon 29 Taiwan 31 Nepal 32	Venezuela 21	Algeria 22 Peru 23 N.Korea 25 Tanzania 27
Less than 10	Dom. Rep. 21 Ghana 24 Tunisia 24 Mauritius 28 Singapore 29 Jamaica 33	Costa Rica 19 Ecuador 21 El Salvador 21 Honduras 21 Panama 21 Nicaragua 24 Dahomey 27 Hong Kong 28 Chile 31 Botswana 32 Rhodesia (?)	Kuwait 9 Iraq 21 Jordan 21 Paraguay 21 Syria 21 Libya 23 Cambodia 24 Guatemala 24 Guyana 24 Lebanon 24 Niger 24 Rwanda 24 Zambia 24 Saudia Ar. 25 Yemen 25 Madagascar 26 Togo 27 Uganda 27 Haiti 28 Laos 28 Malawi 28 Bolivia 29 Chad 29 Ivory Coast 29 Mali 29 Senegal 29 Somalia 29 Burundi 31 Guinea 31 Sierra Le. 31 Cameroon 32 CAR 32 Congo(B) 32 Mauritania 32 Upper Volta 33

a/ Only developing countries with population growth rates in excess of 2.0% are listed on this table.

a sane, manageable and progressive response to the world development needs. The obstacles lie in the minds of men. We have not hitherto thought of our planet as an area of mutual association and solidarity. Too many tribal millennia of suspicion and hostility are at work in our subconscious minds. But what human society can ultimately survive without the means of neighborhood? Today we are now united as an inescapable community by every facet of communication and inter-dependence in our new technological order. Must we not therefore transfer from the national to the world level those moral obligations, that sharing of wealth, that justice and compassion, without which domestic societies would surely fall apart?

Thus the challenge of the scientific revolution is not a tremendous technological conundrum like putting a man on the moon. It is a much more straightforward moral obligation, like getting him out of the ghetto, out of favella, out of illiteracy and hunger, and despair. We can meet this challenge if we have the wisdom and moral energy to do so. And if we lack these qualities, than I fear, we lack the means of survival on this planet.

Mr. John L. Maddux

August 13, 1970

Irving S. Friedman

President's Address to Board of Governors

I am sending the attached memoranda to you in case you have not seen it.

Attachments

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

FROM: Alexander Stevenson *AS*

SUBJECT: Comments on the Draft of the President's Copenhagen Address

DATE: August 11, 1970

AUG 13 1970
9 24 -

In addition to the memorandum of suggested amendments I attach a note from Mr. Henderson to me, together with two notes he sent to Mr. Maddux. I draw your attention to paragraph 3 of the first memorandum. We think that the indicators set out in these memos are better than those used in the Columbia speech. Mr. McNamara has apparently decided to stick to the latter but you may wish to explore this with him.

Att.

OFFICE MEMORANDUM

TO: Mr. Alexander Stevenson

DATE: August 11, 1970

FROM: P.D. Henderson P.D.H.

SUBJECT: Draft Text of the President's Copenhagen Address

1. You asked me for comments on facts and figures included in this draft. A number of the figures referred to, and in particular almost all of those on pages 22-23 of the text you sent me, are the same as those used in the Columbia speech, and thus reflect some of the suggestions made in my memorandum to Mr. Friedman dated February 13, a copy of which you received. Looking at these numbers again, in the light of further related work that we have done, only two points arise, viz:

- (i) the statement about unemployment would in our view be difficult if not impossible to substantiate; and
- (ii) the figure of \$10,000 for the per capita income of the U.S. in the year 2000, at 1967 prices, looks to us on the low side - our projection, for what it is worth, exceeds \$11,000.

The first of these points is the more substantial.

2. A new figure in the present draft, which is given on page 22 of the text, is for the numbers of "marginal men", which are put at perhaps half a billion today, more than a billion by 1980, and two billion by 1990. I do not know the source of these numbers, and their plausibility depends on how this "marginal" category is defined. The main point which the figures are intended to illustrate is an excellent one.

3. In case it was decided to use a different set of indicative figures for the Copenhagen address, rather than largely recapitulating what was said at Columbia, Mr. Maddux recently asked me for some suggestions. I enclose the memorandum which I sent him last week, together with enclosures giving both the suggested figures themselves and the sources from which they were derived. I am also including a further note and table which I am sending to Mr. Maddux today.

Enclosures:

PDH:db

ROUTING SLIP		Date 8-13-70	
NAME		ROOM NO.	
Mr. Irving S. Friedman		A 1221	
	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On
<p>REMARKS</p> <p style="margin-left: 40px;">Irving:</p> <p style="margin-left: 80px;">As requested, I am returning these for your files.</p> <p style="text-align: right; margin-right: 100px;"><i>Joel</i></p> <p style="text-align: right; margin-right: 50px;">AUG 14 1970 3 p.m.</p>			
<p>From J. L. Maddux</p>			

OFFICE MEMORANDUM

TO: Mr. John L. Maddux

FROM: P.D. Henderson P.D.H.

SUBJECT: Material for the President's Copenhagen Address

DATE: August 4, 1970

1. In response to your request of July 31, I am now enclosing a revised and extended piece giving some quantitative indicators of the magnitude of development problems. Eight topics are now covered. For five of these - malnutrition, infant mortality, life expectancy, health and inequality within developing countries - the illustrative figures and accompanying form of words are much the same as those of my note to you dated July 30. The section on unemployment has been rewritten completely, making use of a recent I.L.O. article which contains projections as well as estimates of the current size of the problem. These new figures are not the same as those contained in paragraph 6 of my earlier note. On the subject of growing inequality, we have added some illustrative data relating to Trinidad and Tobago, which in view of the recent outbreak in Port of Spain have perhaps acquired some extra significance.

2. On the subject of international inequality, we have undertaken a rather more ambitious exercise à la Herman Kahn, by making conditional projections of population and GNP for 1985 and 2000. Countries have been cross-classified in two ways, namely

- (i) into (a) the socialist countries, (b) developed non-socialist, and (c) developing non-socialist; and
- (ii) by degrees of poverty, with four categories according to GNP per head in 1967 (a) under \$200; (b) \$200 or more but under \$500; (c) \$500 or more but under \$1,000; and (d) over \$1,000.

The projections have been made very hastily, and there is probably a lot of scope for further rethinking and refinement; but they enable us to say something in broad terms, with illustrative figures, about prospective changes in the international distribution of income. A few figures have therefore been incorporated in the final paragraph of the enclosed note. If we decide that it is worth while to do some more work on these estimates, and to produce a more comprehensive set of figures, I will send you a copy of the results in case it may prove useful.

3. I am enclosing also an account of the sources that we have used for the various figures, and have included with these the names of those associated with the different bits of work, in case you may wish to get in touch with any one of us directly.

cc: Mr. Andrew M. Kamarek

PDIhenderson/db

Some Indicators of Development Needs at the Start of DD-II

1. Diet. It is estimated by the F.A.O. that about one-fifth of the population of the developing world is undernourished, while 60 percent suffer from undernutrition or malnutrition or both.
2. Infant mortality. In the developed countries, less than 3 percent of live-born infants die in the first year of life. In the developing countries of Asia and Latin America the corresponding figure is almost 10 percent, while in Africa south of the Sahara it rises to almost 20 percent.
3. Life expectancy. In the developing world, mortality rates are higher in adult life as well as in infancy. In a developed country a boy of 15 can expect on average to live almost 60 more years, while in a typical developing country his expected life-span would be 10 to 15 years less.
4. Illiteracy. In many African countries, fewer than one in three children of primary school age, and less than one in twenty children of secondary school age, are attending school.
5. Health. The average number of inhabitants per doctor in the developed world was about 750 on the most recent estimate. The corresponding figure for developing countries was almost five times as great, while in sub-Saharan Africa it exceeded 20,000.
6. Unemployment. Open unemployment in the developing world as a whole is now estimated by the I.L.O. at between 5 and 6 percent of the economically active population, or some 36 million people. In urban areas unemployment rates frequently reach some 20 percent of the male labor force. Given present policies and expected trends in economic growth and labor absorption, the total number in open unemployment may increase to some 48 million - that is to say, by one-third - in the course of the Second Development Decade; both in Asia and in Latin America, the increase may be as great as 45 percent.

Moreover, open unemployment represents only a part of the problem. The unemployment and underemployment in the rural areas, though generally unrecorded and less conspicuous, is now and is likely to remain a pervasive feature of the developing world, condemning literally hundreds of millions to a life of abject poverty.

7. Inequality within developing countries. The distribution of income and wealth in the developing world is often highly unequal. Thus the richest 5 percent of the population in Latin America receive on average some 30 percent of total income, compared with 20 percent for the United States and about one-sixth for the United Kingdom. In India 100 million people in the rural areas own no land whatever, while of the households that do own land some 10 percent hold half the cultivated land area.

8. The risk of growing inequalities. There are disturbing signs that the extent of inequality may increase on present trends. Thus in Trinidad and Tobago a high rate of growth in average income per head, exceeding 4 percent in recent years, has been accompanied by a continued rise in the unemployment rate to almost 15 percent of the labor force. In Asia the green revolution has brought substantial benefits to many. But it affects only irrigated land, while three-quarters of India's cropped acreage is not irrigated. In the countryside, it benefits mainly those with substantial holdings, rather than the 35-40 million landless laborers, some of whom may actually be further impoverished through growing mechanization.

9. Inequality among nations. Current and expected rates of growth of income per head are on average higher in the developed than in the developing world. Thus the extent of international inequality, already very

great, will on present trends become still larger. At present the poorest countries in the world, with per capita GNP of less than \$200 in 1967, comprise some 57 percent of the world's population but account for no more than 9 percent of world income. By 1985 their share of world population is likely to rise to 60 percent and by the year 2000 it may be as high as 63 percent. If the developed countries grow at rates that are being currently projected for them - and which are only marginally better than the rates they achieved in the 1960's - while the developing countries grow at rates they achieved in the 1960's, the share in world income of the poorest group of countries will fall from around 9 percent to perhaps 8 percent in 1985 and about 6 percent towards the end of the century. The net result would be that per capita income of the richest countries - countries that in 1967 had a per capita GNP of more than \$1000 - which is now about 25 times that of the average figure for the poorest group of countries, would grow to more than 50 times that of the latter. For the United States alone a reasonable projection of per capita income in the year 2000 on this basis would place it at over \$11,000 at today's prices. If growth in India were no better than in the 1960's Indian per capita income in the year 2000 would be around \$155, so that U.S. per capita income, which is now around 40 times that of India, would become not far short of seventy times the projected level for India. Even if India is able to raise its per capita income to \$200 by that time, U.S. per capita income would have risen to about 55 times the Indian level. Such enormous and growing discrepancies, which moreover take no account of the serious inequalities that may persist within the developing world, must surely be regarded as intolerable.

Sources for the Indicators

1. Diet. P.V. Sukhatme, "The World's Food Supplies", Journal of the Royal Statistical Society, Series A, 1966.
2. Infant mortality and life expectancy. Figures are derived from U.N. sources, and were supplied by Mr. Kreitner of the Population Studies Division.
3. Illiteracy. Data were taken from Table 2 of the World Tables, and were supplied by Mr. King of the Population Studies Division. The main source of information for this table is the UNESCO Yearbooks.
4. Health. Figures were taken from Development Assistance, 1969 Review by the Chairman of the Development Assistance Committee (O.E.C.D., 1969), page 112. The sources are given as UN Statistical Yearbooks and the O.E.C.D. Development Centre.
5. Unemployment. The main source here is an article by Yves Sabolo in the International Labour Review, November 1969. The figure of 20 percent for the male labor force in urban areas is taken from David Turnham, The Employment Problem in Less Developed Countries (O.E.C.D. Development Centre, 1970). The analysis here was undertaken by Mr. Kohlhaugen.
6. Inequality within developing countries. The figures on income distribution for Latin America as compared with the U.S. and the U.K., are derived from the Economic Bulletin for Latin America, 1967 and were provided by Mr. King of the Population Studies Division. Data are given only for some Latin American countries, and the wording here implies that these can be taken as typical. The Indian data on the numbers of persons in landless families are taken from an article by Wolf Ladejinsky (who incidentally is a Bank staff member) in Foreign Affairs, July 1970. This article is also the source for the figure quoted in the paragraph on growing inequalities, of 35-40 million landless laborers. The data on the distribution of land holdings are based on a National Sample Survey table for India; this related to 1960/61 but estimates of changes since then have been made by Dr. Minhas, now a Visiting Lecturer in the E.D.I., who suggested the use of the particular statistics quoted here.
7. Growing inequality. The figures for Trinidad growth in output are based on the 1969 World Bank Atlas, while the data on unemployment were derived by Mr. Kohlhaugen from the latest Economic Report. The proportion of the cropped area in India that is irrigated is given in basic Indian statistical documents.
8. Inequality among nations. Projections of GNP for the socialist countries were made by extrapolating uncritically the 1961-67 rates of increase which can be derived from data given in the 1969 World Bank Atlas. For the developing world, excluding the socialist

countries and those which are members of the OECD, we took for the great majority of countries the geometric mean of the 1961-67 figure and the estimated growth rates for 1964-69 which were derived some time ago in a note by Mr. Carter of this Division. However, in the case of a small number of countries with exceptionally high rates of growth in the 1960's, which could not reasonably be projected to continue, we made a downward adjustment; and in the case of India we took a higher rate than would be indicated by this method, since the particular periods concerned were especially unfavorable. For the O.E.C.D. countries - including Spain, Portugal, Greece and Turkey which are included here among developing countries - we used the expected rates of growth up to 1980 which are shown in The Outlook for Economic Growth, (O.E.C.D., 1970). Projections of population are all from UN sources, and were supplied by the Population Studies Division. All other projections were made by Mr. Shourie, together with Mr. Malik and Mr. Ramiscal.

OFFICE MEMORANDUM

TO: Mr. John L. Maddux

DATE: August 11, 1970

FROM: P.D. Henderson

SUBJECT: Projections of Population, GNP and GNP per Head

1. In my memorandum to you dated August 4, and in paragraph 9 of the paper enclosed with it, I referred to some projections that we had made in the QTA Division of population and GNP in 1985 and 2000, in connection with your earlier request for quantitative indicators of development problems. I promised that if on further reflection we decided to revise or extend these figures, we would send you the new results. I am now enclosing two tables setting out the main figures, which incorporate a number of revisions.

2. As before, the population projections are taken from UN series supplied by the Population Studies Division. It can be seen that, as noted in my earlier paper, the share of the poorest groups of countries in total world population can be expected to increase. Countries with a per capita income of under \$200 in 1967 now comprise some 57 percent of the total, and this share is projected to rise to almost 63 percent by the end of the century.

3. The projections for GNP have been revised. In particular, some further reduction has been made in certain exceptionally high rates of growth in the 1960's, which it is not reasonable to project for a sustained period, and a more optimistic (or less pessimistic) view has been taken of possible developments in India. We shall now take a closer look at the figures for individual countries, in the light of which further revisions may be needed; but these are not likely to have an appreciable effect on the broad groupings that are given in the enclosed table. According to these, the share of the poorest group of countries in world income is now projected to fall from about 9 percent today to just over 8 percent in 1985, and just over 7 percent in 2000. This increase in the degree of international inequality is somewhat lower than we arrived at on our earlier projection.

4. The average per capita income for the richest group of countries shown here is at present about 25 times the average for the poorest group. By 1985 this ratio is projected to rise to about thirty, while by the year 2000 it exceeds fifty. The corresponding ratios if we compare the U.S. and India are forty to one at present, about fifty-five to one in 1985, and about seventy-two to one in 2000. As noted in my earlier paper, even if the Indian growth rate accelerates, so that an average per capita GNP figure of \$200 in 1967 prices is arrived at by 2000, we put the expected figure for the U.S. in that year at over \$11,000, so that the ratio would still be about fifty-five to one.

Mr. John L. Maddux

- 2 -

August 11, 1970

5. We hope to use the basic data for preparing one or two other tables, which I will also send you copies of in case they may come in useful sometime.

Enclosure:

cc: Mr. Friedman
Messrs. Kamarck/Stevenson, ✓

PDH/db

Population, GNP and Per Capita GNP in 1967, with Projections for 1985 and 2000
(GNP figures at 1967 factor cost)

Per Capita GNP in 1967	1967			1985			2000		
	Popula- tion (Mn)	GNP (\$Bn)	GNP Per Capita (\$)	Popula- tion (Mn)	GNP (\$Bn)	GNP Per Capita (\$)	Popula- tion (Mn)	GNP (\$Bn)	GNP Per Capita (\$)
Less than \$200	1964	190	97	2987	451	151	4157	968	233
\$200 to less than \$500	374	114	306	637	329	516	949	862	908
\$500 to less than \$1000	439	373	849	548	1173	2139	638	3137	4919
\$1000 or more	<u>647</u>	<u>1413</u>	<u>2186</u>	<u>773</u>	<u>3579</u>	<u>4630</u>	<u>882</u>	<u>8473</u>	<u>9608</u>
ALL COUNTRIES	3424	2090	610	4945	5532	1119	6626	13440	2028

Percentage Shares in Population and GNP: 1967, 1985 and 2000

Per Capita GNP in 1967	1967		1985		2000	
	Popula- tion	GNP	Popula- tion	GNP	Popula- tion	GNP
Less than \$200	57.4	9.1	60.4	8.2	62.8	7.2
\$200 to less than \$500	10.9	5.5	12.9	5.9	14.3	6.4
\$500 to less than \$1000	12.8	17.8	11.1	21.2	9.6	23.3
\$1000 or more	<u>18.9</u>	<u>67.6</u>	<u>15.6</u>	<u>64.7</u>	<u>13.3</u>	<u>63.1</u>
ALL COUNTRIES	100.0	100.0	100.0	100.0	100.0	100.0

OFFICE MEMORANDUM

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Mr. John L. Maddux

- 2 -

August 11, 1970

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Messrs. Kamarck/Stevenson ✓

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ALL COUNTRIES	100.0	100.0	100.0	100.0	100.0	100.0

OFFICE MEMORANDUM

TO: Members of President's Council

FROM: S. Aldewereld (signed) S. Aldewereld

SUBJECT: Liquidity Criteria

DATE: August 10, 1970

AUG 11 1970
9 5 ~

As I mentioned at the Council meeting this morning, I am attaching hereto a preliminary draft of a paper on the above subject. I would appreciate having your comments at your convenience.

Attachment.

Messrs. Knapp, ~~Beckett~~, Shoaib, Friedman, Broches, Demuth

LIQUIDITY CRITERIA

The purpose of this memorandum is to establish the desirable level of the Bank's liquid assets (cash and securities), and, as a consequence, determine the borrowing and other financing operations which would be required to attain it.

1. Liquidity Policy in "Five Year Program"

In the paper entitled "Five Year Program for the Fiscal Years 1969-1973" of June 19, 1968, the Bank's financial requirements were determined by calculating three main items: first, the cash deficit resulting from all payments and receipts under existing contractual obligations by and to the Bank, and those arising out of projected lending operations; secondly, "the amount of cash that should be maintained over and above the calculated requirements"; and thirdly, the net cost of borrowing and related expenses.^{1/} The paper suggested that the level of liquid assets to be maintained at any time was to be determined by estimating (a) the decline in liquid assets which would occur if for some reason the Bank could not obtain funds "on time"; and (b) the effect on financial requirements of variations in cash flow (other than receipts from borrowings and repayments on the Bank's debt) not foreseen in the projections. The first clearly depends on the extent of the assumed delay in borrowing operations and on the Bank's total annual financial requirements, while the second depends chiefly on the quality of the Bank's portfolio of loans disbursed and outstanding.

^{1/} Five Year Program, paras. 6.05-6.07.

Since projections of Bank operations indicate a continuous increase in net disbursements and borrowing requirements, at least until the late seventies, it is essential to carry the determination of liquidity requirements substantially beyond the end of FY1973, the terminal date of the original Five Year Program, at least to the end of FY1975, and preferably to the end of FY1980.

2. Cash Requirements without Provision for Liquidity

Table 1 shows estimates of the cash requirements for lending operations and for servicing the funded debt outstanding as of July 1, 1970, over the next ten years. The figures indicate that additional cash required over and above that expected to become available from amortization of and interest payments on Bank loans, amounts to \$3.5 billion over the five years FY1971-75, and to \$3.6 billion in the subsequent five years (FY1976-80).

It is worth emphasizing in this connection that these estimates are based on a projection of lending which rises very little between FY1971 and FY1975 -- from \$1,800 million to \$2,100 million -- and thereafter remains constant. This implies a reduction in the annual amounts of net lending and of net transfers by the Bank to borrowing countries. It also implies, because of the likelihood of further price increases for the goods and services financed by Bank loans, a reduction in real terms even in gross lending. Clearly, if anything, the lending projection errs on the low side. It would therefore be more realistic to project a gradual increase in lending operations after FY1975 -- notwithstanding the expectation that IDA operations will continue to expand after FY1975 and, so to speak, take up the slack

left by a constant level of gross Bank lending. A continuation of the increase in lending after FY1975 by \$100 million per year -- less than 5% -- would raise commitments by \$1,500 million and disbursements by approximately \$370 million between FY1976 and FY1980.

It should also be noted that the estimates are optimistic in assuming a constant level of administrative expenses after FY1974. On the other hand, they assume a continued "negative spread" between the Bank's lending rate and the cost of new borrowings of 0.25%: while this is considerably less than the present negative spread, it is clearly being somewhat pessimistic to assume that a negative spread will (or can) continue throughout the seventies.

3. Contingency for Delay in Borrowing

The Five-Year Program dated June 19, 1968, arbitrarily assumed, in calculating the effect on the Bank's cash position of a delay in the Bank's ability to raise funds in the capital market, that such a delay would not last more than six months. Despite the more difficult conditions which now obtain in the world capital market, there seems no valid reason for varying that assumption and extending the six month period. The present difficulties, which may continue into the future, may well lead the governments of one or more developed countries to limit the amount the Bank can raise in any one year more than in the recent past, both to protect their balance of payments and to reserve the available savings for financing domestic investment. But if this kind of restriction became widespread, and enduring, the Bank could adjust its rate of lending to meet the situation. Only if the limit were very severe in relation to past levels of borrowing, such as would be involved in a complete denial of market access for a period of months, would such an adjustment be an inadequate solution.

On the basis of the estimate of gross borrowing made in Section 7 below, six months' borrowing would on average be equivalent to some \$800 million over the five years FY1971-75, or to \$970 million over the full decade FY1971-80. (It is noteworthy that even the figure for six months' borrowing during the first quinquennium is substantially higher than that estimated for six months' borrowing in the Five-Year Program of 1968 (\$500 million). This is partly because the 1968 Program took 10% of the net borrowing program for the five-year period, whereas the figures above were estimated on the (more relevant) gross borrowing program; and partly because the sharp increase in Bank loan commitments in FY1969 has a much greater effect on cash requirements in FY1971-75 than in FY1969-73 because of the delay between commitment and disbursement.)

4. Default Contingency

The 1968 Program estimated the Bank's need for liquidity to meet the possibility that some borrowers would default on their obligations by assuming that 20% of the amount due from all debtors other than those "virtually certain to meet their obligations" might be defaulted over the five-year period. This suggested a provision of \$440 million for the period FY1969-73.

It is impossible to defend one assumption against another in this area. Why 20%? Why not 50%? To date, no country has actually defaulted on a Bank obligation (though there have been some reschedulings) and this experience might suggest that a rather limited provision for liquidity under this head would be adequate. On the other hand, the composition of the Bank's portfolio of loans disbursed and outstanding is undergoing a major change: at the end of FY1960, 48.8% of the portfolio was represented by loans to

Part I IDA countries; this proportion had fallen to 27.3% by the end of FY1968, and to 20.1% by the end of FY1970 (including amounts disbursed under a loan to IFC). By the end of FY1975, it is projected to fall to about 8%, and by the end of FY1980, to 3%.

Moreover, the "net transfer" as a result of the Bank's operations, projected to be some \$300 million in FY1971 and \$540 million in FY1972, will be slightly below zero by the end of the decade and will become substantially negative in the early eighties, on present lending projections. However one may dispute the economic conclusions often drawn from this "net transfer" figure, the risk implications for the Bank of such a declining transfer are very real. No country is likely to repudiate its external debts if the cash inflow it can expect as a result of new lending is greater than the cash outflow involved in servicing existing debt. The situation may change dramatically, however, when the new cash inflow falls short of the cash required for debt service. The risk for the Bank is less in the case of "blend" countries, which can expect to continue receiving IDA credits, but may be considerable in the case of countries not eligible for IDA credits.

On balance, it seems desirable to make a more generous provision for default in the future than in the past. No feasible level of liquid assets would be adequate to cope with a situation resulting from the wholesale debt repudiation which might be precipitated by a major international war or depression. The Bank should, however, be in a position to handle the situation which might result from a more temporary general economic downturn, localized economic problems (crop failures, debt crises, etc.), or from a sudden change in the political complexion of some of its major borrowers.

Accordingly, it is suggested that the Bank should hold liquid assets at the end of FY1975 (FY1980) adequate to cope with a default on half the total amount of interest and amortization due from its "high risk borrowers"^{1/} for the following three fiscal years. Three years is suggested to allow sufficient time for debt rescheduling and/or for the borrower's export earnings to recover from a temporary setback. This indicates a provision of approximately \$1,180 million for the end of FY1975, and of \$1,970 million for the end of FY1980.

5. Disbursement Contingency

In the 1968 Program, an amount equivalent to 10% of projected disbursements over the period FY1969-73 was added to the total provision for contingencies to allow for the possibility that disbursements would proceed at a faster rate than estimated. On this basis, an amount of some \$690 million would be required as a contingency for FY1971-75, \$1,700 million for the whole period FY1971-80.

But in fact this is not a very useful way of estimating the level of liquidity which should be maintained to meet unexpected contingencies. If disbursements were consistently to run at a higher rate than projected, the borrowing program could, over a period of a year or so, be adjusted to meet the new situation. What is required is a level of liquid assets adequate to meet a sudden increase in the rate of disbursements. For this it

^{1/} For this paper, "high risk borrowers" are assumed to be those where the Bank will have a disbursed and outstanding loan portfolio (on the basis of an extension of the latest lending program) of more than \$150 million by the end of FY1980, and where there appears to exist substantial risk of default for either economic or political reasons. Judging the risk of default is obviously a highly subjective matter; countries included for the purpose of this paper are Argentina, Brazil, Ceylon, Colombia, the three East African Community countries, Ethiopia, India, Iran, Iraq, Korea, Morocco, Pakistan, Peru, Philippines, Thailand, Tunisia, and Turkey.

is suggested rather arbitrarily than an increase of one-third in the rate of disbursement, above that projected, in the year following the point at which it is sought to establish the desired level of liquidity may be considered the maximum necessary. This would require a provision of some \$620 million by the end of FY1975, and of \$700 million by the end of FY1980.

6. Total Liquidity Desired

The sum of the three elements discussed is \$2,600 million for the end of FY1975, and \$3,640 million for the end of FY1980, as shown in the table below. (These figures compare with cash and securities, including delayed deliveries, at the end of FY1970 of \$2,092 million.)

<u>Contingency for</u>	Cash and Securities required by end of -	
	<u>FY1975</u>	<u>FY1980</u>
Delay in borrowing	800	970
Default	1,180	1,970
Unexpectedly rapid disbursements	<u>620</u>	<u>700</u>
Total cash and securities	<u>2,600</u>	<u>3,640</u>

But should these separate elements be additive? Certainly, if some borrowers defaulted on their obligations to the Bank, the Bank would be in a position to protect its position to some extent by suspending disbursements to the countries concerned. On the other hand, the Bank might not wish to suspend disbursements in this way, perhaps for project-related reasons, perhaps to strengthen its position in relation to negotiations with the defaulting country. Moreover, defaults could, as the 1968 Program noted, "seriously and adversely affect the Bank's borrowing ability." On balance it seems appropriate to sum the three components in arriving at the desired level of liquidity.

The amounts suggested appear high in absolute terms, especially that for the end of FY1980. But in relation to the traditional indicators, and especially in view of the increasing risk of default (noted in Section 4 above), they do not appear excessive, as the following figures indicate:

<u>End of fiscal year</u>	<u>Cash & securities (\$ million)</u>	<u>Cash and securities in relation to-</u>	
		<u>Estimated Disbursements in two following yrs. (%)</u>	<u>Undisbursed Commitments (%)</u>
1970	2092 ^{a/}	95.1	53.4
1975	2600	68.2	37.7
1980	3640	86.7	49.6

a/ Includes delayed deliveries.

The present level of liquidity is fully adequate for current needs, and indeed there should be no reason to increase the Bank's balance of cash and securities during FY1971 or FY1972. Starting in FY1973, however, there should be a gradual increase in liquidity of about \$200 million annually, to reach the target of \$2.6 billion by the end of FY1975 and of \$3.6 billion by the end of FY1980.

7. Borrowing Required

The gross borrowing required over the next decade can be derived from a) the estimate of the cash deficit made in Section 2; b) the level of cash and securities desired, as summarized in Section 6; c) allowance for the roll-over of short- and medium-term funds; d) allowance for the cost of the total net borrowing required over the decade; and e) allowance for the additional investment income which will be derived from maintaining liquidity at the level proposed.

It is assumed that the short- and medium-term components of the Bank's funded debt as of June 30, 1970 (\$1.4 billion) will be rolled-over as they fall due and on the same maturities. It is further assumed that the two-year Central Bank bonds will be increased from their present level (approximately \$350 million falling due each year) to \$400 million, and that an additional amount of \$200 million will be issued annually in five-year paper. All other new borrowing is assumed to involve maturities falling after FY1980. The average cost of new debt is assumed to be $7\frac{1}{2}\%$, and the average yield on cash and securities $6\frac{1}{2}\%$.

On these assumptions, net borrowing of \$4,600 million will be required in the five years FY1971-75, and of \$11,480 million in the ten years FY1971-80. The corresponding gross borrowing (including loan sales) will be \$7,980 million and \$19,425 million respectively. The figures are subject to revision when the contingency elements can be computed more accurately, but they are believed to be of the right order of magnitude. If so, they involve a significantly higher level of borrowing than that envisaged in the most recent borrowing program.

Table I - IBRD Cash Requirements FY1971-80
(\$ millions)

	FY1971	FY1972	FY1973	FY1974	FY1975	FY1971-75	FY1976	FY1977	FY1978	FY1979	FY1980	FY1976-80
<u>Application of Funds</u>												
Loan disbursements	1040	1160	1386	1604	1733	6923	1868	1947	2064	2063	2121	10063
Debt Retirement	518	613	353	365	267	2116	128	126	186	187	95	722
Interest on Borrowing a/	263	226	213	192	180	1074	174	168	155	149	146	792
Administrative Expenses	58	62	68	76	76	340	76	76	76	76	76	380
Net Disbursements to IDA	29	6	4	-	-	39	47	100	70	62	117	396
Other - "Net" a/	13	11	10	6	8	48	7	6	4	2	1	20
Total	1921	2078	2034	2243	2264	10540	2300	2423	2555	2539	2556	12373
<u>Sources of Funds</u>												
Repayment from: Part I & IFC	76	82	77	86	95	416	612	687	789	880	989	3957
: Part II	264	312	337	373	451	1737	-	-	-	-	-	-
Interest on Loans: Part I	72	68	63	63	61	327	776	869	960	1046	1126	4777
: Part II	328	387	459	533	625	2332	-	-	-	-	-	-
Interest on Investment	125	35	-	-	-	160	-	-	-	-	-	-
Total	865	884	936	1055	1232	4972	1388	1556	1749	1926	2155	8734
Cash and Securities c/												
at beginning of FY	2092	1036	-158	-1256	-2444	-2444	-3476	-4388	-5255	-6061	-6674	-6674
Deduct: Application minus Sources	1056	1194	1098	1188	1032	5568	912	867	806	613	441	3639
Cash and Securities at end of FY	1036	-158	-1256	-2444	-3476	-3476	-4388	-5255	-6061	-6674	-7115	-7115

a/ On debt outstanding as of June 30, 1970.

b/ Increase in accrued and prepaid expenses minus increase in miscellaneous liabilities.

c/ Including delayed deliveries.

Source: Table Id - IBRD Ten-Year Financial Projections as of 6/18/70

P & B
8/4/70

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: August 10, 1970

FROM: Irving S. Friedman

SUBJECT: Youth participation at International Meetings and the Evolution of
Global Planning in Agricultural Development: The Case of the Second
World Food Congress.

I believe you will find this of interest.

ISF

SEP 3 1970 (Returned)
12:15 PM

Form No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP		Date
		August 6, 1970
NAME		ROOM NO.
Mr. Friedman		
	To Handle	Note and File
	Appropriate Disposition	Note and Return
	Approval	Prepare Reply
	Comment	Per Our Conversation
	Full Report	Recommendation
	Information	Signature
	Initial	Send On
REMARKS		
As requested by Mr. McNamara.		
<p style="text-align: right;">AUG 6 1970 12 <i>mm</i></p>		
From	A.M. Kamarck	

Mr. Robert S. McNamara

August 10, 1970

Irving S. Friedman

Youth participation at International Meetings and the Evolution of
Global Planning in Agricultural Development: The Case of the Second
World Food Congress.

I believe you will find this of interest.

OFFICE MEMORANDUM

TO: Mr. Andrew M. Kamarek
 THROUGH: Mr. A. J. Macons
 FROM: R. C. Taylor

DATE: August 3, 1970

SUBJECT: Youth participation at international meetings and the evolution of global planning in agricultural development: The case of the Second World Food Congress

1. This memorandum reports on the general scope and apparent outcome of the Second World Food Congress, The Hague, June 16-30, 1970. These comments focus on the role of youth at this conference and the conference's reception of FAO's Indicative World Plan for Agricultural Development (IWP). My sources were the official conference documents and interviews of participants available in Washington.

Second World Food Congress

2. The Second World Food Congress, according to official FAO statements, was intended to be a conference of individuals from many nations and many different backgrounds. Some 1500-1800 people from over 100 countries attended at least part of the Congress. The Director-General emphasized that these "participants" were invited as individuals, not as representatives of governments or organizations. The meeting was convened by the Director-General of FAO to produce new ideas and to obtain views on which findings and policy proposals of the Indicative World Plan for Agricultural Development (IWP) should be given highest priority. More important, perhaps, FAO wanted the Congress to make suggestions on how the necessary resources to implement its proposals could be found.

3. By focusing public opinion on the challenge of agricultural development, it was hoped that the Congress would be able to exert pressure on governments to develop new, energetic programs for economic and social development in the rural areas. The need for public participation in development, particularly by young people, was stressed in pre-Congress promotional activities, and arrangements were made expressly to encourage attendance and full participation by youth. Some people thought that FAO's timing of the conference was quite propitious: The Second UN Development Decade was about to begin. FAO was celebrating its Twenty-fifth Anniversary. Finally, FAO did have "a survey of the world food situation ... together with a plan of action", and the First World Food Congress in 1963 had resolved that this plan should be reviewed by another Congress.

4. The real work of the Congress was intended to be done in meetings of eight commissions. Four commissions ^{1/} which met separately but concurrently during the first week were requested to study the main

^{1/} The names given these commissions indicate in a general way their fields of interest: Ensuring Basic Food Supplies; Higher Living Standards and Improved Diets; People in Rural Development; and Trade Patterns and Policies.

findings of the IWP and to suggest "priorities for action". Four other commissions^{1/} gathered for similar sessions during the second week. These were supposed to concentrate on ways and means to carry out the "action program" recommended by the four commissions a few days earlier.

5. Participants in the commissions were to be stimulated towards attaining FAO's objectives by being exposed to the opinions of distinguished personalities in international development who served as panelists at plenary sessions of the Congress which were scheduled when commission sessions were not being held. Thoughtful, brief opening statements were indeed made by moderators and panel members in such sessions. These discussed the IWP, assessed achievements and explored perspectives in agricultural and rural development, discussed population growth in relation to economic development, and related problems of conservation (of the national environment) to development. Unfortunately, however, the records of the proceedings in these sessions indicate that the articulate participants who took advantage of opportunities to "intervene from the floor" were much more interested in making statements on subjects of interest to themselves than in following the agenda. Running debates among several participants became a common feature in the plenary sessions, but these dialogues seldom touched the subjects discussed by the panelists.

6. The open, informal nature of the Congress was indicated by the fact that each participant could attend any commission session and was permitted to make statements from the floor according to remarkably informal procedures. The quality and depth of debate was further limited by the diverse, overly ambitious agendas which the commissions were asked to cover^{2/}

1/ These commissions were called Commissions of Public Sector Support, Private Sector Support, Direct Participation Programs, and Mobilization of Public Opinion.

2/ Participants in the Commission on Higher Living Standards and Improved Diets were given these topics to cover in twelve hours of meetings: Examine the present level of protein food supplies, the gap between existing supplies and prospective demand, and suggest which protein and other high quality foods probably could be increased in supply most rapidly. Then indicate the implications for agricultural development as a whole, from diversification of resources from basic cereal production, and ways in which resource use can and should be changed; and state general priorities among these many tasks. Finally, indicate appropriate supporting policies needed to change these production patterns, including consumer education, agricultural extension, infrastructure and price policies, and indicate priorities for action at the international, national and private or local levels. Other commissions were assigned equally ambitious tasks during the first week. During the second week, other commissions met for fifteen hours each to work out how to mobilize resources, people and public opinion for carrying out the action program recommended by the first four commissions.

by the frequent interventions of some participants who repeatedly pleaded special causes not on the agendas, and by the active participation of so many people with different backgrounds, training and interests.

Participation of young people

7. A unique feature of this international gathering was the large contingent of young participants, most of whom came from Western Europe and North America. The Plenary Session devoted to a panel discussion on "The Role of Youth in Development" was asked to discuss how youth from both developed and developing countries can become more fully involved in changing attitudes and structures to insure a better life for all people. Young people had been asked to select four panelists at a pre-Congress gathering, but had been unable to choose this small a number to "represent the views of youth". Nevertheless, these experiments culminated in a "different kind of plenary" where 57 participants "contributed" during a session which lasted only two and one-half hours! This lively meeting began with statements indicating that many young participants were clearly pre-occupied with political matters (e.g., the need for means of production in developing countries to be in the "hands of the community", and the conviction that development could not be successful without changes in "international structures"). Articulate young people (mainly from the Netherlands, Sweden and Canada) emphasized their rejection of many values considered quite inviolable in their own societies, criticized the lack of progress in economic development made during the past several decades and questioned the motives of "The Establishments" in aid-donor and -recipient countries. The meeting concluded with appeals that all participants should support a hunger strike being organized by some participants and donate the money they saved during their fastings to "liberation movements" in Southern Africa.

8. The Congress was severely polarized by this performance, which was repeated with only minor variations during the rest of the first week in Commission meetings which were supposed to be discussing the IWP. Some participants said they were quite convinced that an organized minority of young people was determined either to cause the Congress to be cancelled or to gain control over its proceedings. Thanks to the goodwill, patience and skill shown by the staffs of the co-sponsors of the Congress and by concerned, hardworking participants of all ages, the Congress was able to survive its first week, and then things got slightly better. A dialogue of sorts was established, at least among most North Americans attending: Older individual participants did, after repeated attempts, get small groups of young participants to meet with them, but this rapport was established and expanded outside the commission and plenary sessions. One major indication that relationships between factions did improve after the initial confrontations was the statement "to the people of the United States" which was drafted during the second week by young Americans, and approved without change by the majority of the participants from the United States.

9. What specific problems or situations apparently particularly bothered young people at the Congress? What measures did they suggest to improve international development efforts? The young people expressed deep dissatisfaction with many aspects of on-going programs for agricultural and

rural development - mainly the narrow, production-oriented basis of many projects and policies which allegedly ignored the "real" needs of rural people (of which land reform, major changes in income distribution and "relevant" education were stressed repeatedly). They also strongly expressed dissatisfaction with the performance and apparent attitude of most private, public and international institutions ^{1/} in the development field, with the exception of voluntary organizations. The voluntary organizations were not criticized explicitly, which under the circumstances probably meant that they were praised implicitly.

10. Regarding youth's suggestions for improvement, our information is limited to very broad generalities. Perhaps significantly, older participants who attended all the sessions of the Congress claim not to have heard one idea for action which did not involve fundamental changes in current political and social structures. At any rate, the proceedings do show that certain convictions were advanced rather forcefully: The role of youth in general and women in particular in the entire development process should be enlarged significantly; development programs should take into account fundamental needs concerning land reform and improvements in income distribution and employment opportunities in rural areas; there is a need for new dedication and commitment to development by people and policy makers in developed countries; there is a need to renegotiate or restructure international trade arrangements which are a "barrier to development". (The "Final Statement" or declaration of the Congress, which was brief, did not go into details on any of these points, however.) Incidentally, population control was a highly controversial issue: Family planning was treated with widespread derision, except by participants from Southern Asian countries.

Impact of Congress

11. What will be the impact of the Second World Food Congress on development in general and FAO's activities in particular? Only a highly tentative assessment can be made now. Post-mortem gatherings within the FAO Secretariat and de-briefing sessions for various national and international groups no doubt currently are appraising and interpreting the happenings which participants observed there. The official report of the Congress will be written by the Secretariat. It will not be published before September and possibly not before the FAO Council meets later in the fall. The Director-General has indicated he will communicate directly with the heads of other UN agencies, giving his impressions of the Congress, his plans for implementing its recommendations which he finds acceptable, and his intentions for referring other proposals to FAO's Council.

^{1/} Nearly all the remarks about international institutions were directed expressly at FAO. A few recommendations in the proceedings of the Congress concerned "FAO and other international organizations". The Bank Group was not mentioned in any of the official reports of proceedings of the commissions or plenary sessions except for a complimentary observation concerning the ICSID.

12. In the meantime, several observations can be made, based on statements which FAO has circulated since the Congress closed. Excerpts of the "Final Congress Statement" selected for release to the world's press open with the statement that "the battle against hunger and underdevelopment can be won -- but victory depends on a massive effort by the entire world community", warns against "public apathy towards development", urges that "all governments -- drastically increase resources for development" and "increase employment opportunities in rural areas by all possible means". It closes by urging that the dialogue begun at the Congress continue since food and development are too important to be left "only to the experts". The Director-General's speech at the closing ceremony stressed the "atmosphere of concern, of commitment and indeed of passion" which he recognized as being quite unique at international gatherings. He stated that this process of individual contact and experience-sharing was a major achievement in itself; the discussions had shown that traditional concepts of development were far too narrow and that many problems of agricultural and rural development were highly complex and closely interrelated. The Congress had indeed achieved one major objective - to exchange knowledge and viewpoints, and to point out different ways to solve problems of hunger and malnutrition within the whole broad, complex field of rural development. Regarding FAO's "strategy for action", Dr. Boerma made two important points: He re-dedicated the Organization to his own five Areas of Concentration, ^{1/} and he rejected all recommendations that FAO should assume any position on political matters involving directly the internal affairs of any member country. Finally, he stressed that the Secretariat would "make every effort to ensure that the dialogue -- between us will continue -- in the years ahead". (The importance of, and need for, this dialogue - particularly with young people - also was stressed by the Director-General in a recent communication to the Secretariat.) However, "every effort" will not include a Third World Congress for a long long time to come, according to statements made to me privately by several FAO staff.

Indicative World Plan for Agricultural Development

13. The Provisional Indicative World Plan for Agricultural Development (IWP) is much better described by its subtitle: (FAO's) "synthesis and analysis of factors relevant to world, regional and national agricultural development". This description still overstates the outcome ^{2/} of the exercise.

^{1/} These were: (a) extended use of high-yielding cereal varieties; (b) closing the "protein gap"; (c) "war on waste" (mainly promoting means to reduce losses of growing and mature standing crops and losses during post-harvest handling and storage); (d) better mobilization of human resources (including family planning services); and (e) promotion of the earning and saving of foreign exchange in developing countries.

^{2/} The Secretariat was committed to produce "a world plan for agricultural production, trade and development" by the FAO Conference in 1963. The objectives the FAO Conference had in mind may have been more ambitious than those of the First World Food Congress, in 1963, and this confusion of aims complicates any evaluation of the real objectives of the exercise.

The documents highlight only certain problems, policies and prospects for agricultural and rural development in selected, important developing countries on three continents. The study does not cover agriculture in either developed or centrally planned countries. Finally, because of the methodology used, the analyses of, and proposals pertaining to, world trade are incomplete and, unfortunately, highly controversial. Within such a rather imperfect framework, the IWP and its related Provisional Regional Studies propose agricultural objectives for countries to consider in framing their own national development plans and policies through 1975 and 1985. These proposed objectives are based on achieving certain goals, i.e., greater self-sufficiency in food production and increased per capita food consumption. The IWP then concentrates on identifying and discussing policies on the part of both developing and developed countries which, in the judgment of FAO's Secretariat, are necessary if the goals which it postulates and the objectives it proposes are to be reached.

14. Advocates of the exercise and those who have praised the documents have stressed these contributions of the IWP in particular: The emphasis on the contribution which the agricultural sector in developing countries can, and must, make to overall economic and social development, including highlighting the need for creating vast additional opportunities in employment in agriculture during the next two decades; the detailed, mutually consistent program "packages" for increasing agricultural production (Chapters 3 and 5); the elaboration of the enormous, related needs for credit, marketing services, investments in processing industries and educational and extension services (Chapters 9, 10 and 12). In other words, the IWP considers the policies and programs required to meet anticipated increased demand for food in developing countries in such a manner as to provide maximum employment in the agricultural sector, and it defines many of the changes in the economic and institutional framework which would be appropriate to increase the chances that these levels of production and employment will be met. Its treatment of land reform (Chapter 11) has also been commended.

15. The IWP's suggested policy measures outlined in the study are time-scheduled and priority-ordered. Furthermore, the study provides original estimates of the enormous investment in seeds, irrigation, agricultural chemicals and mechanization which will be needed to attain the crop production goals in the 64 countries studied by the related IWP regional studies. ^{1/} Finally, the regional studies covered countries which included 84 percent of all people living in Latin America, Africa and Asia (excluding

^{1/} The FAO Secretariat's projections of the cost of inputs included in the IWP represent independent estimates somewhat broader in coverage, and definitely original in technique, compared with contemporary estimates of prospective fertilizer requirements made by the OECD (1968) and projections for all inputs made by the President's Science Advisory Committee (1967).

centrally planned countries) and, therefore, pertain to many of the Bank's leading borrowers.

16. The Provisional Indicative World Plan was introduced to an international meeting for the first time last October at the 44th Session of FAO's Committee on Commodity Problems (CCP), and was discussed at FAO's Conference of Member Nations in November 1969. The IWP was praised and criticised in both these forums, but most delegates pleaded that they and their governments needed more time to study and digest the documents, most of which were published only a few days before the CCP met. One outcome of the FAO Conference deliberations on the IWP was a resolution that the Secretariat should continue its planning work within a framework of a "Perspective Study for World Agricultural Development". More extensive country coverage, updated statistics and closer consultations with member governments and regional bodies were requested, all within the context of the strategy for, and FAO's contribution to, the Second Development Decade.

17. Before the Second World Food Congress met last month, Secretariat plans had been drawn up to implement this resolution: New commodity supply and demand projections for 1970 and 1980 are being prepared, and supply (production) analyses covering commodities in many countries are being conducted, using techniques similar to those used to carry out the Provisional Regional Studies for the IWP. Finally, the Secretariat has held conferences with UN Regional Economic Commissions, and more are scheduled later this year: At these meetings, FAO's continuing work in development planning has been, and will be, discussed. Within the framework of its contribution to D.D. II then, FAO intends to update and refine the analyses of selected developing countries which were included in the IWP Provisional Regional Studies, and to expand the coverage of countries included in these studies. ^{1/}

18. The FAO Secretariat apparently intended to focus the attention of the Second World Food Congress on the IWP and the five areas of action or concentration which the Director-General selected in October 1968 to define the organization's future action program for promoting agricultural development. The IWP was discussed in the first plenary session by four distinguished panelists and was the subject of a general debate among participants which lasted the rest of the first day. However, as already noted, during the four subsequent days of commission meetings - which were meant to be the forums where the real work of the Congress was to be done - substantive discussion on most of the IWP did not in fact take place. Although several of the many recommendations made in these commission sessions were quite similar to policies advocated in the IWP documents, this may have been merely coincidental: The IWP was seldom mentioned explicitly in the reports which summarized these proceedings.

^{1/} The Secretariat has not yet committed itself to publishing the results of such additional studies, at least in the same detail as in the IWP Regional Studies. In fact, because of the public criticism which centered around several sets of numbers used in the IWP, the new country studies probably will be published in somewhat different form.

19. Why was the basic document prepared expressly for this Congress ignored by most participants? Most persons attending the commission sessions probably were not familiar with the IWP, and many people there obviously were not interested in listening to explanations of its purpose and scope. Other explanations for the IWP's reception might be the background, training and interests of many of the participants, ^{1/} the informal, unstructured nature of the commission sessions, and the success which a minority of participants achieved in diverting discussions to political and social issues. Informed, sustained consideration of the goals suggested by and the policies advocated in the IWP simply did not prove possible during these working sessions of the Congress.

20. What will happen to the IWP now? First, several observations can be made as to its present status. Confusion and misunderstandings concerning the purpose and scope of the IWP have deterred international meetings from giving the documents the attention they deserve. ^{2/} These documents undoubtedly have been studied by many governments this year, but the results of these reviews probably will not be reported publicly until the FAO Council meets again this fall, if then. The IWP was not mentioned explicitly in the speeches which the Director-General and the Chairman delivered at the close of the Second World Food Congress. Many new development priorities not related directly to the technical problems of increasing food production clearly commanded the interests and energies of participants. FAO officials have indicated repeatedly that they recognize that the Organization's program for economic development during the 1970's should be changed or broadened to reflect some of these opinions. Also, the Secretariat has begun new commodity projections and country studies which in

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- ^{1/} Few of the younger participants had worked in rural development programs as agricultural technicians or engineers. Many had studied, or were still studying, political science and sociology at universities in developed countries. With a few notable exceptions (mainly articulate groups from several centrally planned countries), youth from the developing world were silent in the sessions, or stayed home.
- ^{2/} In its present form, the IWP probably is hard to use or to digest, and it is certainly difficult to review or apprise these documents quickly. The documents containing the plan are not well indexed. The plan is not summarized briefly in any one place: The document prepared as a summary of the main conclusions and policy implications is itself 72 pages long. Finally, the two main volumes total nearly 700 pages, and the four Provisional Regional Studies must add up to several thousand pages of text and tables.

effect will update, broaden and refine the statistical base and quantitative conclusions of the original exercises published as the IWP. ^{1/} Because of these and other new commitments FAO made this year, the Secretariat may not want to schedule a substantive discussion of the IWP documents this fall. Unless demand for such debate is generated in advance by enough member governments, the Council meetings this year are apt to discuss the IWP rather perfunctorily, if at all. ^{2/} The Council is more likely to focus its discussions on policies and programs for implementing the five "Areas of Concentration" selected by the present Director-General. These priorities were rather well received by the Second World Food Congress, and FAO's renewed commitment to these "areas of action" was emphasized in Dr. Boerma's closing speech.

21. The IWP quite probably will remain "Provisional". Furthermore, these documents are not likely to be revised or rewritten by FAO so as to constitute a World Plan for Agricultural Development: No real demand for a second IWP seems likely to be generated for a long time to come. However, many of the factors which the IWP identified as being highly relevant to regional and national agricultural developments will guide FAO's operational activities and other contributions to development during D.D. II. Each of the five "Areas of Concentration" were highlighted in the IWP documents.

22. It now seems quite likely that the IWP documents will simply become a depository of information and insights which can be mined by research and operational economists for many and varied specific purposes. Bank economists can and will use these volumes in this way. The Bank should be alert to the benefits that it might derive in the coming years because of the prospective and expanded work in FAO that the IWP pioneered.

^{1/} The Secretariat intends to improve the methodological and quantitative bases of its regional and country studies and broaden its concepts of agricultural and economic development. The only criticisms of the IWP and its Provisional Regional Studies which the FAO Secretariat has not stated that it has accepted involve its treatment of international commodity trade. FAO has not pioneered economic analyses in this field, and it has not been particularly responsive to contributions by others. Methodological and computational difficulties probably will preclude indefinitely FAO's producing commodity trade projections which will not be criticized legitimately. Unfortunately for some time to come, these studies will not provide what some people want: complete, empirical bases for national policy formulation or assessments of policy alternatives.

^{2/} This demand all but certainly will not be expressed by most developed countries. Latin American members have shown a persistent interest in criticizing the IWP, but they, too, may feel now that they have said enough already.

23. Probably the principal beneficiary of the IWP has been FAO itself: The IWP has undoubtedly given the Secretariat, or the part that worked on it, a comprehensive, integrated conception of the role of agriculture in the development process at both national and regional levels. It also has laid the groundwork for more systematic work within FAO for "studies for agricultural development", which now will be undertaken as part of its current work program.

24. Bank staff responded generously during the early phases of the production of the IWP (e.g., review of the first four draft Provisional Regional Studies), but the files indicate that the assistance requested from, and rendered by, Bank staff became progressively smaller as more IWP Regional Studies were produced and as FAO staff rushed to meet deadlines. The documents containing the IWP itself do not seem to have been submitted officially to the Bank for specific, detailed comments.

cc: Mr. Maccone

RCTaylor:bbb

OFFICE MEMORANDUM

TO: Files

DATE: August 6, 1970

FROM: Irving S. Friedman

SUBJECT: Meeting on Country Economic Reports with U.S. Government

On August 3, 1970, Mr. Friedman and Mr. Kamarck met, in Mr. Friedman's office, with Mr. Robert E. Wieczorowski, the U.S. Executive Director; Mr. Emmett J. Rice, U.S. Alternate; Mr. Albert C. Weed II, Technical Assistant; and Mr. Ernest Stern, Assistant Administrator for Programming, A.I.D. This meeting was a pre-arranged follow-up of an earlier discussion between Mr. Stern and Mr. Friedman.

Mr. Stern asked whether Mr. Friedman had any further proposals as to how the U.S. Government could better use the Bank country economic reports. The following proposals and suggestions were discussed:

- (1) The Bank would furnish A.I.D. regularly with its schedule of country economic missions. This schedule should cover the timing and the composition of missions, listing the various sector and functional specializations of the members for each mission. The U.S. Government could then let the Bank know if there were a particular sector or functional field that was not included that the U.S. Government would like to see covered in the country economic report; in this way the need for the U.S. to make such a special study would be eliminated. The Bank would then consider whether it could modify the proposed mission. There was no hesitation in informing the U.S. and other bilateral donors of our planned missions; modification in schedules might raise problems, but the Bank continued to be eager to reduce the burden of work on bilateral staffs by having them make the fullest use of Bank economic reports. Mr. Friedman hoped that some procedure could be worked out which served A.I.D.'s needs. Mr. Stern was informed of the steps being taken with CIAP and the I.D.B.
- (2) U.S. A.I.D. would collect technical comments from its people on Bank country economic reports so that the Bank could be informed of what A.I.D. felt it needed in country reports. Mr. Stern said, for example, that one of the problems that they had in using the Bank reports was that the reports were not consistent from country to country in their coverage and data presented. It was consequently extremely difficult to make intra-country comparisons. Mr. Friedman indicated that steps had already been taken to make the reports more uniform and improve its international comparability, but further improvement was undoubtedly possible and all suggestions welcomed.
- (3) The Bank would consider organizing a meeting of the heads of the economics departments of the bilateral donors to discuss their experience with the Bank country economic reports and to ascertain what feasible changes in the Bank reports would be most useful for the bilateral donors. This would be modeled on the meetings already being held with heads of economic departments of the regional banks. The last meeting was in Seoul.

August 6, 1970

(4) As a result of a suggestion made by Mr. Wieczorowski, the Bank would also consider the possibility of having a parallel meeting with the recipient country economists to get their views as to what kind of country economic reports were most useful for their economic development and planning purposes.

ISF

cc: President's Council
Mr. Kamarck

ISF/AMK:rgw

- 2 4
- ① Temporary Reports — Review
31 Pages —
 - ② Coverage — (improved by
others also) — call for
meeting of demonstrators & system

③



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February 3, 1970

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 12 Concerning Aid
Coordination

Recommendation

"Preparations should begin at the earliest possible moment for establishment, where necessary, of new multilateral groupings which provide for annual reviews of the development performance of recipients and the discharge of aid and related commitments by donors. The World Bank and the regional development banks should take the lead in discussions to this end, and the World Bank, or another appropriate existing agency, should provide the necessary reporting services for such groups."^{1/}

Background

This recommendation reflects the Commission's concern about the extent to which development assistance is still uncoordinated, unrelated to any agreed set of priorities in the economies of recipient countries, and insufficiently guided by and responsive to "development performance" as contrasted to other considerations, such as historical relationships between donors and recipients and political objectives of donor governments. The Commission considered that the Bank's activities in the field of aid coordination, particularly its sponsorship of coordination machinery such as consortia and consultative groups, and its staff support of aid coordination exercises sponsored by others, have made an important contribution to the solution of this range of problems. The recommendation, in effect, is that these efforts should be pursued and, where appropriate, expanded to cover additional developing countries. But the Commission also proposed that coordinating efforts be deepened and strengthened in various ways, e.g., by extending them to technical assistance and by giving the coordinating groups responsibility for reviewing not only recipient country

^{1/} Report, page 135.

performance but also the extent to which donor countries' aid and related commitments towards recipients have been discharged. The Commission further suggested that, for at least some of the proposed new groupings, coordination might be effected through regional arrangements. It believed that the participation of other developing countries in addition to the recipient would be particularly useful, citing as a precedent the reviews conducted by the Inter-American Committee for the Alliance for Progress (CIAP). Finally, it proposed, with respect to the regional development banks, that they should play some role in initiating discussions looking to the creation of new groupings, and might eventually, as and when they develop the capacity to do so, provide some of the requisite reporting services for the new groups.^{1/}

Analysis

As the Executive Directors know, we are substantially expanding our program of economic missions. Annual reviews of development programs and performance will be prepared for all developing member countries with a population of more than 10 million (these approximately 30 countries account for over 80% of the total population of developing member countries). Reports on the other developing member countries will also be prepared on a regularly scheduled basis, biennially or triennially. Economic reports will not only be undertaken on a more frequent and more regular schedule than has been the case in the past but, in addition, they will be far more comprehensive. They will provide:

- (a) an evaluation of the situation and prospects of the economy;
- (b) an analysis of the country's development objectives and of the major development obstacles and assets of the economy;
- (c) an informed judgment concerning the appropriate development strategy to be pursued by the government concerned and the likelihood that it will take the action required to carry out that strategy;
- (d) an assessment of domestic and external financing requirements and of the possibilities of meeting them;
- (e) an analysis of the principal preinvestment surveys and studies required to carry out the development program and of the relative priorities of those requirements;
- (f) an appraisal of the available machinery for planning and for the formulation of economic and financial policy;
- (g) an analysis of the problems of investment and resource mobilization and allocation within the economy and among sectors, of external debt prospects, of appropriate borrowing terms, and of creditworthiness;
- (h) an evaluation of the country's population problem and program; and
- (i) an appraisal of the "quality" as well as the "quantity" of economic development, e.g., they will discuss income distribution, literacy levels, life expectancy, trends in unemployment, etc.

^{1/} Report, pages 130-131.

The Bank's experience indicates that the most important element in promoting coordination for any developing country, whether or not a formal aid coordination group exists, is the provision to all interested donor governments and institutions of objective, comprehensive and up-to-date reports of this kind. Such reports are necessary to provide guidance for those who make decisions about aid programs; help all concerned to proceed on the basis of a common understanding concerning the critical development problems facing each country; indicate priority sectors for financial and technical assistance; and, to an increasing extent, outline development strategies agreed between the country in question and the Bank as being both reasonable and worthy of international support.

Effective coordination of the aid programs of a number of donors, whose objectives and motivations may not be identical and whose approaches and systems of administration are likely to differ from one another, is a delicate and complex task, the difficulty of which should not be underestimated. While we have been making progress in this task in some countries, as the Commission recognized, I fully agree with the Commission's view that not nearly enough has been done. During the past year, for example, only 12 of the approximately 30 countries to which we plan to send annual review missions were the object of attention by multilateral meetings reviewing both the development performance of the country in question and the development assistance activities in that country of interested donor governments and international agencies. I am convinced that most, if not all, of the 30 countries, and others as well, could benefit from regular aid coordination exercises.

As of now, the Bank takes principal responsibility for 9 of the 12 coordinating groups referred to above: the India and Pakistan Consortia, the Consultative Groups for Colombia, East Africa (Kenya, Tanzania, Uganda and the East African Community), Ghana, Korea, Morocco, Tunisia, and Ceylon. The Bank also provides economic reports which serve as the basis, or one of the bases, for the deliberations of the following coordination and review groups: the Inter-Governmental Group for Indonesia (chaired by the Government of the Netherlands); the Turkey Consortium (sponsored by the Organisation for Economic Co-operation and Development with an independent chairman); and the Inter-American Committee for the Alliance for Progress (CIAP) reviews. In addition, the Bank has provided analytical reports for the informal, although quite active, aid coordination group convened by the Government of Guyana, and has participated in the discussions of that group.

In the past, some of the coordinating groups, such as the India and Pakistan Consortia, the coordinating groups for Ceylon, Ghana and Indonesia, and the CIAP groups, have met regularly on an annual basis, while others, for a variety of reasons, have met irregularly. For the future, however, I intend to recommend that all the groups for which the Bank takes principal responsibility should meet regularly; this will be facilitated by the expanded system of economic reporting which will generate, on a regular basis, the documentation needed. Meetings are planned during 1970 for the India and Pakistan Consortia and for the groups for Ceylon, Colombia, East Africa, Ghana, Korea, Morocco and Tunisia. As

for other "annual economic review" countries, I am informed that the groups for Indonesia and Turkey will also meet in 1970, and that there will be CIAP reviews of Argentina, Brazil, Chile and Mexico during the year.

I do not believe that this over-all effort is nearly good enough. In my view, the Bank should take the initiative in seeking to organize, at the earliest appropriate time, coordinating groups for most, if not all, of the 30 "annual economic review" countries for which such groups do not now exist. Consultations will be required with the governments concerned and with potential participants in such groups. In some cases relatively simple and informal coordinating machinery will suffice. In other cases, more formal consultative groups will be needed.

In addition, I believe that the existing Bank-sponsored coordinating groups can and should be strengthened. Our new program of more intensive and more regular economic reports is one step in this direction. In particular, we intend that these groups should concern themselves more than in the past with development strategy and with the coordination of major technical assistance activities, a field in which we have thus far made only a modest start. As noted above, our economic missions will be seeking to determine priorities for preinvestment as well as investment activities. The United Nations Development Programme (UNDP) has agreed to cooperate with these missions by associating the UNDP Resident Representatives with their work, especially with respect to the technical assistance and preinvestment aspects. We have also asked for and are receiving the cooperation of FAO, ILO, Unesco and WHO in providing information and, in some cases, appropriate technical staff to assist these Bank missions. I am hopeful that this will contribute to better coordination of the international aid effort, to the importance of which the Commission has called attention.

I am not prepared at this time to comment on the Commission's recommendation that aid coordinating groups should engage in "explicit and formal" reviews of donors' aid policies and procedures.^{1/} This recommendation raises questions which affect other international organizations and which are slated for extensive discussion later this year by those organizations in connection with the strategy for the Second Development Decade.

The Commission's proposal that some of the new coordinating groups should be regional in scope has attractions, particularly for areas where a number of smaller countries are seeking to develop their economies within the framework of a regional market. We have in fact organized one coordinating exercise on a regional basis: the Consultative Group for East Africa, covering Kenya, Tanzania, Uganda and the East African Community. The three countries and their Community have many common ties and, in some respects, are operating as an economic region, so that a regional mechanism seemed entirely appropriate. However, in practice, it has proved necessary to conduct the activities of the consultative group for the most part on a country, rather than a regional, basis. Although this experience points up the practical difficulties of the regional

^{1/} Report, page 130.

approach, I do not believe that it should deter us from creating or supporting other regional coordinating groups in appropriate circumstances.

I do not believe that it is necessary or desirable to take any position now with respect to the Commission's suggestion that the regional development banks should eventually take the lead in organizing, or providing the reporting needed for, coordination exercises for some of the smaller countries. The suggestion merits exploration after we have gained more experience as to the requirements for effective aid coordination.

Conclusion

I believe that the Bank should substantially expand its efforts to improve aid coordination activities, as recommended by the Commission. In particular, I believe that it should take the initiative in organizing some form of aid coordination for most, if not all, of the approximately 20 large countries for which no adequate coordinating machinery exists, and perhaps for some other countries as well. Moreover, I believe that we should intensify and expand the activities of the existing coordinating groups which we sponsor, particularly through convening more regular meetings and through devoting more attention to the discussion of development strategy and the coordination of major technical assistance requirements. We intend, as in the past, to review periodically with the principal interested governments the experience we gain in coordinating groups, with the object of continuing our efforts to improve their effectiveness.

Robert S. McNamara

ROUTING SLIP		Date July 27, 1970
OFFICE OF THE PRESIDENT		
Name		Room No.
Mr. Friedman to see		
To Handle		Note and File
Appropriate Disposition		Note and Return
Approval		Prepare Reply
Comment		Per Our Conversation
Full Report		Recommendation
Information		Signature
Initial		Send On
Remarks		
L.E. Christoffersen		
JUL 27 1970 10:30 AM		
From		

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Mr. McNamara:

July 24, 1970

Summary of IMF field staff:

(as of July 1970)

Professional staff:

Paris	4
Geneva	4
Elsewhere	<u>21</u>

	Subtotal	29
Seconded experts:		<u>60</u>
	Total	89

lec

President has seen.

IME

July 24, 1970

Office in Geneva

Jones
Simonet
Huh
Lykke

Office in Paris

Salle
Guetta
Stica
Evers
+ Mountford
+ de Heurtaumont
+ Tatistcheff
+ Huillet
+ Roche
+ Ursenbach
+ Etcheberry
+ Morin

* non-professional

July 24, 1970

Staff Assigned Abroad

Afghanistan	Richard Selby	
Argentina	Angel Serrano	
Bolivia	Jaime Porras Horst Struckmeyer	
Costa Rica	Julio Gonzalez	
Ecuador	Manuel Uribe	
Indonesia	Joachim Ahrens Dorf Basheed Khalid William Casey Bruce Smith Ichizo Miyamoto	*Joan Pugh (secretary)
Korea	Yan Vongsathorn	
Laos	Arifin Siregar	
Liberia	Taher Dajani	
Nicaragua	Jorge Restrepo	
Paraguay	Jan van Houten	
Peru	Waldemar de Moraes	
Philippines	S. Kanasa-Thanan	
Somalia	Manfred Reichardt	
Sudan	Bashir Karamali	
Uruguay	Joseph Chatelain	

* Non-professional

IMF

July 24, 1970

EXPERTS ON TECHNICAL ASSISTANCE

Afghanistan	Coldefy Petitfour
Burundi	Robert Ulutan (FAD)
Congo (Kinshasa)	Kroc Virieux
Equatorial Guinea	Otero Kantner
Ethiopia	Fahy (FAD)
Gambia, The	Tin Tun
Guinea	Racine
Guyana	Morris
Indonesia	Ross Soeting Clegg (FAD) Schula Chaudhary
Kenya	Sogancilar Siemienski Basnett
Laos	Johannet
Liberia	Wait (FAD) Hansen* (FAD)
Malawi	Mills
Malaysia	Smith Bishop (FAD) Klein
Malta	Hogg Wapensky Markham Earland
Mauritius	Nendick Messerschmidt Mujumdar

Panama	Hubert
Rwanda	Hettori
Sierra Leone	Nadvi Moinuddin Dutt (FAD) Otto Cirvante
Singapore	Nadkarni
Somalia	Lockwood (FAD) Millar-Craig (FAD) Haider Kalivoda* (TAP)
Sudan	Mukherjee
Tanzania	Hormmoen Andersen Pelleg (FAD) Kopf
Trinidad & Tobago	Basu Kral Levitt (TAP)
Uganda	Lambert Fascione Durin
Yemen Arab Republic	Mittra
Zambia	Rao McDonald

*Six month assignment.

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman (through Mr. Kamarck)

DATE: July 27, 1970

FROM: E.K. Hawkins

JUL 27 1970

SUBJECT: Draft Speech

In accordance with your memorandum of July 22, I have looked over the draft of Mr. McNamara's speech to the Board of Governors. I have also looked at the comments sent to you by Messrs. Miller and Kreitner in their memorandum of July 21. I am in agreement with the detailed comments they have made. I would like to add only two additional points.

On page 7 second sub-paragraph from the top, last sentence. I recommend that the word "unwanted" be struck out so that the last phrase would read "A tidal wave of births". I make this recommendation on the grounds that it is likely to deflect criticism which may arise from various quarters as to the extent to which births are wanted or unwanted.

On page 17 first paragraph. I think there is some ambiguity in the draft as a result of the use of the words "social service aspects of population planning." the words "social service" mean different things in different parts of the English-speaking world. I suspect that what is really meant here is "the social science aspects of population planning". Incidentally, the rest of this sentence also has an obscurity in its reference to only one location in the world where as many as three researchers are working fulltime ... Taken literally this is wrong, since obviously more than three researchers are working in countries such as the U.S. and other countries of western Europe. It is possible that what was really meant was a reference to "only one location in the developing world".

JUL 27 1970
12.55

Mr. Robert S. McNamara

July 24 1970

Irving S. Friedman

Comments on draft speech

Following are some suggested changes in your draft address for the Governors' Conference. For your convenience the suggested revisions are shown in the attached draft.

1. Bottom of page 2, last sentence: suggested should read "The Bank Group is not simply trying to do 'more' -- but as always to do more of what will best contribute to the optimal development of the developing nations."

I believe this would provide a better setting for the recital of the progress made in the last two years given in pages 3 and 4.

2. If the program of country economic missions is seen as a major improvement over the past but still related to the past, then I think it is better to speak of an expanded program -- on the other hand if the emphasis is to be on its novelty then the words used are satisfactory.

3. Pages 4 to 6: I would assume that you would wish to reconsider the size of the selection of topics discussed under the Pearson Commission recommendations after the Board discussions on Pearson have been concluded, or at least advanced somewhat further, e.g., IDA allocation criteria; Bank/Fund collaboration; program lending; local expenditure financing, etc.

4. Bottom of page 8 and page 9: suggest at bottom of page 8 last complete sentence, deletion of "With the single exception of the United States". The same point is essentially made on the next page in a softer and more constructive way by stating that the United States has noted that it cannot commit itself to quantitative aid targets but did support IDA replenishment and intended to propose expanding flows of aid, etc.

5. Page 9, 3rd para beginning "In 1949" -- delete last sentence and instead include a sentence along the lines: "An increase in U.S. aid flows would make a major contribution to the international development effort; without it, there is danger that the present forward momentum will be lost."

I believe this registers the same point as intended in the original draft without lending itself to possible misuse by those interested only in attacking the United States.

6. Page 9, last para: suggest second sentence read as follows: "But this can be achieved without cutting off aid to desperately poor nations abroad."

I believe that the main point of this argument is strengthened by putting it on a factual analytical basis rather than a broader basis combining value and political judgments. As amended the sentence would fit in with the rest of the paragraph.

7. Page 10, last line: substitute "wastage" instead of "scattering".
8. Page 11, line 3: would suggest deletion of the word "unstandardized" before "reporting".

I agree with the point but feel that the force of the point is reduced by diverting attention from the problem of proliferation to the problem of the nature of the reporting itself. Even with ideal reporting the proliferation which has taken place would still be a major concern. If you wish to retain this point perhaps you might add a phrase after "reporting" -- "achieve as regular and standardized reporting as possible,"

9. Page 11, last para, first line: suggest read "But if the issues of increased official development finance, and improved ..."

This change is to suggest that the issue is one of increased flows rather than commitments to aid targets. If you wish to keep more of the original language, may I suggest that it could also read: "But if the issues of implementation of official development aid targets ..."

10. Page 12 on section dealing with population planning: herein my main concern was the ability of Ministers of Finance and Governors of Central Banks to comprehend an oral presentation on this subject. Thus the suggestions made are largely editorial:

(a) Page 12 footnote a/ : second line after "will" -- "if it succeeds by 1985 in bringing reproduction down to the level of replacement (that is, an average of one daughter per woman) -- see its present population of 14 million rise to 35 million before leveling off."

(b) Page 13 first complete para: before "2000" insert the word "year", and on next line after "40 per thousand" insert "population".

Suggest instead of last sentence and footnote the following sentence and footnote:

"What we must understand is that even if an average family size of two children per couple is achieved, the population will continue to grow for an additional 65 or 70 years before stabilizing. a/

a/ If, for example, by the year 2000, the developed countries were to reach the level at which couples only replace themselves, and the developing countries were to reach this level by the year 2050 ..."

(c) At end of second complete para beginning "Thus, even ..." add sentence "Every birth is not only another mouth to feed; it is another potential parent".

This sentence is added on in an attempt to give some idea why the failure to act now makes the problem more formidable the following day. I believe it would be interesting and possible to work out statistics as to what it means to delay a program by say one, two, five years, etc.

(d) Page 13 last para 3rd line: instead of "This would ..." say "The achievement of this goal would ..."

(e) Page 14 -- of five points listed second point might be clearer if added after "understanding" "and willingness to act ..."

(f) Bottom of page 14: quotation of Mr. Romulo is interesting and useful but could be deleted if you were worried about the size of section on population.

(g) Page 16, first complete para add sentence: "At the same time these parents must be educated as to what size family they could support while at the same time the education of others still unconvinced as to the need for family planning must proceed vigorously and efficiently. There still seems to be the problem that many who wish to have fewer children would still have families that are large by reasonable criteria".

(h) Page 16, last para would delete reference to cancer research.

As someone who has tried to help raise money for cancer research I feel that it is another example of a field in which insufficient funds are spent. Your mentioning it might be taken to indicate that you feel that it is an example of a sufficiently funded area of research.

(i) Page 17, next to last line substitute "the year 2000" instead of "that date".

(j) Page 18, after last para: suggest, for obvious reasons, possibility of adding a paragraph like the following: "There are those in the developed and developing nations who are suspicious of the motives of those who urge a vigorous attack on the problem of excessive worldwide population growth. Some seem to believe that the motivation is a desire to maintain a leading position for the white races at the expense of the non-white races; others seem to believe that it is a substitute for advocating and obtaining more development assistance. The first suspicion is clearly not well founded; even with the most optimistic assumptions made about the success of family planning, the so-called white race will be an even smaller minority in the decades ahead of the world's family of peoples than it is today. As for the population issue being a substitute for increased external assistance, those who are in the forefront of urging greater and more effective efforts in family planning are also in the forefront of those urging an increase in development assistance."

Incidentally, there may be those who feel that there is too much on population. That was my own first reaction, but considering the locale of our Governors' Conference, as well as the importance of the subject, it would seem appropriate to dwell on this subject at some length.

11. Page 18, second para, last sentence: suggest read "but more and more economic aid has come to be seen as a necessary consequence of a new concept of national interdependence and a new philosophy of international morality."

The present sentence may seem to have too much of a flavor of a charity approach.

12. Page 18, third para, 2nd sentence : instead of second sentence add on to first sentence the following clause: "because the problems of the developing countries remain acute and demand attention and action."

13. Page 19 and 20: the suggestions here are largely to meet your concern about repetition with past statements. Therefore suggest deletion of sub-paragraphs under headings and inserting on third line after "... end of that Decade?" the following "On other occasions I have dwelt at some length on this question and therefore will only briefly mention some highlights." After that you could read "In the developing world, malnutrition is common. Infant mortality is high. Life expectancy is low. Illiteracy is widespread. Unemployment is endemic and growing. The distribution of income and wealth is severely skewed, and in some countries becoming more so. ..."

14. Page 20, 2nd complete para -- instead of 2nd, 3rd and 4th sentences suggest the following: "But I submit to you: the achievement of this target will not guarantee a major improvement in the conditions I have just briefly mentioned." Then go on with last sentence and paragraph.

15. Page 20, last para, last line* delete "I frankly admit that" and add after the words "add to" "the factors determining our decisions" and then delete at top of page 21 first four words "our pattern of analysis"

The point here is, of course, obvious. I think the lack at present is that these factors need to be taken into our decisions -- they are more prevalent in our thinking and analysis than in our decisions.

16. Page 21, 3rd line: delete "shore up decaying social structures" and insert instead "avoid or postpone needed social changes."

17. Pages 21 and 22, last para beginning on page 21: would delete material after second sentence beginning "I would go further ... decade ahead."

For the Copenhagen audience I believe it is wiser not to stress how much we don't know since it may be taken as a reason for not acting, but to keep your main point I would suggest keeping the sentence "We should be frank about this" and add "But we do know enough from experience to give much more weight to social factors in our decision making, while we continue the vital process of improving our knowledge and understanding of these problems."

18. Page 22, 5th para beginning "I, for one, believe ..." suggest deletion of "the period of Man's ..." and insert instead "one of the shining periods in Man's ..."

This point is to make the 1970's something special, where as now written, it can be read as another decade of an endless history.

Comments ~~By July 20~~

7/11/70 Draft
[All "facts" subject to check]

ADDRESS TO THE BOARD OF GOVERNORS

The year that has passed since we last met has been a pivotal one. It marked the beginning of the second quarter-century of the Bank's existence, and prefaced the opening of the Second Development Decade. In our meeting twelve months ago I sketched out our plans for maintaining the momentum of the Bank's accelerated activity, stressed the need for fashioning a more comprehensive strategy for development, and welcomed the publication of the Pearson Commission Report.

Today, I would like to:

- . Report to you on the Bank's operations in FY 1970.
- . Review progress toward meeting the projected goals of our Five-Year Program.
- . Discuss the responses to the key recommendations of the Pearson Commission.
- . And comment upon the outlook for development in the Seventies.

I. THE BANK'S OPERATIONS IN FY '70

Let me begin by touching upon our operations during the past fiscal year. For that period, new loans, credits, and investments totalled \$2.3 billion. This compares with \$1.88 billion in 1969 and \$1.0 billion in 1968.

Our cash and liquid security balances continued to rise and at year end totalled \$2.1 billion, up \$300 million from June 30, 1969 and \$700 million from June 30, 1968. As I indicated to you at our last meeting, we believe that our plans for expanded operations -- particularly at a time of uncertainty in the world's capital markets -- ought to be backed by a high level of liquidity.

1) approved
2) not present
3) N. H. ...

[Faint handwritten notes and signatures]

This provides greater flexibility in our financing, and enables us to ride out market fluctuations over which we have no control. We propose to continue that policy.

The Bank's administrative expenses are, of course, rising as operations expand and as price inflation continues. But despite increases in operating costs, profits in FY 1970 amounted to \$214 million: the highest in the Bank's history, and up more than 20% over 1969.

II. THE FIVE-YEAR PROGRAM

The Bank's performance in 1970 was that of a vigorous and growing organization. But as I stressed last year, I believe the Bank should shape its strategy to a longer time frame than year-to-year planning can provide. For that purpose, we have developed a Five-Year Program and in measuring any given year's performance, we should look to the larger framework of that Plan to assess our progress.

One objective is to double the Bank's operations in the five-year period 1969-1973, as compared with the period 1964-1968. Should we succeed, it will mean that the Bank will have approved loans, credits and investments during these five years that aggregate \$12 billion of high-priority development projects -- projects whose total cost will represent some \$30 billion.

We have now completed the first two years of that Five-Year Program, and I can report to you that we are on schedule, and that I remain confident that we can reach our goals, as formidable as they are.

They are formidable not merely, or even mainly, because of their quantitative magnitude, but because of their qualitative character. The Bank Group ^{is} over the ~~past two years has~~ not simply ~~been~~ trying to do "more" -- but ^{is doing} to do more of what will best contribute to the optimal development of the developing nations.

Over the past 24 months we have made specific and significant ^{progress} shifts in that direction:

- . We have intensified our efforts in the agricultural sector -- both to guarantee more food for expanding populations, and to provide a necessary stimulant to industrial growth. Our agricultural projects in 1969 and 1970 exceeded the total number in the entire previous history of the Bank.
- . We have also funded more education projects -- projects designed to reduce the drag of functional illiteracy on development -- in these past two years than in all prior years put together.
- . We have broadened our geographical scope considerably so that we could be of service to more countries and in particular to more small and very poor countries. In each of the years 1969 and 1970 we loaned to a total of 61 countries, 80% more countries than in the average year 1964-1968. Further, in the same two-year period, we have served 14 countries which had received no loans at all in the previous five years.
- . We have begun work in the field of population planning -- admittedly more modestly than the urgency of the problem demands -- at the specific request of countries such as India, Indonesia, Jamaica, and Tunisia.
- . We have made a start at broadening the concept of development beyond the simple limits of economic growth. The emerging nations need, and are determined to achieve, greater economic advance. But economic progress remains precarious and sterile without corresponding social improvement. Fully human development demands attention to both.

We intend, in the Bank, to give attention to both.

3. We have initiated ^{an} ~~a new~~ and expanded program of Country Economic Missions to better assist the developing nations in their formulation of overall development strategies, and at the same time to provide a foundation for the donor nations and international agencies to channel their technical and financial assistance in as productive a manner as possible. Practical planning in the development field calls for current and comprehensive socio-economic data. The World Bank Group will gather, correlate, and make available this information to the appropriate authorities. As this program gains momentum we will schedule regular annual reports on the 30 largest of our developing member countries -- we recently issued the first in this new series -- and biennial or triennial reports on another 60 countries.

III. THE PEARSON COMMISSION RECOMMENDATIONS

I want to turn now to the attention given to the recommendations of the Pearson Commission. As you know, the Commission's work was financed by the Bank, but with the stringent safeguard that it should be completely independent in its investigations, and that its conclusions should represent the candid consensus of the Commissioners themselves, speaking their minds frankly. The Report was addressed not to the Bank itself, but to the world at large, and its purpose was to take an entirely fresh and impartial look at every significant factor in the global development scene.

A. Recommendations Relating Specifically to the Bank

② * At our last annual meeting, which coincided with the publication of the Report, I indicated that we in the Bank would undertake a thorough analysis of

* wish to reconsider choice of selection in "A." after Board discussion on Pearson have concluded (or at least gone through controversial subjects)

each of the Commission's recommendations that touched upon our own activities. There were 33 such recommendations. Accordingly, we have given the most careful consideration to these proposals, and have, to date, issued detailed memoranda to the Board of Directors on 29 of them. Four more are to follow. In the great majority of instances, I have concurred in the Commission's recommendations.

The Commission, for example, recommended that the policies of the International Finance Corporation should be reoriented to give greater emphasis to the development implications of its investments, and not be content to stress simply their profitability. We fully agreed with that viewpoint, and issued in January, after review by the Board of Directors, a new Statement of IFC Policies which incorporates the recommendation.

The Commission was concerned, as well, over the danger of the excessive use of export credits -- a practice that can inadvertently lead to a country's assuming an unforeseen external debt of unmanageable proportions. To guard against this hazard the Commission recommended that the OECD and the Bank develop what it termed "a strong early warning system" which can help developing countries avert sudden debt crises. We are in agreement with this proposal, and will seek to implement it.

Another recommendation dealt with the issue of establishing new multilateral groupings which could provide for annual reviews of the development performance of recipients and the discharge of aid and related commitments by donors. We concur, and with the approval of the governments concerned, we are currently organizing new groups for the Republic of the Congo, Ethiopia, Nigeria, Malaysia, and the Philippines.

The Commission proposed that the Bank should participate in debt rescheduling

discussions, with a view to searching out new solutions to that increasingly complicated problem. We agree and have initiated a series of studies of the debt-servicing difficulties facing a number of our member nations.

The Commissioners felt that the World Bank should assist in the establishment of international centers, within developing countries, for essential scientific and technological research that could be practically applied to urgent problems. The case of agriculture is particularly important, since the work on new wheat and rice strains, for use on irrigated land, has dramatically demonstrated what can be achieved. But as encouraging as these discoveries have been, it is clear that a food crisis in the 1980s and 90s is unlikely to be avoided unless additional research is devoted now -- in the 70s -- to the improvement of rain-fed cultivation of rice and wheat, as well as to other essential food resources such as sorgham, maize, oilseeds, grain legumes, and livestock. What we require is not simply incremental improvements in agriculture, but whole new technologies that are fully adaptable and workable within the framework of local conditions. The Bank is seeking to organize a concentrated research effort in partnership with such groups as the FAO, the UNDP, the Ford and Rockefeller Foundations, and with a number of interested governments including Sweden, Canada, the United States, the United Kingdom, and the Federal Republic of Germany.

B. Recommendations to Others

As I have noted, the Pearson Commission Report was addressed not specifically to the Bank, but to the world at large. And it is clear that three of its most far-reaching recommendations dealt with:

- . Establishing and meeting a realistic target for the flow of external assistance to the developing countries.

- . The design of better criteria and the formation of new machinery to measure and assess the performance of both the donor and the recipient nations in the development field.
- . The urgent need to find acceptable and effective measures to reduce excessive rates of population growth in those countries where the promise of a better future is being swept away by a tidal wave of unwanted births.

The first of these recommendations -- the formulation and achievement of a realistic target of development assistance -- is making encouraging progress. Action by the development community on the other two issues is far from satisfactory.

Let me discuss for a moment the former.

C. The Aid Target

Not only is the Pearson Commission's proposal on this matter one of its most important recommendations for the 1970s, but the whole background of the question is worth recalling.

In 1960 the UN General Assembly adopted a resolution to the effect that contributing nations should divert 1% of their national incomes to grants and concessional loans to the developing countries. This concept was elaborated on by the United Nations Conference on Trade and Development in 1964, and was endorsed as well by the Development Assistance Committee of the Organization for Economic Cooperation and Development. At the second meeting of UNCTAD in 1968 the target was redefined to mean 1% of Gross National Product, and was adopted again by resolution.

As the Pearson Commission points out, the irony is that although the 1%

target was in fact exceeded during the five years prior to its formal adoption by the DAC in 1964, it has not been fully met in any year since.

What is perhaps not fully understood by the public is that the target of 1% of GNP has not, in the strict sense, been an aid target at all. Traditionally, it has described the total flow of ^{financial resources} capital from the richer nations to the poorer nations, and has not distinguished between conventional commercial transactions, and concessional, development-oriented aid as such. Commercial transactions can contribute to the development process. But private capital flows are simply not available on the terms required, for many of the priority projects -- schools, for example, or roads, or irrigation -- which the developing countries need so badly. The Commission concluded, therefore, that the flow of official development aid was indispensable. And yet in relation to GNP in the developed world, official development aid fell by a third during the 1960s.

It was for these reasons that the Commission strongly recommended that a separate target be established for official development assistance -- a target equivalent to 0.7% of GNP -- and urged that this target be reached by approximately the middle of the decade, but in no case later than 1980.

This is a target calling for a very substantial effort. Since the total official development aid of the member governments of DAC amounted in 1969 to less than 0.4% of their combined GNPs, the Commission was in effect recommending that government aid, in relation to GNP, be increased by 75% in the Seventies.

What has been the response to this recommendation?

To the surprise, perhaps, of the skeptics, it has on the whole been very positive. With the single exception of the United States, ^N no member government of DAC has rejected the target, and several -- including Belgium, the Netherlands and Sweden -- have fully accepted it. Canada and the United Kingdom have agreed

has
not
rejected
it?

sup p. 91.

in principle on the size of the commitment, but have not set a firm date for its achievement. France is already meeting the target, and both the Federal Republic of Germany and Japan have stated they will move toward it.

Among the first consequences of the decisions of governments to increase their official development aid was their agreement to support a Third Replenishment of IDA, for the years 1972, 1973, and 1974 at a rate of \$800 million per year, as compared to \$400 million per year in the previous period.

Though it is true that the United States has noted that it cannot commit itself to specific quantitative aid targets, the Administration did provide strong support to the increase in the replenishment of IDA and has stated it intends to propose expanding the flow of official development aid from the present low levels.

In 1949, at the beginning of the Marshall Plan, American economic aid amounted to 2.79% of GNP and 11.5% of its federal budget. In 1970, the AID programs constitute less than .30% of GNP, and less than 1% of the budget. ~~The United States now ranks ninth, among the 14 DAC members, in the proportion of GNP devoted to aid.~~

No one can question that American domestic problems -- particularly in the social and economic fields -- require increased attention and funding. But ~~it is wholly unrealistic to suppose that this can be achieved at the cost of cutting off aid to desperately poor nations abroad.~~ ^{without} Economists have pointed out that in the next ten years the U.S. will increase its wealth by 50% and that the GNP in 1979, at constant prices, will be \$500 billion greater than in 1969. It would appear that the country is wealthy enough to support a just and reasonable foreign aid program and at the same time deal effectively with domestic needs.

An increase in U.S. aid flows would make a major contribution to the international development effort; ^{present} without it, there is danger that the ^{present} forward momentum will be lost.

The decision to respond both to the pressure of domestic problems, and the urgency of essential foreign assistance, will in the end be dependent upon the response to a far more basic and searching question -- a question that must be faced not in the U.S. alone, but in every wealthy, industrialized country of the world. And that question is this. Which is ultimately more in a nation's interest: to funnel national resources into an endlessly spiraling consumer economy -- with its by-products of waste and pollution -- or to dedicate a more reasonable share of these same resources to improving the fundamental quality of life both at home and abroad?

The dilemma that faces not only the U.S. but all the wealthy nations of the world is not whether they should devote more of their GNP to solving domestic crises, and less to helping eliminate deprivation abroad, but rather whether they are going to seek a more equitable balance between private opulence and public responsibility. Private wealth cannot be preserved and public responsibility cannot be met by a heedless indifference to common crises that in the end will touch rich and poor alike.

More and more governments are accepting this conclusion and there are, therefore, solid grounds for concluding that the decade of the 70s will witness a substantial increase -- both in absolute amounts, and in proportions to the GNP -- of the critical flow of official development aid from the wealthier nations to the poorer nations.

D. Better Coordination and Assessment of Effort

But as the Commission points out, the global development effort is currently fragmented into an almost bewildering number of overlapping and uncoordinated activities. This leads inevitably to duplication of effort, inefficient planning, and a ~~scattering~~ ^{wastage} of scarce resources. What is required is organizational

wastage

machinery that can effectively and authoritatively monitor and assess the performance of donor and recipient countries alike, reduce the proliferation of *unstandardized* reporting, and effect more coherent, cooperative and purposeful partnership throughout the entire development community.

This is particularly important if we are to rally the necessary public understanding and support in the industrialized countries for the critical tasks of global development that lie before us. The multiplicity of national and international agencies is not the difficulty. It is the multiplicity of uncoordinated management that is the problem.

The Commission recommended that the President of the World Bank call an international conference on this matter this year. However, within the United Nations system, of which the Bank is a part, these functions are the responsibility of the Economic and Social Council. That body is presently considering proposals for new machinery for review and appraisal of development programs at the national, regional, and international levels. Under the circumstances it would be premature for the Bank to take action at this time. The problem itself, however, remains and we must find ways -- soon -- to secure a far greater measure of coordinated management of the combined capabilities of the national and international agencies participating in the development process. Such an objective is, in itself, one of the most productive goals we could pursue in the decade ahead.

But if the issues of *increased* ~~an~~ official development *finance* ~~aid~~ target, and improved management within the development community are among the most important recommendations of the Pearson Commission for the short-term, the most imperative issue for the long-term is population planning.

E. Population Planning

The Commission faced this problem squarely, without hedging its views. "No other phenomenon," it stated flatly, "casts a darker shadow over the prospects for international development than the staggering growth of population It is clear that there can be no serious social and economic planning unless the ominous implications of uncontrolled population growth are understood and acted upon."

Are the "ominous implications of uncontrolled population growth" being acted upon effectively? If one is to be candid, the answer would have to be no. With the exception of Singapore and Hong Kong, which are special cases, in only two developing countries, Taiwan^{a/} and Korea, is there clear evidence that the rate of population growth has been significantly reduced by family planning programs.

It is worth asking why.^{b/}

One prominent authority in the population field has pointed out that the prospects for the success of family planning throughout the world are at one

^{a/} Even Taiwan, which through a most effective population planning program has reduced its growth rate from 2.8% in 1965 to 2.3% in 1969, will -- if it succeeds by 1985 in reaching a reproduction rate of 1 (two children per couple) -- see its present population of 14 million rise to 35 million before it stabilizes.

^{b/} I am indebted to Bernard Berelson, President of the Population Council; Professor Ronald Freedman of the University of Michigan; and Oscar Harkavy, Population Program Officer of the Ford Foundation, for much of the material in this section.

Page 12
Footnote 2/

....if it succeeds by 1985 in bringing reproduction down to the level of replacement (that is, an average of one daughter per woman) -- see its present population of 14 million rise to 35 million before leveling off.

Page 13
Line 11

What we must understand is that even if an average family size of two children per couple is achieved, the population will continue to grow for an additional 65 or 70 years before stabilizing. 2/24

2/ If, for example, by the year 2000, the developed countries were to reach the level at which couples only replace themselves, and the developing countries were to reach this level by the year 2050

Page 13
Last Para

First, we must have a feasible goal. I suggest that goal should be to gain a few decades in the process of reducing human fertility -- a process that would occur slowly or not at all in the absence of family planning programs. The achievement of this goal would mean accelerated improvement in the quality of life for both the parents and the children of the developing countries. This improvement, in terms of better health, better education, better nutrition, and in many other ways, will come not only sooner, but more certainly, to population totalling billions less as a result of family planning programs.

and the same time promising, and dubious: Promising if we do what in fact can be done; dubious if in fact we continue as we are. *

The task is difficult for many reasons, but primarily because of its sheer overwhelming size. Consider the magnitude of the factors involved: there are dozens of countries plagued with the problem -- each of them different and possessing their own set of social and cultural traditions. There are thousands of clinical facilities to be established, hundreds of thousands of staff workers to be recruited, trained and organized in the administration of the vast national programs, hundreds of millions of families to be informed and served; and nearly 1-1/4 billion births to be averted in the developing world, if, for example, by the ^{year} 2000 the present birth rate of 40 per 1000 ^{population} were to be reduced to 20 per 1000. What we must understand is that even if a family size of two children per couple (reproduction rate of 1) is achieved, the population will continue to grow for an additional 65 or 70 years and the ultimate stabilized level will be far greater than at the time the two-per-couple rate is achieved. a/

Thus, even with gargantuan efforts the problem is going to be with us for decades to come, but this fact, rather than being an excuse for delay, is only all the more an imperative for action -- and for action now. Every day we fail to act makes the task only more formidable the following day. *Every birth is not only another mouth to feed; it is another potential parent.*
What must we do?

First, we must have a feasible goal. I suggest that goal should be to gain a few decades on what would occur to fertility in the absence of family planning programs. This ^{achievement of this goal} would mean a substantial increase in the quality of life for both the parents and the children of the developing countries -- in better health, better

a/ If, for example, by the year 2000, the developed countries had achieved a reproduction rate of 1, and the developing countries were to further reduce their birth rate to achieve a reproduction rate of 1 by the year 2050 -- and both these achievements appear unlikely -- the world's present population of 3.5 billion would not stabilize before the year 2120, and would then stand at fifteen billion.

* thought problem is ~~not~~ uncertainty because of ^{insufficient} ~~lack~~ knowledge about what can be done -

9
3
too
technical
for man
of finance

education, better nutrition, and in many other ways -- as a direct result of populations totalling some 6 or 7 billion less than would otherwise be the case.

And what must be done to achieve this goal? Five ingredients are needed:

1. The political will to support the effort.
2. The required understanding ^{and willingness to act} on the part of the people.
3. The availability of effective, acceptable contraceptive methods.
4. An efficient organization to administer the program.
5. Demographic data and analyses to evaluate results and point to program weaknesses requiring correction.

*more than
"understanding"
action ?*

Where do we stand on each of these?

To begin with, there has recently been a dramatic increase in political support for population planning. The latest example is the case of the Philippines. a country with a severe population problem, but a country in which it has been understandably difficult to take the open, public decisions that are required. President Marcos faced the delicate issue frankly in his State of the Nation message to his Congress a few months ago:

"With a soaring birth rate, the prospects for a continued economic development are considerably diminished. Indeed, there is a strong possibility that the gains which we have carefully built up over the years may be cancelled by a continuing population explosion After a careful weighing of factors, I have decided to propose legislation making family planning an official policy of my Administration."

His Minister of Foreign Affairs Romulo put the matter with equal candor:

"The control of population is essentially an economic, cultural, and political problem. One of the most hopeful means of bringing the birth rate down to near replacement level is the Department of

delete -

** good quote - merely trying to reduce relative size of proportion of address devoted to population*

Education's plan to introduce this entire subject into the curricula of schools and colleges . . . Underlying this approach is a clear recognition that education has the twofold obligation to reinforce, and where necessary, to help change public mores. Educational institutions, from the elementary to the postgraduate years, can perform no more useful service in the seventies than to illuminate the principles of human survival and to dedicate themselves to preserving and enhancing the quality and diversity of life."

In 1960 only three countries had population planning policies, only one government was actually offering assistance, and no international development agency was working in the field of family planning.

In 1970 (as indicated in the attached table) 24 countries in Asia, Africa, and Latin America -- countries representing 67% of the population of those continents -- have official population programs. More than 15 other countries, representing a further 12% of the population, provide some assistance to family planning, though they as yet have no officially formulated policy. And among the international agencies, the UN Population Division, UNDP, UNESCO, WHO, FAO, ILO, UNICEF, OECD, and the World Bank have all stated a willingness to participate in population planning activities.

There are geographical differences (in Asia, some 80% of the people live in countries with "favorable family planning policies", while in Latin America and Africa the figure is only 20%), but political acceptance of family planning programs is wide spread. Even where the political support is more apparent than real, it is becoming stronger with each passing year.

If, then, the first requirement for the success of family planning is political

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P 16

~~and~~

At the same time the education
of these still reconvinced
must proceed vigorously and
efficiently

not for my

support at the top -- and that is improving -- where are the roadblocks?

The first is in the lack of access of the citizenry to the information and assistance required. Surveys indicate that the interest in family planning among people everywhere is high, but that their understanding is often tenuous at best. Millions of parents, even in remote areas of the world, want fewer children, but they simply lack the knowledge to achieve this. Programs must be developed to provide them with the information they seek.

But political support and widespread knowledge are still not enough. The techniques of family planning must, themselves, be adequate, appropriate, and available. The means we currently have at hand are much better than those of a decade ago, but are still imperfect. They can be used to accomplish much more than has been already achieved, but concurrently a massive program to improve them must be initiated. Our knowledge in this field is so incomplete that though we know that certain techniques do work, we are still not completely clear on how or why they work. The fact is that compared to what we need to know, our knowledge remains elementary, even primitive.

The clear consequence of this is that there must be a greatly expanded research effort in basic reproductive biology. At present there are only four locations in the world in which as many as four full-time researchers are working in this field. [Some \$275 million a year is spent on cancer research. But] Less than \$50 million a year is spent on reproductive biology research, and this includes all the funds allocated, worldwide, by public and private institutions alike. The estimate is that an optimal program of research and development in this field would require \$150 million a year for a decade. That is an insignificant price to pay in the face of a problem that -- if left unsolved -- will in the end exact social and economic costs beyond calculation.

* actm

Finally, a population planning program to be successful requires a strong administrative organization and a comprehensive data analysis and evaluation service. With but one or two exceptions, none of the developing countries has established adequate support in ^etither of these areas. I know, for example, of only one location in the world where as many as three researchers are working full-time on the social service aspects of population planning. As a result, in only a handful of developing countries is there a significant percentage of women of reproductive age using contraceptives (the percentage of women in developed countries who are contraceptive users is six times as great). A number of governments have made a start at strengthening the organizational structure of family planning, but progress is thwarted by bureaucratic difficulties, lack of technical assistance, and inadequate financial support. It is in this area that the International Institutions can be most effective. Additional effort is required from all of us and particularly from the Bank. Many of our members are appealing for greater support. They want our advice as well as our financial help -- and I propose to organize our capability to provide them more of both.

The additional funds required to attack the population problem on all fronts -- for reproductive biological research, for social science research, and for better organization and administration -- are relatively small, less than 50¢ per capita per year. But the time that will be required to achieve results will be greater than many have realized. This is all the more reason for accelerating our pace. An OECD study concluded that in 1968 family-planning programs in developing countries accounted for only 2-1/2 million averted births, compared to the total of 1-1/4 billion that must be averted in the next three decades if a 1% rate of growth is to be reached by ^{the year 2000} ~~that~~ date. If we are to achieve an average fifteen-fold increase in the effectiveness of the program over the next 30 years, we must start now.

of which total population growth would be 1 1/2 billion

the year 2000

*120 = 2 1/2
= 15.3*

x p 18

There are those in the
developed and developing nations
who are suspicious of your motives
in urging an ^{anti-}attack on the problem
of excessive population growth.
Are we trying to keep back the
growth of the non-white races;
are we trying to obscure the
need for more development
assistance. The first suspicion
is clearly not well-founded for
the single reason that ~~is~~ even with
~~rather~~ the most optimistic
assumptions made about the

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success of family planning,
the so-called white race
will become a smaller minority
of the world's family of people
than it is today. ~~only about 20 percent~~ As for
the population issue being a
~~direct~~ substitute for increased
external assistance, those who
who are in the forefront of urging
greater ^{and more effective} efforts in family planning
are also in the forefront of urging
increased in development
assistance.

The Pearson Commission emphasized that the population problem will not go away. It will be resolved in one way or another: either by sensible solutions or senseless suffering. If we want a sensible solution, with the corresponding enhancement of the quality of life for hundreds of millions of children, as well as for their parents -- all of whom clearly have the intrinsic right to something more than a degrading subsistence -- then we must get on with it.

X →

IV. THE OBJECTIVES OF DEVELOPMENT IN THE SEVENTIES

Following the end of World War II, there began a massive transfer of resources from wealthy nations to both the war-torn and the less-developed nations. This was an action unique in human history. Initially, much of the aid was stimulated by narrow concepts of national self-interest. By some nations it was looked upon as a weapon in the cold war and by others as a means to promote commercial gain. But more and more, economic aid has come to be seen as a necessary consequence of a new *concept of international inter-dependence and a new* philosophy of international morality -- ~~a philosophy which recognizes that within the world community rich nations have the same obligations toward poor nations that the rich citizens of a single nation have toward its poor.~~

ie charity? need to put better

As was pointed out earlier, the flow of aid did slacken for a time in the 1960s, but it has begun again to rise and I am confident it will continue to grow throughout the '70s. *because the problems of the developing countries remain acute and demand attention and action* It is inconceivable, for example, that the American people ~~will tolerate for long -- or that the world will permit them to tolerate for long -- a situation in which 6% of the world's population, consuming 40% of the world's resources, contribute less than their share to the development of the emerging nations.~~

It was the flow of external aid which, when added to the savings of the developing nations, permitted those countries to realize a 5% annual growth in GNP during the 1960s. This was a major accomplishment. It represented achievement of

the primary objective of the First Development Decade, and it exceeded the average rate of growth of the advanced countries during their own early stages of progress in the last century. But where are we at the end of that Decade? In the developing world:

. Malnutrition is common.

The FAO estimates that at least a third to a half of the world's people suffer from hunger or nutritional deprivation. The average person in a high-standard area consumes four pounds of food a day as compared with an average pound and a quarter in a low-standard area.

. Infant mortality is high.

Infant deaths per 1000 live births are four times as high in the developing countries as in the developed countries (110 compared with 27).

. Life expectancy is low.

A man in the West can expect to live 40 per cent longer than the average man in the developing countries and twice as long as the average man in some of the African countries.

. Illiteracy is widespread.

There are 100 million more illiterates today than there were 20 years ago, bringing the total number to some 800 million.

. Unemployment is endemic and growing.

The equivalent of approximately 20 per cent of the entire male labor force is unemployed, and in many areas the urban population is growing twice as fast as the number of urban jobs.

. The distribution of income and wealth is severely skewed, and in some

countries becoming more so. In India, 12 per cent of the rural families control more than half of the cultivated land. In Brazil, less than 10

On other occasions, I have dwelt at some length on this question and therefore, will only briefly mention some highlights

~~per cent of the families control 75 per cent of the land. In Pakistan, the disparity in per capita income between East and West, which amounted to 9% in 1950, became 30% in 1960, 40% in 1965, and 50% in 1970.~~

~~. The gap between the per capita incomes of the rich nations and the poor nations is widening rather than narrowing, both relatively and absolutely. At the extremes that gap is already more than \$3,000. Present projections indicate it may well widen to \$9,000 by the end of the century. In the year 2000, per capita income in the United States is expected to be approximately \$10,000; in Brazil, \$500; and in India, \$200.~~

STET

Just how much worse these conditions are at the end of the decade than they were at the beginning is often difficult to determine. For most of them, even today, we lack satisfactory indicators and data.

For the Second Development Decade, a target of a 6% annual growth of GNP is being proposed. But I submit to you: *the achievement of this target will not guarantee a major improvement in the condition. Those just not bring satisfactory progress in development, a 6% annual growth will not, by itself, do so in the 1970s.* It is, I think, clear that growth rates of GNP are entirely valid and necessary economic indicators, but they are not adequate measures of the development of a nation. Nor are they satisfactory terms in which to frame the objectives of development programs. An increase in GNP is a necessary condition of development, but it is not a sufficient condition.

The lesson to be learned is that in setting the objectives, planning the programs, measuring the progress of development in the 1970s, we must look to more than gross measures of economic growth. The Second Development Decade gives us the opportunity to establish and pursue "quality" goals of development with new insights, new strategies, and new emphases. But if our investments are to meet the wider goal, ~~I frankly admit that~~ we and other investors need to add to

the factors determining our decisions

~~our patterns of analysis~~ a new dimension of social concern, and the political leaders of all developing countries need to realize the futility of trying to ~~shore up decaying social structures -- no amount of outside development assistance~~ *avoid or postpone needed social changes --* can be either a safe or a sufficient substitute for more equitable income distribution, more realistic population planning, or more sensible land reform.

This concern for social ends must be as rigorous, factual and informed as any of our other economic analyses and forecasts.

We do not want simply to say that rising unemployment is a "bad thing" and something must be done about it. We want to know its scale, its causes, its impact and the range of policies and options which are open to governments, international agencies, and the private sector to deal with it.

We do not want simply to sense that the "green revolution" requires a comparable social revolution in the organization and education of the small farmer. We want to know what evidence or working methods are available on methods of cooperative enterprise, of decentralized credit systems, or smaller-scale technology, and of price and market guarantees.

We do not want simply to deplore over-rapid urbanization in the primary cities. We want the most accurate and careful studies of internal migration, town-formation, decentralized urbanism and regional balance.

These issues are fully as urgent as the proper exchange rates or optimal mixes of the factors of production. The only trouble is that we do not know enough about them. *I* I would go further and say that, up to a point, we do not even know how to think about them. Just as the censuses of the 1950s helped to alert us to the scale of the population explosion, the urban and employment crises of the Sixties are alerting us to the scale of social displacement and general uprootedness of populations which are exploding not only in numbers but in movement as well. But we are still only picking up the distress signals. We still do not know how to act.

← We should be frank about this. [As we enter the Seventies, in field after field, we have more questions than answers. Our urgent need is for new instruments of research and analysis with which to dispel our ignorance of the social dimensions of economic change and help us formulate a more comprehensive strategy for the decade ahead.]

It is to this end that our Bank operations are being shaped.

* * *

The Second Development Decade has now begun and it is we in this room who will help write its record.

What will that record be?

I, for one believe that this decade can turn out to be *one of the shining* the period ⁱⁿ Man's advance toward achievement of human dignity.

For that, in sum, is what the development process is.

It is billions of men and women -- in more than a hundred nations of the world -- working together to achieve a destiny for themselves and their children that is decent, and secure, and richly human.

Surely, no task in this decade is more worthwhile.

Surely, no task in this decade more deserves to succeed.

Surely, no task in this decade commands more of our personal commitment.

E N D

But we do know enough from experience to give much more weight to social factors in our decision-making, while we continue the ^{vital} ~~never-ending~~ process of improving our knowledge and understanding of these problems.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 24, 1970

FROM: Irving S. Friedman

SUBJECT: Council on Foreign Relations - Goldschmidt's Paper on Multilateral
Economic Development Issues

You will recall that some time ago I received from "Tex" Goldschmidt the first draft of a short book he was preparing for possible publication by the Council on Foreign Relations. The book, tentatively entitled "The Multilateral Development Assistance Frame", had been based upon a special discussion group on multilateral development issues for which he had been the organizer and in which I participated. At that time you asked me to show the draft to others for comments. In the meantime I have kept in touch with Goldschmidt. He has been out of town for much of the summer but still is planning to do this book although is somewhat discouraged by the fact that it would come out too late to have been of use in the discussions which have recently taken place on this subject.

As you had suggested I had sent to him much earlier the material on Fund/Bank collaboration to correct some misinformation he had on that subject. His whole viewpoint centers on the central role being played by the UNDP resident representative in coordinating technical assistance and indeed in being the key figure in all development relations between multilateral institutions and the recipient country. It seems essentially based on the viewpoint that coordination in the last analysis can only be done by the recipient country. Since there is such a fundamental difference in this viewpoint between him and those in the Bank that I would tend to agree with the comment received from Mr. Demuth that there is not much we could hope to do about it. In talks with him, I have not tried to attack his biases, but rather to give him a better appreciation of what the Bank is doing and could do. I hope the next draft and final version will reflect this. I am also writing separately to Goldschmidt to correct some of the misstatements of fact about the Bank.

ISF

President has seen

JUL 27 1970 (Returned)
10 30-1

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Irving S. Friedman

SUBJECT: Distribution of Economic Reports to Executive Directors of
Asian Development Bank

DATE: July 23 1970

JUL 23 1970 (Returned)
S.F.M.

I have not been able to find out as yet whether or not our country economic reports are distributed to the Executive Directors of the Asian Development Bank as a basis for their country or loan discussions.

At the last meeting of the Asian Development Bank in Seoul in April we had our regular meeting of representatives of the various economic departments of the international financial organizations. The question was asked by the Asian Bank person whether we would object to our country economic reports being circulated to the Executive Directors of the Asian Bank. Mr. Kamarck replied that we had no objection, but we do not know what has happened since.

ISF

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 20 1970

FROM: Irving S. Friedman

SUBJECT: Technical Note

Attached hereto is one of a series of technical notes prepared for you on industrialization policies.

These notes are also being distributed to the Industrialization Policy Committee.

ISF

Att:

*JUL 22 1970 (Returned) - without attachment
3 30 pm*

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: July 16, 1970

FROM: Andrew M. Kamarck *AK*SUBJECT: Attached Technical Note on Industrialization Policies

Attached is a technical note prepared for Mr. McNamara on several aspects of industrialization policies. We plan to put out a series of notes in this field. Together, they might form a large part of the basis for a paper to be prepared for the Executive Directors on Bank policy towards industrialization. We are distributing the notes also to the Industrialization Policy Committee members.

Technical Note

INDUSTRIALIZATION, EMPLOYMENT AND URBANIZATION: SOME
SOCIAL ECONOMIES AND COSTS OF INDUSTRIAL DEVELOPMENT

July 10, 1970

Prepared by: Helen Hughes

Economics of Industrialization Division

Industrialization, Employment and Urbanization: Some
Social Economies and Costs of Industrial Development

1. The wider benefits which industrialization was expected to bring to developing countries have not been the least of its attractions: increased productivity per head, improved terms of trade and the end of balance of payments problems were the most important, but employment, and the solution to regional problems were also to the fore. The productivity and balance of payments aspects of industrialization will be the subject of future notes in this series; this paper is concerned with the principal social costs and benefits of industrial growth.
2. In the years after World War II it was hoped that industrialization would take up the employment slack in the countryside and in the cities, absorb the bulk of the population increase, and lead to full employment. Many countries also saw a solution to problems of regional development in decentralized industrial growth. These hopes have not been fulfilled.
3. This note examines the reasons why such hopes have not been realized, the extent to which their frustration has been due to the industrialization process itself, and how far it is the result of the strategies and policies adopted to stimulate industry. Much of the traditional thinking on industrial employment and decentralized industrial growth has not been conducive to rapid and sustained industrialization, to high employment gains or to regional development; this note therefore suggests policies which would lead to better results

in the future.

Employment

4. In most developing countries employment in manufacturing 1/ is a small proportion of the total work force, and even in countries such as China (Taiwan) and Singapore which have had great success in industrialization it is still greatly below industrialized country levels (Table I). Moreover, even though manufacturing employment thus started from a small base in most developing countries in the 1950s, the rate of growth of manufacturing employment has been disappointing, and it has lagged considerably behind the rate of growth of manufacturing production (Table II). These trends require the following explanations and qualifications.

5. The limited choice of techniques available to a manufacturer who wishes to produce competitively at international prices, or even with other manufacturers in a protected market, is the most important factor in the failure to meet employment expectations. It is true that the degree of labor intensiveness in industry is a continuum from industries such as artificial flower manufacture to those like iron and steel (Table III), but it is also true that, for most industries on this continuum, capital intensive, modern production methods are so much more economic

1/ It is impossible to draw a clear line between manufacturing and handicraft and service establishments. Conceptually the differences lie in the use of power, the division of labor, the nature of entrepreneurship and the type of activity undertaken; statistically small enterprises employing up to 20 workers, but sometimes even up to 100 or 200, include handicraft and service activities such as motor vehicle repairs and dress-making, as well as small scale manufacturing proper. Manufacturing census and survey coverage varies from country to country and from year to year. Some population censuses and surveys classify all persons who regard themselves as "weavers" or "metal workers" as manufacturing workers although their weaving may be confined to their own consumption, their metal working to casual employment on bicycle repairs. Manufacturing census and survey data therefore generally show much lower employment in manufacturing than population census and survey data, and they are the only reliable sources of information about actual manufacturing employment.

than labor intensive ones that the opportunities for the substitution of labor for capital are extremely limited. There are some instances of labor intensive processes (such as aircraft piston and heavy electric generator manufacture, and electronic component assembly), within capital intensive industries, but they tend to be the exception. In an increasing majority of industries, capital intensive methods are more competitive, and this usually implies large scale production.

6. Investors are usually faced with three alternatives: (i) competitive, modern, large scale production which, however, requires a larger market than a developing country or potential exports indicate; (ii) less competitive modern production which does not fully utilize economies of scale; or, (iii) small scale, labor intensive production, which, however, is above world market prices. In many cases technical considerations point to the choice of modern techniques. The quality of a product, the precision with which parts are manufactured as well as the appearance of the finish, are very much influenced by the sophistication of the production methods. Where markets have been established by imports of manufactured products, or where imports compete on the domestic market, quality considerations are important. For countries seeking export markets, they are of course paramount, but economy of scale constraints are then avoided, so that modern techniques become economic. Sophisticated production methods are usually also much more economic in the use of raw material than labor intensive methods. Since capital is scarce and expensive, entrepreneurs are concerned with maximizing its productivity in order to maximize their profits, and this generally means the choice of modern technology. The combined advantages of modern production methods and the scarcity of capital thus frequently outweigh the high costs of capital intensive production on a small scale. In most countries, tariffs or other protective measures protect the manufacturer at this level, and diminish

his interest in external markets. Thus relatively small scale modern manufacturing methods prove to be more economic than labor intensive manufacturing production both in terms of immediate competitive advantage and capital accumulation.

7. The availability of plant often poses another problem. Developed countries provide the bulk of demand for manufacturing plant, and plant manufacturers accordingly cater for their needs. Plants specially adapted for different labor cost relationships to those prevailing in developed countries therefore tend to be more costly than the regular plants, even where such adaptations are practicable. Second-hand plant is generally expensive to dismantle and erect, requires much more time to assemble, and there frequently are spare part problems with outdated equipment. Investors in developing countries rarely have the knowledge and skill to make, or have fundamental changes made, in standard equipment, and have to rely on equipment manufacturers' expertise. Foreign investors from developed countries prefer plant they know, and for them, with plants in several countries, there are advantages in uniformity. These investors could with profit sometimes go further in adapting plant to the factor costs and market scale of developing countries, and some are beginning to do so, but the prospects for a general adaptation of plants to labor costs in developing countries do not seem very good. Labor costs vary greatly among developing countries, and more importantly, low labor costs are not sufficient to offset the other disadvantages of small scale, labor intensive production.

8. In most manufacturing processes the opportunities of substituting labor for capital are therefore confined to the preparation and loading of raw materials into the factory, and to finishing and packaging processes. Here

employment is generally more intensive than in developed countries. With unemployed waiting at the factory gate few firms use capital instead of labor where labor would be more profitable. There are, of course, some cases of the use of modern production methods for the sake of being modern, but these have been greatly exaggerated by after dinner anecdotes. By and large, it is not that manufacturers are bedazzled by the prospects of a modern factory, but that this is the most profitable choice of technique.

9. Policy measures which distort the relative cost of capital and labor may, however, contribute to the use of capital intensive techniques when there is some opportunity for choice. Cheap credit measures designed to bring down the levels of capital costs to those prevailing in developed countries may lower the cost of capital to those favored borrowers who are able to obtain official loans, but this distorts the capital labor price relationship. Labor is then usually still cheaper in relation to capital than in developed countries although the difference between capital and labor costs at the margin may have been significantly diminished. When in exceptional cases, however, the price of credit may be permitted to drop to very low levels, for example, in an inflationary economy in which real interest rates are kept low, or even become negative, the relative price of capital may fall below its relative price in developed countries. Tax incentives such as remissions of duties on capital imports and accelerated depreciation also lower the cost of plant in relation to labor, although only rarely to ratios below those of developed countries.

10. The cost of labor is frequently higher than would appear at first sight. Most developing countries are acutely short of skilled labor, wages for skilled workers are relatively high, and this makes labor intensive methods

costly in any but the simplest tasks. Skilled workers are scarce and relatively highly paid, and labor intensive techniques often demand more skilled labor than capital intensive ones. In many developing countries, even semi-skilled and unskilled labor cost is higher than daily wages imply. Productivity is low. Workers are not only mechanically unskilled, but they also lack discipline, time-keeping tends to be poor and absenteeism is generally high. Wages have been pushed up in some countries beyond productivity levels by young national governments and militant trades unions, and this is particularly true of indirect wage payments and fringe benefits which often form a much higher proportion of total labor cost than they do in developed countries. A prejudice against piece work, and the lack of organizational resources to introduce it satisfactorily, frequently raise costs in simple, repetitive tasks. In some countries poor industrial relations and the political biases of trade unions push investors, particularly foreign ones, towards mechanized processes with few workers.

11. The rate of employment growth in relation to the growth in value added in manufacturing, moreover, tends to slow down as industrialization proceeds. Labor discipline improves, skills are accumulated, and as management improves, "learning by doing" increases productivity. In countries which rely on import substitution the easy import substitution opportunities are exhausted, and more complex industries generally require more capital intensive techniques. In general the locally manufactured content of manufactured output rises more rapidly than total output. Wages chase labor productivity increases, and sometimes even exceed them, so that capital intensive methods become more attractive. A continuously high ratio of employment to value added growth may thus indicate stagnating labor productivity with consequent cost and capital return problems

rather than successful employment creation.

12. The failure of relatively labor intensive small scale industries to play an important role in industrialization has also contributed to disappointed hopes of high industrial employment.(Table IV). There are some exceptions. In South Asia, East Asia and the Middle East, a long evolution of handicrafts has become, to varying degrees, the foundation of a small scale manufacturing sector producing consumer goods or industrial components. In many Latin American countries and in Africa south of the Sahara, however, handicrafts were not strongly developed, and in Southeast Asia they were largely destroyed by the impact of European trade in the nineteenth century. In these areas, therefore, there was little foundation from which small scale industry could grow, and small scale industries have made little contribution to industrial production and employment.

13. Even in countries where small scale industries have some roots in a strong handicraft and small business tradition, the transition to manufacturing, and particularly to supplying industry rather than final consumers, is formidable. Some of the obstacles to the growth of small scale industry are well known. Entrepreneurs lack technical, purchasing, marketing, organizational and accounting skills; they are under-capitalized and lacking access to bank credit have to rely on the street market. There are others. Modern, large scale industry generally develops on the outskirts of large cities, whereas small scale industries are usually at town centers. Industrial estates often exclude small scale industries. Such locational factors can make it extremely difficult for small producers to make a start in sub-contracting because their means of transport is a bicycle. Few large firms are prepared to nurture and assist small suppliers. It is frequently more economic to manufacture their own components, and particularly so where cumulative production taxes encourage vertical

integration. In many developing countries small scale entrepreneurs are predominantly members of alien minorities; governments discourage rather than promote their interests.

14. A relatively large handicraft sector does not, moreover, always mean a healthy employment situation. The competitiveness of handicrafts is generally limited to specialized exports to developed countries and to simple products for local markets where transport or other factors make modern plants less competitive. However, if handicrafts are protected against foreign competition by high tariffs, and against modern industries by special raw material and credit allocations and capacity restrictions on modern plants, the latter are allowed to become inefficient with detrimental effects on long-term industrial growth. Consumers have to meet high prices, so that the markets that such industries serve are artificially constrained. Small scale industries similarly have to be productive and competitive if they are to provide employment in the long run. The preservation or creation of employment in handicraft and small scale industries at high costs of production may thus be inimical to long run employment aims. In fact, an early impact of industrialization may be the shrinking of such industries in competition with more efficient modern, relatively large scale plants. Government programs for handicraft and small scale industries moreover require a great deal of effort for limited achievements in comparison with the promotion of modern industries. Nevertheless, particularly in countries with low levels of industrial development and severe unemployment problems, they may be well worthwhile.

15. The failure of industrialization to solve developing countries' employment problems is thus not surprising, and their employment experience reflects both their level of industrial development and their industrialization strategy. The growth of employment in relation to output is generally

greatest in the first stages of industrialization when relatively simple import replacement is taking place, and tends to decline in later stages as import replacement becomes more complex, industries become more capital intensive, and the labor force becomes more skilled and experienced. It is also clear that those countries, such as China (Taiwan), Korea and Singapore which have followed low key but hard hitting industrialization strategies, including not only a markedly outward orientation, but also other fiscal, monetary and labor policies leading to competitive cost structures, have experienced higher and more consistent rates of growth of manufacturing employment than those that have relied on import substitution at all costs, stressed basic industries and failed to take advantage of export possibilities.

16. The choice that a country has in attempting to stimulate manufacturing employment is not one of choosing between a labor intensive or capital intensive techniques as has been often supposed in the past, but rather in selecting policies that will encourage those products and industries which are relatively labor intensive. In policy decisions it is also important to stress that not only does employment per given volume of production vary from industry to industry, but so does the cost of adding workers into the manufacturing work force (Table V). The marginal capital labor ratio is much higher in steel than in textiles, and the capital invested in steel accordingly has a high opportunity cost in terms of employment. Employment, however, can not be the only consideration in industrial growth: markets, competitiveness, comparative advantage, and backward and forward linkages with their balance of payment effects are all important. Investment is generally product and industry tied, and the extent to which investors come forward is also a factor in the investment mix. Industrialisation policies have to take all these factors

into account to achieve rapid and self-sustaining industrial growth.

17. Even with policies leading to wise product and industry choices, the direct effect of investment in manufacturing industry on total employment is likely to be small, and in most cases will not be able to eliminate existing unemployment or absorb that due to population increases. Factories alone can not solve employment problems. This is a problem to which all economic policies must address themselves. Investment in manufacturing, however, also creates indirect employment to varying degrees. It generates pressure not only for other industrial products, but for agricultural and mineral raw materials, public utilities and services, for building and construction and commercial services, and the employment created has repercussions not only on the demand for consumer goods, but also for services and housing. Unfortunately the only consensus of opinion on the extent of indirect labor creation is that it has yet to be measured either in total or by type of manufacturing investment. Measurement problems are, moreover, difficult because while new jobs are created as a result of industrial growth, initially a shift to relatively highly productive occupations within the service sector may be more important than actual employment creation. However, it is clear that the extent to which industrialization creates indirect employment depends largely on the integration of industrial growth into the rest of the economy. Highly protected import substitution geared to enclave high income markets has the least impact; industrial strategies which emphasize competitiveness and efficiency have the most far reaching effects on production in other sectors, on consumption, and hence on further employment creation.

The Urban Concentration of Industry

18. Urbanization is of course not simply, or even largely, the result of industrial development, but industrialization accelerates the pace of urban growth. Large cities are the principal markets for industry, particularly so when industrial policy favors production for enclave urban high income markets. Most consumer industries are market oriented in location, urban building and construction generally represents a generous portion of intermediate product markets, and other intermediate product and capital goods industries are in turn market oriented towards these industries. The radial transportation systems of most developing countries make the distribution of goods in the countryside easiest from a large urban center.

19. The transport network similarly favors large city location, particularly where the city is a port, and in the early stages of industrialization when many of the inputs into industrial production are imported. Radial transport systems also mean that local raw materials can be most easily assembled at an urban center. Limited transport facilities, although generally a more important consideration in developing than developed countries are, however, by no means the most important consideration in industry's choice of existing urban location. The scarcest factor of production in developing, as in developed countries, is management, and this is generally only to be found in existing urban centers. Good managers, moreover, are generally not prepared to move to small, and often isolated rural centers which lack facilities such as education. Skilled workers similarly prefer urban facilities and are difficult to attract away from them.

20. The absence of services - public utilities such as water, power and communications, industrial services such as galvanizing and enamelling, commercial

services such as banking, printing and advertising - are commonly the greatest problems for newly established industries in developing countries, and they are generally minimized in urban centers. As industry grows, it not only gives more economic opportunities for such services so that they can benefit from advantages of scale, but creates the possibilities of new ones more specially geared to an industry group. Thus for example, a group of textile mills will benefit from a pool of skilled and supervisory textile labor, of importers specializing in textile dyes or eventually producing them locally, and may even be able to borrow and lend specialized equipment such as loom attachments, cutting down on stocks. Equipment leasing and sub-contracting become feasible because firms can change from client to client as the fortunes of business change.

21. For the individual firm, costs of production therefore continue to fall for a long time with the growth of cities, and this is why manufacturers tend to congregate in large urban centers. Social costs, on the other hand, may begin to rise at relatively low levels of urban concentration, and this is particularly so in unplanned cities. (The size of cities varies considerably in developing countries, and the largest do not necessarily have the greatest problems.) New industrial plants are generally located on the outskirts of cities, creating urban traffic problems for materials, products and employees. While the private costs of the ensuing congestion are generally exceeded for the manufacturer by the benefits of large city location, for the city as a whole social costs can be high. Thus at some point, as social costs rise, the balance of private and social costs and benefits of industrial concentration no longer coincides, and there is a strong argument for alternative policies that would restore it.

22. The growth of population and facilities in the cities is generally

accompanied by the drain of young people and the lack of facilities in the countryside, and particularly in those regions which have been neglected by the development process. In most countries, there are strong political pressures for regional development from local politicians, and when urban concentration becomes high and its social costs grow, the alternative of decentralizing industrial development appears at first sight attractive in economic terms as well. On closer examination, however, this is rarely the case.

23. All the advantages which draw industries to existing urban centers are missing in small rural towns. Public utilities are poor, there is no market and transport is inadequate. There is an absence of industrial and commercial facilities and services, and this is underlined by poor communications. Provincial centers dozing in the sun do not attract skilled managers and their families. Wages tend to be lower, but so are skills, particularly at the supervisory level, and labor costs tend to be as high, if not higher than in a more established labor market. Raw material oriented industries such as agriculture, forestry and mineral processing, no matter how efficiently developed and how large scale, generally remain oases in a predominantly rural countryside.

24. Attempts to stimulate regional development prematurely by industrial growth are therefore usually very costly in terms of national development. Spreading investment in public utilities thin and wide is expensive. Even with a great deal of such investment it is usually impossible to make provincial centers as attractive to labor and management as large cities. This affects the efficiency of industrial enterprises. Finally the fragmentation of production involves a great deal of duplication and puts off the time when

economies of scale may be fully utilized in a developing country; relatively large plants in large industrial centers with advantages of some internal and external economies of scale, make high profits in the shelter of marginal firms in the developing regions which set the levels of protection required for industry as a whole.

25. Measures to stimulate decentralized regional development per se - exemptions from local taxes and from income taxes - have usually not been successful (except where a wise choice is made of suitable growth poles, see para. 28) and expansion of existing industrial centers includes important diseconomies. Transport concessions have also generally been ineffectual, and, if successful, impose heavy long run costs on the economy. To be effective in really undeveloped regions incentives may have to be granted on a heroic scale. The large scale transfer of public revenue to private investment in northeast Brazil is an example, from which, however, it is by no means clear that these measures have been justified in terms of national economic development or benefit. 1/

26. Given a situation in which the social costs of unplanned industrial concentration require mitigation, the choice does not appear to be so much between urban concentration and decentralization in the sense of spreading industrial development throughout the countryside, but rather in planned industrial urban development. Primarily this means concentrating on existing industrial centers, although in large and relatively developed countries the stimulation of a limited number of growth poles, or "concentrated decentralization"

1/ See Current Economic Position and Prospects of Brazil, Vol. III Industrial Policies and the Manufacturing Industries in Brazil, December 1969, for an evaluation of incentives for industrialization in Brazil's Northeast.

may also be appropriate. In addition small scale and handicraft industries should be encouraged in existing provincial centers.

27. The last of these is usually most important in least developed countries and it is the most difficult to accomplish. It depends on the success with which agriculture is pursued, and the efficiency with which the agricultural products are processed. This generally means increasing agricultural processing units, and improving rural transport and storage, a complex package deal of considerable difficulty. Around such prosperous, successful rural industry centers based on the satisfaction of real economic needs, it is possible to stimulate limited industrial activity on a small scale because transport and marketing costs protect the local producer. The products which can be produced competitively under such circumstances range from simple non-durable consumer goods to building materials such as bricks. The critical factor is entrepreneurship, and while this is fairly readily available in traditionally handicraft oriented societies, it tends to be lacking in many Latin American, some Asian and many African countries south of the Sahara.

28. If suitable development poles are chosen among provincial or other centers already showing strong signs of growth, industrial investment can be attracted from the existing industrial centers with minimum cost in terms of revenue foregone. The provision of adequate infrastructure for industry and for the labor force, with suitable transport to markets and raw material sources, is usually sufficient. If the number of such centers is limited at any one time to a country's absorptive capacity for industry, investment in infrastructure and industry itself need not be spread too thinly, and economies of agglomeration will accrue. Specialization by industry groups is frequently

advisable.

29. The planning of industrial growth and associated facilities is of course most difficult in existing cities. The lack of reasonably priced land for industrial development is often critical, and one with which governments have to grapple in any systematic approach to urban development. The pervasiveness of "city beautiful" concepts appropriate to wealthy, highly developed countries with their implications of high direct and indirect urban infrastructure costs are frequently another obstacle. Developing countries must not always lag in comfort and appearance behind the developed, but complex and high cost development schemes are inimical to rapid industrial and urban development.

30. Industrial estates can be an important planning tool in orderly industrial and associated urban growth for they can assist in solving some of the principal problems associated with it: firstly, they can eliminate bottlenecks due to the absence of land and factory space at prices competitive with those in industrialized countries; secondly, they can make the provision of utilities more economic by concentrating the demand for them spatially and in time; thirdly they accelerate the external economies industries provide for each other; fourthly they enable industrial location to be planned together with low cost housing, transport and other urban facilities, minimizing the cost of urban development.

31. Industrial estates have a variety of forms and functions. Mixed industrial estates catering to industries ranging from very small scale enterprises to large scale heavy industry are the most complex, and require the most careful planning. It is particularly important to include provisions for small scale enterprises, for example in the form of dwelling-workshops on the

outskirts of an estate, if small scale industries are to be encouraged to sub-contract and otherwise serve the estate and its work force. Small entrepreneurs can then use such buildings as collateral for loans. Some estates only aim to encourage small scale and medium industries, by providing utilities and factory buildings, leaving large enterprises, which can make their own investments, to fend for themselves.

32. A new type of estate, specially oriented towards very small industries, consisting of flatted factories or sheds in close proximity to thickly populated areas is becoming important. It can serve a variety of purposes ranging from the re-housing of squatter and slum workshops to attracting new, foreign investment for labor intensive industries such as electronic assembly industries. Some small industries supply final markets and some work for larger firms as sub-contractors; these two types of industries may have different locational advantages with respect to marketing, although for most labor intensive industries proximity to labor supply is the crucial factor.

33. Following a trend in developed countries, some functional estates have been created in developing countries. These specialize in one type of industry, metal working for example, and in this way are particularly suitable for stimulating common industry backward linkages such as foundries, and forward linkage industries such as enamelling or galvanizing. Satellite estates can be created to provide contractors working for a large scale industry with land adjacent to it. This reduces delivery times and enables certain costs to be lowered by large scale ordering, of metals for instance, through the final consumer. It also facilitates assistance by the large scale plants to contractors in design, production and quality control.

34. Some countries have created export oriented industrial estates.

The whole area becomes a customs bond store, and goods are only charged customs duties and domestic taxes if they are shipped to the domestic market. These industrial estates save a great deal of paper work on duty drawbacks for export goods, and if they are efficiently run can play an important role in countries in which customs administration is complex and reform lies some time in the future.

35. The form of industrial estate development can include various combinations of private and public ownership. Industrial estates can serve as centers of facilities such as quality testing laboratories, labor and management training institutes and can be used to contribute to good industrial relations. They can play an important role in the supply of supervised credit to small and medium industries.

36. While there can be no simple rules for the successful establishment of industrial estates, it is clear that location is a critical factor. Industrial estates which have attempted to decentralize industrial activities have, not surprisingly, largely been expensive failures. Industrial estates have to be in or close to large cities or "development pole" towns, and this usually means resolving the very difficult problems of making suitable land available at moderate prices. The physical planning of an estate should be modest and in accordance with real expectations of industrial growth. While land acquisition should be far sighted, estate development should be just ahead of industry formation to minimize unproductive capital expenditures. Investment in industrial estates generally has a high opportunity cost and it should be spent accordingly where returns are high and immediate.

37. In a broader context the success of investment in industrial estates of course depends on the associated urban development. Public

utilities and transport are clearly most important, but so is the provision for housing, particularly for very low income housing. This does not necessarily mean high rise or cottage type urban housing, although some developing countries have demonstrated that, when well organized and managed, it is feasible. But for most developing countries, and particularly the poorer ones, the provision of serviced land for workers is a vital step ahead, leading to a great deal of small scale building activity and bringing security and better health standards to the urban population. Certain types of urban construction, building and consumer services are among the most labor intensive of economic activities, and the urban development effects of industrialization can hence be highly employment creating.

38. Industrialization of course also creates social benefits other than those of employment and urban development. It brings new technical and managerial skills, and puts pressure for science in education to balance literary traditions. Where industrialization is competitive and sustained, it increases the availability of goods for large numbers of people, leads to new patterns of consumption and leisure, and reduces the effort required for everyday survival. Many of these changes also have a cost aspect, but the evaluation of the social costs of industrialization is more difficult because many of these costs lie in the loss of traditional mores, although not necessarily in the loss of cultural heritages. However, migration to large industrial cities even when employment opportunities are poor suggests that among the peoples of developing countries there is a strong preference for industrial cities. For them, at least, the social benefits of industrialization must appear to offset its costs.

APPENDIX TABLES

- I. Employment in Manufacturing as a Percentage of the Estimated Work Force in Some Developing and Developed Countries.
- II. Average Annual Growth Rates of Employment and Value Added in Manufacturing in Some Developing and Developed Countries.
- III. Indexes of Number of Employees required to Produce one Unit of Value Added by Industry Groups in Selected Developing Countries.
- IV. The Share of Large Enterprises in Total Manufacturing Industry.
- V. Proposed Average Investment per Worker by Industry Groups in Singapore and Thailand.

Note: Reasonably accurate employment and work force figures are difficult to obtain, and the countries included in the following statistical tables therefore have a limited coverage. They are intended to be illustrative rather than to convey a comprehensive view of manufacturing employment in developing countries. Work on some aspects of manufacturing employment is, however, proceeding in the Industrialization Division.

Table I

Employment in Manufacturing as a Percentage of the Estimated Work Force
in Some Developing and Developed Countries

		<u>Estimated Work Force</u> '000	<u>Employment in Manufacturing</u> '000	<u>Employment in Manufacturing as a Percentage of the Work Force</u> Percent
<u>A. Developing Countries</u>				
China (Taiwan)	1968	4,159	453 /a	10.9
Colombia	1968	4,500	283	6.3
Indonesia	1963	37,084	961	2.6
Ireland	1968	1,055	178 /a	16.8
Malaysia (West)	1963	2,531	101	4.1
Philippines	1967	12,185	327	2.7
Singapore	1966	629	62	9.9
<u>B. Developed Countries</u>				
Australia	1966	3,703	1,229	33.2
Canada	1966	6,862	1,570	22.9
Japan	1965	47,480	9,029	19.0
Netherlands	1966	4,306	1,239	28.8
Norway	1967	1,444	364	25.2
United States	1966	64,034	18,205	28.4

/a 1967

Note: Work force estimates must be viewed with considerable caution, particularly in countries such as Indonesia, Malaysia and the Philippines which have large subsistence sectors. Coverage includes unemployed and underemployed workers. Employment in manufacturing is manufacturing census or survey data. It excludes small enterprises as follows:

China:	less than 20 workers	Australia:	less than 4 workers
Colombia:	less than 5 workers	Japan:	less than 4 workers
Ireland:	less than 3 workers	Netherlands:	less than 10 workers
Kenya:	less than 10 workers	New Zealand:	less than 2 workers
Malaysia:	less than 5 workers	Norway:	less than 2 workers
Philippines:	less than 5 workers	U.S.A.:	less than 1 worker
Singapore:	less than 5 workers		

Manufacturing employment data are generally average annual employment figures.

Source: Country data.

Average Annual Growth Rates of Employment and Value Added
in Manufacturing in Less Developed and Developed Countries

	<u>Period</u>	<u>Employment (Percent)</u>	<u>Value Added (Percent)</u>
<u>A. Developing Countries</u>			
Brazil	1949-1958	3.3	7.6
	1958-1966	2.8	8.2
China (Taiwan)	1960-1967	16.9	26.3
Colombia	1953-1960	4.3	7.8
	1960-1967	2.1	6.8
India	1959-1964	4.9	6.6
Ireland	1953-1960	0.8	3.8
	1960-1967	2.4	7.0
Israel	1959-1966	6.9	9.8
Kenya	1963-1967	2.7	7.9
Korea	1960-1966	12.8	17.5
Malaysia	1962-1966	6.7	18.7
Mexico	1960-1965	8.8	21.5
Pakistan	1960-1967	9.3	20.1
Philippines	1956-1960	4.9	11.2
	1960-1966	4.7	5.7
Portugal	1961-1966	4.1	8.7
Singapore	1960-1967	11.4	17.4
Venezuela	1960-1968	4.0	8.3
<u>B. Developed Countries</u>			
Australia	1953-1960	2.9	6.9
	1960-1966	2.4	4.2
Canada	1960-1965	4.3	10.5
Japan	1953-1960	8.5	14.1
	1960-1965	2.5	10.9
Netherlands	1953-1960	2.2	6.1
	1960-1964	1.8	3.9
New Zealand	1952-1960	3.0	5.4
	1960-1965	4.2	8.1
Norway	1953-1960	2.8	4.3
	1960-1966	2.3	5.1
United States	1953-1960	0.5	2.0
	1960-1966	2.0	5.1

Note: These figures exclude small establishments as in Table I and exclude small enterprises in the countries not in Table I as follows:

Brazil: establishments contributing 10 per cent of value added in production in each industry sector.

India: less than 10 workers if using power or less than 20 workers if not using power.

Israel: less than 5 workers.

Kenya: less than 10 workers.

Korea: less than 5 workers.

Mexico: less than 6 workers.

Pakistan: less than 20 workers.

Portugal: (all enterprises included)

Singapore: less than 10 workers.

Canada: (all enterprises included)

Value added is in constant prices; however, price deflators sometimes do not reflect changes in the value of money adequately, and this must be taken into consideration in interpreting the series.

Sources: Country data.

Table III

Indexes of Number of Employees required to Produce one Unit of Value
Added by Industry Groups in Selected Developing Countries.

(Average for all industries in each country = 100)

	<u>Brazil</u> 1966	<u>Colombia</u> 1967	<u>Israel</u> 1967	<u>Korea</u> 1967	<u>Philippines</u> 1966
<u>Consumer Goods</u>					
Food	86	91) 87	103	96
Beverages	106	40)	49	44
Tobacco	94	29)	15	93
Textiles	147	125	120	135	200
Furniture & fixtures	175	278		192	263
Clothing & footwear	175	227	204	172	286
Printing & publishing	135	130	103	128	137
<u>Intermediate Goods</u>					
Wood & products	1,667	217	120	109	200
Paper & products	109	85	84	83	89
Leather & products	1,250	132	193	111	263
Rubber & products	64	96	85	167	74
Chemicals other than pharmaceuticals	49	61	61	61	54
Petroleum & coal products		20		24	
Non-metallic mineral products	149	159	87	106	81
<u>Capital Goods</u>					
Basic metals	102	79	63	102	118
Metal products		152	118	164	-
Mechanical machinery	105	169	79	143	172
Electrical machinery	86	105	94	145	104
Transport equipment	78	192	118	127	113
<u>Miscellaneous</u>	118	123	142	233	44
<u>Total</u>	100	100	100	100	100

Sources: Country data.

Table IV

The Share of Large Enterprises in Total Manufacturing Industry

	<u>Year</u>	Coverage of large <u>Establishments</u> (workers)	<u>Establishments</u> (Percent)	<u>Employment</u> (Percent)	<u>Value Added</u> (Percent)
Brazil	1960	10 or more	21.0	84.1	90.2
China(Taiwan)	1967	20 or more	57.2	96.9	
Iran	1966	10 or more	3.3	39.0	72.5
Malaysia	1963	10 or more	18.3	78.6	85.9
Mexico	1965	5 or more	16.1	83.9	95.4
Pakistan	1960	20 or more	61.3	95.6	96.4
Philippines	1961	10 or more	10.9	73.3	93.9

Note: Figures are from census data except for Pakistan and China(Taiwan) where they are based on manufacturing survey figures.

Source: Country data.

Table V

Proposed Average Investment per Worker by Industry
Groups in Singapore and Thailand

	<u>Singapore</u> 1961-1966		<u>Thailand</u> 1968
	(U. S. \$)		
<u>Consumer Goods</u>			
Food	5,500	/a	3,000
Textiles	1,200	/b	7,200
<u>Intermediate Goods</u>			
Wood & products	1,500		2,400
Paper & products			15,700
Rubber & products	5,200		3,200
Chemicals other than pharmaceuticals	3,300		6,700
Petroleum & coal products	62,800		90,100
Non-metallic mineral products	2,300		7,600
<u>Capital Goods</u>			
Basic metals	4,000	/c	4,600
Metal products			6,500
Electrical machinery	1,900		6,200
Transport equipment			4,900
<u>Miscellaneous</u>	2,600		2,500

/a includes beverages.

/b includes leather

/c includes engineering

Differences in investment per worker employed are largely due to differences in industry mix in each industry group.

Sources: Country data.

ROUTING SLIP

Date
JUL 20 1970

OFFICE OF THE PRESIDENT

Name _____ Room No. _____

Mr. McNamara

President has seen

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

You may find this of interest.

ISF

JUL 21 1970

3:30 p.m.

From

Irvine S. Friedman

(Returned)

ROUTING SLIP		Date	
		July 17, 1970	
NAME		ROOM NO.	
Mr. Friedman			
To Handle		Note and File	
Appropriate Disposition		Note and Return	
Approval		Prepare Reply	
Comment		Per Our Conversation	
Full Report		Recommendation	
Information		Signature	
Initial		Send On	
REMARKS			
<p>Attached is a memorandum on the facts concerning the price projection used in the rice project. As you will see, it is not that the price projection is wrong but that the price used in the appraisal report was not the correct one.</p> <p>cc: Mr. Knapp</p>			
From A.M. Kamarck			

JUL 17 1970
3-30

OFFICE MEMORANDUM

TO: Mr. Andrew M. Kamarck
THROUGH: Mr. Bension Varon *AV*
FROM: Richard G. Taylor *RGT*
DATE: July 17, 1970

SUBJECT: Rice price assumptions used in IRRIGATION REHABILITATION PROJECT (INDONESIA) and contemporary price projections by this Division

1. The Appraisal Report for this project (TO-658a of August 14, 1968) used a "projected long-run ... average of US\$140/ton f.o.b. Bangkok" for its projected rice price (paragraph 6.03) and stated that this was equivalent to \$170/ton c.i.f. Djakarta. This export price is similar to price projections made by this Division during the fall of 1968 for Thai milled rice, long/medium grain, 5-7% broken, f.o.b. Bangkok. These projections have not been modified significantly since then. However, this price projection applied only to the better grade of rice of Far Eastern origin, and equivalent estimates for medium and poorer grades were as much as \$40/ton lower. Indonesian rice imports during the last two years undoubtedly have been mainly poor grade grain, particularly during 1970. In other words, the Appraisal Report used a price projection for a quality or grade of rice which was quite unrepresentative for rice produced in, or imported by, Indonesia.

2. I have been unable to determine either the source of this price projection, or the basis for ocean freight costs from Bangkok to Djakarta.

~~Copy sent Mr. Kamark 7/16~~

Mr. Robert S. McNamara

July 15 1970

Irving S. Friedman

Attendance at Board Meetings

I regret that at the Board meeting of July 7 neither Mr. Kamarck nor Mr. Stevenson were available in the Bank to assist at the Board meeting.

I would like to explain that when Mr. Kamarck and I had discussed the implications of our both being away on July 7 there was no Board meeting scheduled. On July 2 we were informed there would be a Board meeting, but we both had firm commitments to be elsewhere and Mr. Stevenson was on holiday.

I do wish to assure you that at least one of the three of us will be in the Bank at any time for all purposes including Board meetings.

NOT SENT

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

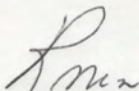
OFFICE OF THE PRESIDENT

July 7, 1970

Mr. Friedman:

In your absence today, neither Mr. Kamarck nor Mr. Stevenson was available in the Bank to assist at the Board Meeting.

In the future, please ensure that either you or Mr. Kamarck is present at Board Meetings.



Robert S. McNamara

JUL 7 - 1970
2:30 (by hand)

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 2, 1970

FROM: Irving S. Friedman

SUBJECT: Local Expenditure Financing

You will recall that I had expressed some concern earlier about a seeming difference in views among certain members of the President's Council on local currency financing. Attached hereto is the Conclusions and Recommendations of our July 1968 paper on local currency expenditures, for your handy reference. Essentially I had been concerned whether both a macro-economic case (see para.27(d) in attachment) and a project grounds case had to be made for local currency financing or whether it could be made on project grounds alone.

I believe that as a result of the discussions held with Messrs. Knapp, Broches and Demuth, we now do have a workable common understanding of how to approach a loan proposal involving local currency financing. It always involves some macro-economic grounds, be it only the need for the foreign exchange to meet a balance of payments deficit, as well as project grounds. The macro-economic grounds can, however, be marginal if the project grounds are strong. The present problem is rather to ensure that the staff explanation in the President's Report is adequate.

On the economic side I have taken steps to ensure that Mr. Kamarck is brought into the process at an earlier stage to act as a channel for whatever contribution should be coming from the Economics Staff to the presentation, as well as reviewing the President's Report myself.

USF

cc: Mr. Knapp
Mr. Broches
Mr. Demuth

President has seen

JUL 7 - 1970
RF-9 500-

This knowledge has grown in recent years, partly as a result of lengthening experience and partly in consequence of a conscious effort to broaden the scope of Bank assistance. As a result, the Bank is now better able than before to judge the indirect effects of local cost financing by keeping close watch on total domestic savings and foreign exchange utilization. The Bank's growing knowledge about its members' overall resource needs is the best assurance that this financing can be restricted to cases where it fulfills a legitimate development need.

25. It is of course impossible to establish the genuine need for foreign development finance without assessing the efforts of the country to provide for its own capital requirements. Performance evaluation is therefore vital to the issue of local cost financing. The Bank must be satisfied that the potential borrowing country is taking responsible and feasible steps to mobilize local savings and to invest them productively, for otherwise local cost financing could indeed substitute for domestic savings or foster unproductive, low priority activities that might otherwise be cut back in order to carry out the project. The Bank must also examine the overall pattern of foreign exchange use in order to make a confident judgment that the foreign exchange freed by local cost financing will contribute to development. In attempting to exercise a beneficial influence on policy in these macro-economic matters, the Bank has a stronger bargaining position if it is reasonably free to vary the proportion of project costs it will finance than if it is tied to financing the predetermined proportion set arbitrarily by the identifiable foreign cost component. Moreover, an unwillingness to finance local costs could effectively exclude the Bank from operations in some countries, so that a dialogue could not even be begun.

26. The Bank's ability to lend efficiently is enhanced by the selective use of local cost financing. The identifiable foreign cost component of high priority projects is a very inefficient guideline for determining the amount of foreign assistance countries should receive: for example, it would probably prescribe large amounts of foreign lending for countries where power and transportation were priority sectors, while countries with bottlenecks in agriculture or education would be relatively neglected. If a country is making a genuine effort to mobilize domestic savings and to use these savings for high priority investments, then the activity it would have to sacrifice in order to provide local currency in a non-inflationary way will in itself be important to the country's development.

Conclusions and Recommendations

27. The conclusions resulting from the foregoing analysis are the same whether the funds are to be provided by the Bank or IDA. The Articles of Agreement require that "exceptional" (or "special") circumstances must exist if local cost financing is to be justified. It is believed that the following policies which are recommended are consistent with that requirement:

- (a) If indirect foreign costs can be identified clearly, the Bank should consider financing local expenditures equivalent to such costs to the extent necessary;
- (b) If it is uncertain whether specific project costs will be foreign or local, the Bank should provide financing in a manner which will not discriminate against local suppliers;
- (c) If a project appears desirable on all grounds except that it has too small a foreign exchange component to justify Bank participation, then the Bank should stand ready to consider supplementing its lending through financing of some local costs; and
- (d) If, on the basis of a careful appraisal of a country's overall development program and of the country's own efforts to finance the program, the Bank judges that the financial requirements of the program will exceed the limits of available local savings and expected foreign exchange resources, the Bank should be prepared to finance local costs of certain high priority projects.

July 30, 1968



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

July 30, 1968

MEMORANDUM FOR THE EXECUTIVE DIRECTORS

SUBJECT: Foreign Exchange Loans for Local Currency Expenditures

In my memorandum to you of June 24 on IDA Policies, one of the questions listed was "to what extent should credits be used to finance local currency expenditures?" As this is an issue common to the operations of IDA and the Bank, and as the existing policy established by action of the Executive Directors in July 1964 (R64-99, July 27, 1964) appended to the attached paper, refers equally to IDA and the Bank, consideration of this subject was deferred until now and the paper on it, circulated herewith, covers both IDA and the Bank.

This paper begins with an introductory analysis of the problem as to the extent to which lenders' insistence that the borrower provide local currency to match the local currency costs of a project results in increased local savings and the related problem as to the extent to which the restriction of loans and credits to the foreign exchange cost of a project insures that the borrower will spend the foreign exchange on exports from the donor countries. It then focuses on the ways in which finance of local currency expenditures comes up in the context of the World Bank and IDA method of operations. It concludes with a series of recommendations which are intended to provide the guidelines for World Bank and IDA operations for the future.

The major evolution in the recommendations compared to the 1964 statement is that they attempt to spell out more clearly the various cases when the financing of local currency expenditures by the World Bank and IDA would be permissible and useful in securing a more efficient use of resources in our member countries.

A handwritten signature in dark ink, which appears to read "Robert S. McNamara".

Robert S. McNamara

Foreign Exchange Loans for Local Currency Expenditures^{1/}

Introduction - Local Currency and Local Savings

1. The policy problems arising from the use of foreign exchange loans to finance local currency expenditures are particularly complex and have been a troublesome issue for many lenders. In large part, this arises from the fact that in some circumstances, the mobilization of local currency finance by the borrower for local currency expenditures is identical with the process of mobilizing local savings - and this is highly desirable - while in other circumstances, forcing a borrower to meet the full local currency costs may result in highly undesirable consequences. An understanding of the mechanics of this process is an essential basis for proper policy decision in the many different ways in which this issue comes up in the Bank's relationship with its member countries.
2. The spread of modern central banking has greatly weakened the link between the supply of local currency and the supply of local savings in many countries. In the nineteenth century it was taken for granted that the amount of foreign loans should be related to the amount of financing needed for an investment (beyond the funds available from local savings) with no distinction made as to the origin of the goods and services to be financed. Under a full gold standard, local currency could not be created at will. It had to be provided either through local savings, through imports of foreign goods financed from abroad or through an inflow of gold to back an expansion of the money supply. Consequently, whatever gap remained for financing project expenditures after the available local savings were used had to be financed from abroad. The possibility that part of this gap might represent expenditures on local costs in the first instance was simply not relevant.
3. Making a distinction between local currency costs and foreign exchange costs of a project stems from the 1930's when extensive unemployment of men and capital, inconvertible currencies and foreign exchange controls were widespread. Unemployment increased the concern of capital-exporting countries over the origin of the goods and services financed by foreign investment. Inconvertible currencies and exchange controls made the difference between foreign exchange and local currency painfully obvious. In these circumstances it was natural to want to avoid committing "scarce" foreign exchange for any purpose which local currency could equally well fulfill. Financing of local costs seemed to be just such a purpose.

^{1/} References to the Bank apply equally to IDA, unless otherwise indicated. Within the framework of the project being financed, local expenditures are defined as disbursements to local suppliers for goods and services which have been produced domestically. The indirect foreign exchange costs which may be associated with these disbursements are discussed below.

Moreover, even when such local currency financing was made possible by governmental borrowing from the Central Bank it was often not "inflationary" since it might well be the mechanism for employing otherwise idle factors of production.

4. Merely because a country can provide the local currency needed to cover local project expenditures, there is no guarantee that this currency will represent a genuine addition to local savings. The relationship of local project expenditures to domestic savings under a number of different institutional arrangements can be explained as variations on a common theme. The theme itself expresses the necessary equality between the excess of domestic investment over domestic savings (I-S) and the import of capital in real terms in the form of a surplus of imports over exports (M-X). (I-S) must equal (M-X) because they both measure the excess of aggregate domestic expenditure over total national output. Aside from changes in reserves (if these are not regarded as part of total investment), the excess of imports over exports or, what must work out to be the same thing, the excess of domestic investment over savings has to be financed by external capital. This much is true regardless of the institutional arrangements which exist. What does differ according to the institutional set-up is the way in which this necessary equality is reached.

5. The first and most obvious way in which the savings required to finance local expenditures may be provided is through a direct decrease in investment or consumption elsewhere in the economy. For example, the government could reduce expenditure on either current or capital items. In theory it is always possible to release local resources in this way. The important questions in practice are: (a) whether the resources would in fact be released directly; and (b) whether it is reasonable or feasible to require the country to sacrifice the alternative investment or consumption activity as the price for carrying out the project. If the country does not make a direct cutback in domestic expenditure, then the real financing for local project costs must be provided indirectly.

6. A few countries still have currency arrangements which retain a fairly direct link between the provision of extra local currency and the mobilization of domestic savings. For example, Botswana, Lesotho, and Swaziland use South African currency; Liberia and Panama use U.S. dollar currency.

7. For countries with an independent monetary system which are able and willing to create new purchasing power to finance local currency expenditure, the provision of local currency may not mean additional local savings. The working out of economic forces then becomes more complicated. Assuming that the borrowing country attempts to finance local costs without reducing investment or consumption elsewhere in the economy, there are several main possibilities, including:

- (a) If the country has an open economy and all resources are fully employed,^{1/} then the creation of new money to pay local project expenditures will not be matched by additional local production or equivalent savings. If the money is not hoarded by the initial recipients, extra goods will be absorbed locally by increasing imports or consuming goods which otherwise would have been exported. To the extent that added purchasing power is directed toward goods which do not enter into foreign trade, the prices of these items will probably rise and thus induce extra savings or divert expenditures to other internationally tradeable goods. In large part, therefore, the local project expenditures nominally financed by creating currency will in reality be financed by a deterioration in the current balance of foreign trade.
- (b) If the country has an open economy and all resources are not fully employed, (i.e. necessary factors complementary to capital are present and unemployed), then the creation of the new money may put some of the unemployed resources to work and may add to local production. This case differs from the previous one in that part of the local project expenditures might be financed by savings out of the income earned by newly employed factors of production. The fraction of new income which is not saved must be matched, just as before, by a reduction in exports, an increase in imports, or an increase in savings induced by price rises in goods which are not internationally traded.
- (c) If the country has an effective foreign exchange control, the process would be somewhat different. If the foreign exchange control is efficient, the nationals probably would not be allowed to increase their imports. What would happen in many cases would be an increase in local prices perhaps forcing some consumers to postpone purchases and adding to the profits and (presumably) the savings of the fortunate importers and domestic producers of substitutes. Also some goods that would otherwise have been exported would be consumed locally. In the end, the newly created money would be offset by some increase in savings and an increase in the import surplus principally through a drop in exports. In contrast to the two previous cases, the price rises would be considerably greater and more widespread since the vent for releasing demand pressure through increased imports would be shut off.

^{1/} Or where, even if there is unemployment of unskilled labor, shortages of crucial complementary factors such as skilled labor and management or other rigidities in the economy prevent an expansion of output.

8. Adjustments in each of these circumstances produces an eventual equality between (I-S) and (M-X). From the point of view of policy, the important conclusion to note is that, unless there is a direct cutback in investment or consumption elsewhere in the economy, the mere provision by government of local currency for local project expenditures does not guarantee a corresponding mobilization of domestic savings. To the extent that local currency does not represent additional local savings, the financing must be provided by the domestic economy in indirect ways: consumption may decline in real terms as inflation "forces" added personal savings; exchange reserves may decline or international borrowing increase, or some other investment may have to be abandoned because shortages in required inputs arise.

Impact on Export Orders

9. Another troublesome issue regarding the use of foreign exchange loans for local expenditures has been the impact on export orders from the industrialized countries. The question of how export orders to the industrialized countries are affected by the use of Bank loans to finance local expenditures also turns on a distinction between an obvious direct effect and its indirect and less obvious counterpart. When Bank financing is restricted to foreign exchange costs of projects, it is possible to link foreign exchange disbursements directly to exports from Bank member countries. When disbursement is made for local expenditures, a similar direct link cannot be made.

10. Foreign exchange disbursed against local expenditures will be used by the recipient country either to finance imports or to add to reserves. Movements in reserves are determined by the general economic situation and policies of a country, rather than by whether or not foreign loans are disbursed against local expenditures. Given the import needs of most developing countries, the reasonable presumption is that over time the foreign exchange made available through the financing of local costs will normally be used to finance imports. Since some ninety-five percent of the imports of the developing countries come from members of the Bank and Switzerland, and since a substantial part of the remainder is covered by bilateral trade agreements for which free foreign exchange is not used, the actual loss of exports for members of the Bank due to this form of financing should be insignificant.

11. In some cases, moreover, the apparently sharp contrast between direct exports which make up the foreign exchange costs of a project and the indirect exports financed by foreign exchange provided to cover

local costs is misleading. If, failing Bank support, a project would have been financed out of other foreign exchange available to the prospective borrower, the net effect of Bank lending is to release foreign exchange equal in amount to the total amount of the loan, regardless of whether disbursement is nominally made against foreign costs or local costs. Restricting loans to the direct foreign exchange costs of projects in such circumstances will not necessarily prevent the borrower from misusing the foreign exchange made available. The only sure way to appraise the genuine impact of Bank financing, whether for foreign or local costs, is to examine the borrower's overall pattern of foreign exchange expenditure.

12. Both in regard to the question of domestic savings and the question of exports from other Bank members, economic analysis forces us to look beyond the immediate project if we are to obtain an accurate picture of the economic effects of local cost financing. It is necessary to examine the entire savings effort of the prospective borrower in order to reach a sound judgment as to whether it is reasonable and feasible to require all or part of local costs to be financed domestically. It is also necessary to examine the overall use of foreign exchange to be sure that the funds made available by the Bank are being put to good use. Ultimately, therefore, the justification for local cost financing must be based on an overall assessment of the borrowing country's need for foreign exchange, of its own efforts to meet this need, and of the use made of the foreign assistance obtained. But before considering these macro-economic aspects of the issue, it will be convenient to describe very briefly three situations in which local cost financing may be justified on project grounds alone.

Uses of Foreign Loans for Local Expenditure - Project Considerations

Indirect Foreign Exchange Costs

13. The Bank usually intends that its projects should impose no current foreign exchange burden on the economy of the borrowing country. To the extent that a project gives rise indirectly to an increased need for foreign exchange, the Bank is authorized to provide financing.^{1/} However, an accurate estimate of the total foreign exchange cost to the economy of a particular project - both direct and indirect - is difficult if not impossible to obtain in practice although quite possible in theory. (It involves making precise measurements of such relationships as the multiplier effect of increased expenditures on domestic incomes and imports, the impact on both the structure of prices and the relationship between domestic prices of the country concerned and foreign prices, effects on the movements of exports, etc.) The previous section illustrated some of the ways in which indirect foreign exchange costs may be influenced by the particular circumstances which prevail in the borrowing country.

14. The difficulty of clearly identifying the indirect foreign exchange costs of specific projects has limited the operational significance of these costs for Bank decisions on the appropriate amount of lending; in practice, only the more obvious indirect effects, such as the foreign cost contents of local procurement, are taken into account. Indirect costs may be relatively straightforward as in the recent Singapore Telecommunications loan or more complex as in the Ghazuin agricultural loan in Iran, where an estimated average foreign exchange component of domestic procurement had to be used.

Uncertain Foreign Exchange Costs

15. If orders for specific project items might fall to domestic suppliers (either on a straight competitive basis or with the help of a margin of preference), it may be impossible to know in advance whether the items in

^{1/} Bank Articles: Article IV, Section 3(c). Authority is given "in exceptional circumstances." IDA's authority is expressed as applying "in special cases." The analysis of these provisions was included in the previous staff paper on this subject (FPC/64-4, May 1, 1964). The question of financing indirect foreign exchange costs was first considered by the Executive Directors in 1949, at which time they decided that the Bank was authorized to engage in such finance "in appropriate circumstances." (See Annex B of FPC/54-4).

question are going to involve foreign or local expenditures. To make disbursement for such expenditures contingent on orders falling to foreign suppliers would create uncertainty as to the usable amount of a Bank loan and would make the Bank appear to "penalize" the borrower for awarding contracts to local suppliers. Even more important, it would discourage economic development by giving borrowers an incentive to buy abroad rather than at home. To avoid these problems, the Bank has sometimes committed itself to finance a flat amount which would be independent of whether local or foreign suppliers won in the competitive bidding. The result has been a certain amount of local expenditure financing. This situation, of course, arises primarily in countries that already possess some capital-equipment industries. The countries in which loans with a local currency element of this type have been made include Argentina, Australia, Austria, Finland, Israel, Italy, Japan, Norway, Yugoslavia among others.

Small Foreign Exchange Cost

16. The need for Bank financing in particular sectors bears no necessary relationship to the import component of typical projects in those sectors. In recent years the Bank's assessment of economic priorities in many countries has led it to increase lending for agriculture and education. The direct foreign exchange costs of projects in these sectors tend to be only a small fraction of total project costs. The Bank tries to associate its financing with projects in priority sectors to assure that they do get financed and to help see that they are planned and executed competently. If Bank finance could be provided only for the small foreign exchange component of many agricultural and educational projects, both the country and the Bank might well rule them out as inadequate basis for a joint effort.

17. In each of these three cases, the justification for using foreign exchange to finance local expenditures rests on project grounds. When indirect foreign costs are identifiable, the sense in which project expenditures are local becomes ambiguous: disbursement is made to local recipients, to be sure, but part of those disbursements are effectively used to finance imports. If identifiable indirect costs are financed by a foreign loan, the economy is not receiving any foreign exchange in excess of the amount claimed by the project. When foreign costs are uncertain or small, the provision of foreign exchange through local cost financing is not an objective in itself but rather a consequence of the Bank's attempt to promote development both by encouraging local industry and by associating its financing with projects of the highest priority. The cases which we come to now are

different; they look beyond the needs of a particular project and focus on the borrowing country's whole investment program and its financing.

Uses of Foreign Loans for Local Expenditure - Macro-Economic Considerations

Limited Public Savings

18. In certain very poor countries, governments may find it hard to raise taxes and the demands on the revenues that can be raised are so urgent that the government cannot reasonably be expected to secure a sufficient surplus of public savings to finance all local expenditures in Bank projects. This is true of a number of African countries. The fraction of total project expenditures which can be met from the public budget will of course vary from country to country. As a part of our economic performance criteria, the Bank has insisted that governments take action to increase public savings. This insistence is backed up in a growing number of countries by an intimate knowledge of what governments are actually doing to meet this test and of what improvements may be expected under the particular conditions which exist in each country.

19. The implications of this knowledge for the issue of local cost financing are twofold. First, it provides the basis for refusing to use local cost financing to supplement public savings when the government is not making a reasonable effort toward increasing public savings and using the savings which are available in an efficient manner. Second, it allows the Bank to recognize, at least approximately, when the reasonable limit to public savings has been reached and so to avoid the very real disadvantages of pushing the country beyond this point. For at any one time there is a limit to what a country can do to raise money in a non-inflationary way. If forced beyond this point, countries with monetary systems which do not allow inflationary financing would either have to seek money from inappropriate sources (e.g. as certain types of suppliers credits) or cut back their investment programs. Countries which can engage in inflationary deficit financing have this as a third option. In an open economy, extra spending will spill over almost directly into added imports or reduced exports. For this reason, deficit spending may be accompanied by extensive foreign exchange controls. The specific forms of foreign exchange control are numerous, but the effects of all are roughly the same: they allow the public sector first claim on the available foreign exchange and ration what is left over among the competing needs of the private sectors. The Bank has tried to avoid pushing governments in this direction. Niger is an example of a very poor country where, because of extremely limited possibilities for public savings, the Bank had to finance 100% of the cost of building a road.

Insufficient Foreign Exchange

20. A dilemma arises for the Bank when its appraisal of the overall development program of a country reveals that investment plans are economically sensible and the country is making an acceptable effort to provide finance for planned investments, but the amount of foreign exchange (over and above that which can be supplied by the country) required to carry out the total development program is greater than the direct foreign cost component of those particular projects which external lending agencies are prepared to finance. Assuming that sufficient program aid from non-Bank sources is unavailable, this dilemma may be resolved either by unnecessarily enlarging the foreign cost component of projects financed externally or by undertaking an appropriate amount of local cost financing.

21. The former alternative has distinct disadvantages. It either gives the country an incentive to distort its investment priorities in the direction of projects with a high foreign cost component or it biases the country's choice of projects for which foreign loans are sought. It also encourages rather elaborate attempts to expand the definition of what may properly be included under the rubric of foreign costs. Such indirect methods only diminish the integrity of development efforts. On the other hand, a willingness to finance local costs in appropriate cases allows the Bank and the borrower to cooperate in projects where this partnership is expected to have the maximum impact on development. At the same time, the foreign exchange made available through financing of certain local project expenditures helps to ensure that the benefits of these projects are not undermined by a deficiency in financing for the investment program as a whole.

22. In some cases, local cost financing may enable the Bank to provide assistance in a more efficient manner than would be possible if this option were not available. If a country is able to supply most of its own capital goods requirements, imports of such goods may form only a small part of most projects. To make available a given amount of foreign exchange without financing local expenditures could therefore involve negotiating loans for so many projects that an unnecessarily heavy administrative burden would be placed on both the Bank and the borrowing country.

Local Expenditure Financing and the Bank's Role in Development

23. The ability of the Bank to play a leading role in development is directly related to the degree of flexibility it has to associate its financing with the optimum level of investment in a country and with projects of the highest priority. The previous sections have described several circumstances in which local cost financing adds to that flexibility. The need for the Bank to operate effectively in these circumstances is a major reason for the Bank to engage in this type of financing in selected cases.

24. The success of the Bank in selecting appropriate cases depends on the knowledge which it has of the working of its members' economies.

This knowledge has grown in recent years, partly as a result of lengthening experience and partly in consequence of a conscious effort to broaden the scope of Bank assistance. As a result, the Bank is now better able than before to judge the indirect effects of local cost financing by keeping close watch on total domestic savings and foreign exchange utilization. The Bank's growing knowledge about its members' overall resource needs is the best assurance that this financing can be restricted to cases where it fulfills a legitimate development need.

25. It is of course impossible to establish the genuine need for foreign development finance without assessing the efforts of the country to provide for its own capital requirements. Performance evaluation is therefore vital to the issue of local cost financing. The Bank must be satisfied that the potential borrowing country is taking responsible and feasible steps to mobilize local savings and to invest them productively, for otherwise local cost financing could indeed substitute for domestic savings or foster unproductive, low priority activities that might otherwise be cut back in order to carry out the project. The Bank must also examine the overall pattern of foreign exchange use in order to make a confident judgment that the foreign exchange freed by local cost financing will contribute to development. In attempting to exercise a beneficial influence on policy in these macro-economic matters, the Bank has a stronger bargaining position if it is reasonably free to vary the proportion of project costs it will finance than if it is tied to financing the predetermined proportion set arbitrarily by the identifiable foreign cost component. Moreover, an unwillingness to finance local costs could effectively exclude the Bank from operations in some countries, so that a dialogue could not even be begun.

26. The Bank's ability to lend efficiently is enhanced by the selective use of local cost financing. The identifiable foreign cost component of high priority projects is a very inefficient guideline for determining the amount of foreign assistance countries should receive: for example, it would probably prescribe large amounts of foreign lending for countries where power and transportation were priority sectors, while countries with bottlenecks in agriculture or education would be relatively neglected. If a country is making a genuine effort to mobilize domestic savings and to use these savings for high priority investments, then the activity it would have to sacrifice in order to provide local currency in a non-inflationary way will in itself be important to the country's development.

Conclusions and Recommendations

27. The conclusions resulting from the foregoing analysis are the same whether the funds are to be provided by the Bank or IDA. The Articles of Agreement require that "exceptional" (or "special") circumstances must exist if local cost financing is to be justified. It is believed that the following policies which are recommended are consistent with that requirement:

- (a) If indirect foreign costs can be identified clearly, the Bank should consider financing local expenditures equivalent to such costs to the extent necessary;
- (b) If it is uncertain whether specific project costs will be foreign or local, the Bank should provide financing in a manner which will not discriminate against local suppliers;
- (c) If a project appears desirable on all grounds except that it has too small a foreign exchange component to justify Bank participation, then the Bank should stand ready to consider supplementing its lending through financing of some local costs; and
- (d) If, on the basis of a careful appraisal of a country's overall development program and of the country's own efforts to finance the program, the Bank judges that the financial requirements of the program will exceed the limits of available local savings and expected foreign exchange resources, the Bank should be prepared to finance local costs of certain high priority projects.

July 30, 1968

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ANNEX I

CONFIDENTIAL

R 64-99

July 27, 1964

DECLASSIFIED

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WBG ARCHIVES

FROM: The Secretary

FOREIGN EXCHANGE LOANS FOR LOCAL EXPENDITURE

Attached is a statement of the conclusions reached in the discussions in the Financial Policy Committee which took place on June 16 and June 18, 1964* on the staff paper entitled "Foreign Exchange Loans for Local Expenditure", (FPC64-4 dated May 1, 1964).

In the absence of objection by the close of business on August 3, 1964, the attached statement of conclusions will be noted in the minutes of the next meeting of the Executive Directors.

* Memoranda of these discussions were circulated as Bank/FPC64-7 (IDA/FPC64-2) and Bank/FPC64-8 (IDA/FPC64-3).

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

FOREIGN EXCHANGE LOANS FOR LOCAL EXPENDITURE

The Financial Policy Committee, having considered the staff paper "Foreign Exchange Loans for Local Expenditure" (FPC/64-4, May 1, 1964), reached the following conclusions.

- (i) The Articles of Agreement of the Bank, as interpreted by the Executive Directors in 1949, permit the Bank to make local expenditure loans when necessary to ensure that high priority projects are carried out. The Articles of Agreement of IDA have a similar effect.
- (ii) In determining the pattern of their lending, the Bank and IDA should judge projects with regard to their economic priority and their financial, technical and managerial soundness and to any general or special benefits which might flow from the Bank or IDA having associated their financing with these particular projects. Where they can do so without violence to these criteria, the Bank and IDA should prefer projects with a high import content to those with a low import content. In financing local expenditure, as well as in financing foreign expenditure, the Bank and IDA have to be satisfied about the procurement methods followed, including the arrangements, where appropriate, for international competitive bidding.
- (iii) Having selected a project, the Bank and IDA should normally determine the amount of the loan by the direct foreign exchange expenditure on the project, if it can be established clearly and where this course is consistent with the financial needs of the project and the ability to obtain other funds on reasonable terms. On the other hand, particularly in cases where the foreign exchange content of the project is relatively low, the Bank or IDA should be prepared to finance local expenditure where such financing is desirable and justified in the light of the country's needs for development capital and of its efforts to meet them.
- (iv) The Executive Directors should keep under review the relative amount of Bank and IDA lending for foreign exchange and local expenditure.

ANNEX II

LOCAL CURRENCY EXPENDITURE LOANS AND CREDITS

Table 1a - Cumulative Disbursements of Bank Loans by Year of Signing

Table 1b - Cumulative Disbursements of IDA Credits by Year in
which Credit Signed

Table 2 - Cumulative Disbursements of Bank Loans and IDA
Credits by Purpose

Table 3a - Bank Loans Signed after June 30, 1964 with Local
Currency Expenditures: By Country

Table 3b - IDA Credits with Local Currency Expenditures:
By Country

July 30, 1968

Table 1a

CUMULATIVE DISBURSEMENTS OF BANK LOANS BY YEAR OF SIGNING^{1/}
(millions of U.S. dollars)

<u>Bank Loans Signed in Fiscal Year:</u>	<u>1961/2^{2/}</u>	<u>1962/3^{2/}</u>	<u>1963/4^{2/}</u>	<u>1964/5^{2/}</u>	<u>1965/6^{2/}</u>	<u>1966/7</u>	<u>1967/8</u>	<u>Total^{2/}</u>
Estimated disbursement for:								
Foreign expenditures	603.1	347.4	492.6	383.1	362.7	140.1	11.7	2,340.7
Local expenditures	240.6	45.3	188.1	226.7	110.4	78.9	.8	890.8
Undetermined	<u>9.4</u>	<u>8.0</u>	<u>8.9</u>	<u>6.2</u>	<u>.9</u>	<u>5.9</u>	<u>.9</u>	<u>39.6</u>
Total disbursements from these loans through June 30, 1968 ^{1/}	853.1	400.7	689.0	616.0	474.0	224.9	13.4	3,271.1
Percentage breakdown:								
Foreign expenditures	70.7	86.7	71.5	62.2	76.5	62.3	87.3	71.6
Local expenditures	28.2	11.3	27.3	36.8	23.3	35.1	6.0	27.2
Undetermined	<u>1.1</u>	<u>2.0</u>	<u>1.2</u>	<u>1.0</u>	<u>0.2</u>	<u>2.6</u>	<u>6.7</u>	<u>1.2</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^{1/} Note that figures refer to cumulative disbursements (up to June 30, 1968) out of loans signed in each fiscal year; they do not refer to disbursements made in each fiscal year.

^{2/} A substantial proportion of disbursements made on loans signed in fiscal year 1961/2-1965/66 were for expenditures which were not directly identifiable as foreign or local. For loans signed more recently the proportion is much smaller. In order to give a clearer picture of the distribution between foreign and local expenditures, undetermined expenditures in the earlier years have been allocated on a project-by-project basis to whichever category was appropriate. The allocation was based on consultation with Projects Department regarding individual loans with more than 10% of disbursements undetermined. If Projects Department personnel were able to identify application of the so-called undetermined expenditures, the identification was used for allocating the funds between foreign and local costs. The residual amounts of undetermined expenditures therefore represent either (i) loans in which such expenditure constituted less than 10% of disbursements or (ii) loans in which Projects Department was unable to identify application of those expenditures. Mr. M. Cherniavsky was in charge of this work.

July 30, 1968

Table 1b

CUMULATIVE DISBURSEMENTS OF IDA CREDITS BY YEAR IN WHICH CREDIT SIGNED^{1/}
(millions of U.S. dollars)

<u>IDA Credits Signed in Fiscal year:</u>	<u>1961/2^{2/}</u>	<u>1962/3</u>	<u>1963/4</u>	<u>1964/5</u>	<u>1965/6</u>	<u>1966/7</u>	<u>1967/8</u>	<u>Total*</u>
Disbursement for:								
Foreign expenditures	115.3	193.8	140.8	197.9	205.4	258.2	.7	1,112.0
Local expenditures	85.0	38.8	13.5	41.9	1.5	5.3	.5	186.6
Undetermined	<u>13.6</u>	<u>7.0</u>	<u>9.7</u>	<u>8.0</u>	<u>5.4</u>	<u>.2</u>	<u>-</u>	<u>43.9</u>
Total disbursements from these credits through June 30, 1968 ^{1/}	213.9	239.6	164.0	247.8	212.3	263.7	1.2	1,342.5
Percentage breakdown:								
Foreign expenditures	53.9	80.9	85.9	79.9	96.7	97.9	58.3	82.8
Local expenditures	39.7	16.2	8.2	16.9	.7	2.0	41.7	13.9
Undetermined	<u>6.4</u>	<u>3.0</u>	<u>5.9</u>	<u>3.2</u>	<u>2.5</u>	<u>.1</u>	<u>-</u>	<u>3.3</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^{1/} Note that figures refer to cumulative disbursements (up to June 30, 1968) out of credits signed in each fiscal year; they do not refer to disbursements made in the particular fiscal year.

^{2/} Four credits with face amounts totalling \$101.0 million, signed between May 12, 1960 and June 30, 1960, have been included in the following fiscal year.

*Detail may not add to total because of rounding.

July 30, 1968

Table 2

CUMULATIVE DISBURSEMENTS OF BANK LOANS AND IDA CREDITS BY PURPOSEA. Bank Loans Signed Since July 1, 1961

<u>Purpose</u>	Cumulative Disbursements through June 30, 1968 (\$ million)	Estimated* percentages disbursed for:		
		<u>Foreign Expenditures</u> (percent of cumulative disbursements)	<u>Local Expenditures</u>	<u>Undeter- mined</u>
Education	4	33	58	9
Transportation	1,175	60	39	1
Power	1,332	76	23	1
Industry	232	80	19	2
Agriculture	136	89	8	3
Water Supply	33	69	8	23
Dev. Finance Cos.	287	91	4	5
Telecommunications	47	100	-	-
Multi-Purpose Loans and Preparation Credits	<u>24</u>	<u>92</u>	<u>6</u>	<u>3</u>
<u>All Loans*</u>	3,271	73	26	2

B. IDA Credits

Education	23	33	63	4
Agriculture	151	41	50	9
Telecommunications	75	62	38	-
Water Supply	14	80	18	2
Transportation	441	81	12	7
Power	74	84	16	-
Industry	461	100	-	-
Dev. Finance Cos.	36	100	-	-
Multi-Purpose Loans and Preparation Credits	<u>68</u>	<u>97</u>	<u>3</u>	<u>-</u>
All Credits	1,343	83	14	3

* As in Table 1a, undetermined expenditures have been allocated, wherever possible, to the appropriate specific use. The approximate character of this procedure accounts for the slight differences between the average percentage distribution of total disbursements in Table 1a and this table. Detail may not add up to total because of rounding.

July 30, 1968

Table 3a

BANK LOANS SIGNED AFTER JUNE 30, 1964
WITH LOCAL CURRENCY EXPENDITURES: BY COUNTRY

<u>Country</u>	<u>Loan Signed</u>	<u>Purpose</u>	<u>Principal Amount</u>	<u>Disbursements Through June 30, 1968</u>	
				<u>Total</u>	<u>Local Expenditures</u>
			----- (\$ million)-----		
Argentina	1967/68	Agriculture ^{1/}	15.30	-	-
		Power	55.00	1.90	.25
Brazil	1964/65	Power	57.00	15.88	3.21
		Power ^{1/}	22.50	4.35	-
	1965/66	Power	49.00	2.95	1.78
		Power ^{1/}	6.20	.05	-
	1966/67	Power ^{1/}	8.10	.07	-
		Power	41.00	.46	.12
	1967/68	Power ^{1/}	6.30	.06	-
		Agriculture ^{1/} Industry ^{1/}	40.00 22.00	- -	- -
Cameroon	1966/67	Agriculture ^{1/}	7.00	.02	-
Colombia	1965/66	Agriculture ^{2/}	16.70	4.61	-
		Industry	25.00	16.29	.09
Ecuador	1966/67	Agriculture ^{1/}	4.00	.01	-
Finland	1964/65	Transport	28.50	28.45	19.24
		Industry	14.00	11.43	5.82
	1965/66	Transport	20.00	16.57	10.91
Israel	1965/66	Industry	20.00	19.02	5.32
Italy	1964/65	Industry ^{2/}	100.00	80.30	-
Jamaica	1964/65	Transport	5.50	.57	.06
	1966/67	Education	9.50	.49	.37
Japan	1964/65	Transport	25.00	19.84	19.20
		Power	25.00	20.81	18.72
		Transport	75.00	48.44	48.44
	1965/66	Transport	25.00	18.75	18.75
	1966/67	Transport	100.00	76.19	76.19
Malagasy	1967/68	Education ^{1/}	4.80	-	-

.....cont.

(Table 3a cont.)

- 2 -

Country	Loan Signed	Purpose	Principal Amount	Disbursements Through June 30, 1968	
				Total	Local Expenditures
				(\$ million)	
Malaysia	1964/65	Water Supply	6.80	5.88	.001
	1965/66	Agriculture ^{2/}	45.00	10.17	-
	1967/68	Agriculture ^{1/}	14.00	-	-
Mexico	1964/65	Transport	32.00	18.02	2.48
	1965/66	Agriculture ^{2/}	25.00	18.99	.01
		Power	110.00	110.00	25.43
		Agriculture ^{1/}	19.00	2.41	-
Morocco	1964/65	Agriculture ^{2/}	17.50	8.74	-
	1965/66	Agriculture	10.00	4.58	.43
Nicaragua	1967/68	Education ^{1/}	4.00	-	-
Paraguay	1965/66	Transport ^{1/}	2.75	.58	-
Peru	1964/65	Agriculture ^{2/}	15.00	15.00	-
		Agriculture	11.00	3.05	1.10
	1965/66	Transport	33.00	9.28	1.21
	1966/67	Power	10.00	5.98	1.00
Philippines	1964/65	Water Supply	20.20	10.22	2.05
	1965/66	Agriculture ^{2/}	5.00	3.47	-
Portugal	1964/65	Power	15.00	11.38	5.80
	1965/66	Power	20.00	9.69	7.14
		Power	10.00	7.03	3.91
Spain	1964/65	Transport	65.00	55.74	40.96
	1965/66	Transport ^{2/}	40.00	15.92	-
	1967/68	Transport	50.00	1.43	.53
Thailand	1966/67	Education ^{1/}	6.00	-	-
Tunisia	1966/67	Agriculture ^{1/}	12.00	1.47	-
Venezuela	1965/66	Water Supply ^{2/}	21.30	13.85	.49
Yugoslavia	1964/65	Transport ^{2/}	70.00	23.67	-
	1966/67	Transport	10.00	2.97	1.22
	1967/68	Transport ^{1/}	50.00	-	-

^{1/} These loans are expected to involve local currency expenditures when fully disbursed.

^{2/} Disbursements for local currency expenditures are believed to be significantly understated for these loans because a high proportion of disbursements have not been identified as either foreign or local expenditures.

July 30, 1968

Table 3b

IDA CREDITS WITH LOCAL CURRENCY EXPENDITURES: BY COUNTRY

<u>Country</u>	<u>Fiscal Year Credit Signed</u>	<u>Purpose</u>	<u>Principal Amount</u>	<u>Disbursements Through June 30, 1968</u>	
				<u>Total</u>	<u>Local Expenditure</u>
			-----\$ million-----		
Afghanistan	1964/5	*Education	3.50	.25	-
Bolivia	1964/5	Power	10.00	8.83	2.69
Cameroon	1966/7	Agriculture	11.00	.85	.74
China	1961/2	Water Supply	4.40	3.98	1.49
Colombia	1961/2	Transport	19.50	18.87	.09
El Salvador	1962/3	Transport	8.00	7.06	1.88
Ethiopia	1965/6	Education	7.20	1.59	.32
Honduras	1960/1	Transport	9.00	8.43	2.57
	1964/5	Transport	3.50	2.05	.42
India	1960/1	Transport	60.00	59.47	46.73
	1961/2	Agriculture	6.00	6.00	4.41
		Agriculture	4.50	3.39	3.15
		Agriculture	8.00	5.59	4.26
		Agriculture	10.00	10.00	7.10
		Agriculture	15.00	15.00	13.50
	1962/3	Agriculture	13.00	12.98	7.45
		Power	17.50	12.63	4.07
		Power	20.00	18.45	2.37
	1964/5	Telecommu.	33.00	33.00	28.31
Jordan	1961/2	Water Supply	2.00	1.50	.21
	1963/4	Water Supply	3.50	2.52	.36
		Agriculture	3.00	3.00	3.00
	1966/7	Agriculture	3.00	.76	.56
Kenya	1964/5	Agriculture	2.80	1.63	1.40
		Transport	4.50	3.82	.38
		Transport	3.00	1.41	.13
	1966/7	Education	7.00	1.55	1.31
		*Agriculture	3.60	.02	-
Malagasy	1966/7	Transport	10.00	.84	.13
Malawi	1967/8	*Transport	11.50	.32	-
Morocco	1965/6	Education	11.00	.46	.46
Nicaragua	1962/3	Water Supply	3.00	2.99	.33
Niger	1963/4	Transport	1.50	.80	.21
Pakistan	1961/2	Agriculture	1.00	1.00	.87
		Transport	2.00	1.99	.63
		Agriculture	18.00	10.11	2.79
	1962/3	Industry	6.50	6.43	.24
		Agriculture	5.00	4.66	3.30

....cont.

ANNEX II

- 2 -

(Table 3b cont.)

Country	Fiscal Year Credit Signed	Purpose	Principal Amount	Disbursements Through June 30, 1968	
				Total	Local Expenditure
			-----\$ million-----		
(Pakistan cont.)					
	1963/4	Agriculture	9.00	4.59	3.07
		Education	4.50	2.83	.45
		Education	8.50	2.88	.21
		Transport	17.00	5.95	.69
	1964/5	Agriculture	27.00	24.84	5.97
	1965/6	*Education	13.00	.39	-
	1966/7	Preparation	1.00	.67	.15
		Water Supply	1.75	.29	.12
Paraguay	1963/4	Agriculture	3.60	3.60	.85
Senegal	1966/7	*Transport	9.00	1.24	-
Somalia	1964/5	Transport	6.20	1.13	.17
Tanzania	1963/4	Education	4.60	4.60	4.60
	1965/6	Agriculture	5.00	2.72	.64
Tunisia	1962/3	Education	5.00	4.86	4.57
	1966/7	Education	13.00	2.86	2.47
Turkey	1962/3	Agriculture	20.00	16.46	11.72
	1964/5	Power	24.00	11.63	2.51
Uganda	1967/8	Agriculture	3.40	.51	.51

*Some financing of local currency expenditures is expected to occur under these credits, even though no disbursements for local expenditures have been recorded as of June 30, 1968.

July 30, 1968