

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

**Folder Title:** Pearson Commission Recommendations - Correspondence - Volume 3

**Folder ID:** 30325613

**Series:** Support and communications of the Office of the President and senior staff

**Dates:** 01/06/1970 – 01/29/1970

**Fonds:** Records of the Office of External Relations

**ISAD Reference Code:** WB IBRD/IDA EXT-04

**Digitized:** 11/21/2022

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

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

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

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



THE WORLD BANK

Washington, D.C.

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

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

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

**PUBLIC DISCLOSURE AUTHORIZED**

66395B

151 9062

page 388



The World Bank Group  
**Archives**  
30325613  
A1993-016 Other #: 1 212257B  
Pearson Commission Recommendations - Correspondence - Volume 3

**DECLASSIFIED**  
WBG Archives

7 11/5/17

January 16, 1970

4/24  
Handwritten initials and notes in the top right corner.

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 4 Relating to ~~the World~~  
Bank Group

Financing of Regional  
Trade Among Developing Countries

Recommendation

"We recommend that bilateral donors and international agencies provide financial assistance to institutions, such as development banks and clearing and payment unions, which are designed to promote trade among developing countries on a regional scale." 1/

Background

This recommendation appears in the context of a discussion of ways in which developing countries might realize greater development benefits from increased trade among themselves. The Commission says that while the possibility of ~~a~~ global tariff concessions and clearing arrangements should be considered by the developing countries themselves and specifically by UNCTAD and IMF, the Bank and others should also promote regional trade among LDCs by providing financial assistance to development banks, clearing houses and payments unions, which are created when regional trade arrangements are entered into. This assistance, the Commission comments, is necessary because preferential trading arrangements tend to generate unequal benefits and costs among member countries and such problems threaten the stability of the arrangement. Means should be found, therefore, to ensure an equitable distribution of benefits. While the Commission did not explicitly discuss the causes of such imbalances, it did draw attention to "the great stimulus to industrialization provided by enlarged markets,"<sup>2/</sup> thus suggesting that imbalances occur chiefly as a result of imbalanced industrial development as between countries entering into such arrangements.

1/ Report, page <sup>97</sup> 95.

2/ Ibid.  
Report, page 95

(January 27)

Analysis

While the Commission's recommendation covers assistance to clearing and payments unions as well as development banks, the former raises issues that concern primarily the International Monetary Fund. <sup>1/</sup> This memorandum is, therefore, addressed only to the question of Bank Group assistance to development banks that have been created to facilitate economic integration under regional trade, or economic community, agreements. <sup>2/</sup>

The Commission is correct in associating success in regional trade among developing countries with successful policies to encourage industrialization, particularly for production of consumer goods. <sup>3/</sup> Investment assistance, therefore, clearly has a role to play in creating or expanding the production base and the infrastructure necessary to encourage the acceptance, as well as to ensure the continued economic viability, of such arrangements.

Moreover, many of the projects required may be particularly suited for investment by the regional development banks. Bank cooperation with development banks that are a part of regional trading arrangements, however, has been limited by the small number of such banks. Out of approximately 15 regional economic groupings undertaken among less developed countries, some of which have not been fully implemented, only three have included the establishment of development banks. The banks in question are the East African Development Bank and the Central American Bank for Economic Integration, which are operating, and the Caribbean Development Bank, which is just being organized.

<sup>1/</sup> Another recommendation, dealing with clearing arrangements for trade among developing countries, is specifically directed to the IMF "in cooperation with UNCTAD" (Report, page 94).

<sup>2/</sup> While the objectives of the three major regional banks, the African Development Bank, the Asian Development Bank and the Inter-American Development Bank, include the promotion of regional economic cooperation, it is apparent from the context of the recommendation that the Commission had primarily in mind other kinds of organizations. Various aspects of the Bank Group's relations with the regional banks are dealt with in memoranda analyzing other recommendations of the Commission.

<sup>3/</sup> This is shown in an analysis by Bank staff of the Central American Common Market. See "Economic Development and Prospects of Central America," Report No. WH-170a, June 5, 1967.

The World Bank Group has supported and cooperated in a number of ways with these three banks. Technical assistance has been provided in connection with the drafting of charters and during the stage of organization. Relations with the East African Development Bank have been particularly active and have included provision of an internship in the Bank for a senior member of the EADB staff. We have also offered to cooperate with these banks in the joint financing of projects. ~~Up to now, however, we have not made a loan or credit directly to any regional integration bank.~~

As noted in the memorandum analyzing Recommendation No. 15 (SecM69-541, dated December 11, 1969), the Bank has a well-established policy of supporting national development banks, not merely because they can be effective retail outlets for dispensing external finance and technical assistance, but also because we want to help build effective local investment institutions. The three regional integration banks mentioned above have many of the characteristics of national development banks but, <sup>they do differ from national development banks in some respects</sup> ~~considered as potential retail outlets for Bank Group investments, they differ from national development banks in a number of significant respects.~~ <sup>For example,</sup> A Bank loan to a regional integration bank would, of course, require the guarantee of at least one of the governments in the region, and as no one of the participating governments is likely to be willing to guarantee the full amount of the loan, this would in practice mean that a joint guarantee would have to be negotiated. <sup>1/</sup> ~~This~~

~~introduces a complication, although it is by no means an insuperable obstacle.~~

<sup>9) Further, the</sup> ~~A more important difference between regional integration banks and national development banks is that the latter, if free of political interference in their operations, can allocate their resources with the sole objective of obtaining the highest economic return to the national economy. A regional integration bank <sup>may have</sup> ~~must, however, by definition, consider as an additional objective the promotion of better economic balance among the countries forming~~~~

<sup>1/</sup> There would be no such problem with respect to an IDA credit.

the regional economic grouping. Pursuit of this objective might sometimes lead the bank to make investments in locations that would not be selected if only rate-of-return criteria were followed. In considering the eligibility of a regional integration bank for Bank Group financing, therefore, the long-run economic advantages of more balanced industrial growth in the region and the bank's capacity to contribute to such balance must be assessed, together with the institution's adherence to sound economic criteria in its choice of investments. This involves more complex judgments than are normally required for evaluating the performance of a national development bank.

#### Conclusion

The amount of Bank Group financial assistance that could appropriately be channeled through regional integration banks is likely to be small in the near future. Nevertheless, I think we should adopt the same positive attitude towards those institutions as we have toward national development banks, provided that the institutions in question are financially sound and well managed and we are convinced that their operations can make a significant contribution to economic integration, and therefore to economic growth, in their respective regions. Subject to these conditions, I believe that we should accept in principle the Commission's recommendation as it applies to such institutions.

Robert S. McNamara

1/ Such financing would also require, of course, evaluation of the economic performance of the countries served by the regional integration bank.

## OFFICE MEMORANDUM

7 11 / 5 / 16

TO: Messrs. Knapp, Aldewereld and Friedman

DATE: January 7, 1970

FROM: Richard H. Demuth

SUBJECT: Pearson Commission Recommendation on Debt Relief

Attached is a draft of a memorandum analyzing the Pearson Commission recommendation on debt relief, together with my note transmitting the draft to Mr. McNamara. He returned the draft to me, saying that it was "an excellent treatment of a most difficult subject", but that it was so important that he wished to discuss it with you three and with me on Monday, January 19, following the P.C. meeting.

Mr. McNamara would like us to consider two issues in particular. One is the question referred to in my transmittal note, raised by Ronnie: whether there should be deleted from the draft memorandum reference to the provision on debt relief in the Bank's Articles and to the Bank's legal capacity to modify the terms of its loans. A memorandum from Ronnie dealing with this question is also attached. There are brackets on page 5 of the draft memorandum around the text material which Ronnie proposes for deletion; the footnote numbered "3" on that page would be added under his proposal. Although my note to Mr. McNamara was prepared before I saw Ronnie's memo, it remains my view that it would be wholly inappropriate to give the Executive Directors a paper on debt relief which did not quote the provision of the Articles specifically dealing with the subject.

The second, and much more important, question for consideration is whether the draft memorandum should take the position, which it now does, that we should decide on a case-by-case basis whether to participate financially in a debt rescheduling, recognizing that there may be cases in which we should do so. Mr. McNamara has put brackets around a paragraph on page 7 and part of the text on page 8, and asks us to consider whether the bracketed material should be deleted and the words appearing in the margin on page 8 added. The effect of those changes would be to indicate that the Bank does not expect to participate financially in debt reschedulings. This position needs to be considered, among other things, in the light of the provision of the Articles mentioned above, giving borrowing countries a right to apply for debt relief in certain circumstances.

Mr. H. H. H. H.

December 31, 1939

Richard H. H. H.

Foreign Commission Recommendation on Debt Relief

Attached for your consideration is a draft memorandum analyzing the Foreign Commission recommendation on bank participation in debt reschedulings. As you will see, the memorandum proposes that we should preserve the "special position" which we have in the past asserted and which has been accepted by other major creditors, but it also proposes that we should be willing to participate financially (i.e., relax the terms of our loans) if the circumstances of the particular debt crisis justify it or make it essential for us to do so. I think this is the right position for you to take, and that it is probably the only one which the Executive Directors would accept. Nevertheless, given the continuing growth of the Bank's lending operations and its position as a major creditor, I believe that, in practice, it will prove necessary for us to participate to an increasing extent in rescheduling operations. However, I see no need to announce that now. The draft memorandum preserves our flexibility.

Rennie, to whom I have shown the attached draft, is concerned about the reference to the Articles of Agreement and to the Bank's legal right to modify its loans, made in the first sentence of page 5, because he thinks it may revive the controversy that arose concerning the legal opinion he rendered at the time of the Indian debt rescheduling and which is cited in footnote 2 on that page. I believe that the memorandum is so written that it will not give rise to the kind of controversy Rennie is worried about and that it would not be proper to send a memorandum to the Board which had no reference to the specific provision in the Articles of Agreement which deals with the subject analyzed in the memorandum.



*M. Demuth*

Mr. Robert S. McNamara

January 3, 1970

A. Broches

Pearson Commission Recommendation No. 14 Concerning Debt Relief Operations

In his memorandum to you dated December 31st, Mr. Demuth has noted my reservation about the first sentence on page 5 of his draft of your memorandum on the above subject to the Executive Directors. My preference is to delete the first sentence (and the two footnotes relating to it) and the word "Nevertheless" in the second sentence, and to add a footnote to the third sentence, reading as follows: "The Bank's attitude has not been based on legal considerations, since apart from its general powers as a creditor to relax loan terms, the Articles expressly contemplate debt relief for balance of payments reasons (Art. IV, Section 4(c))." The effect of this change would be to play down the significance of the legal question in the context of that memorandum. In fact, the legal point is almost irrelevant to the particular policy question, namely participation in a general rescheduling, which is the subject of the memorandum.

Having said this, I must point out that for the reasons set out below, we should consider the possibility of a discussion of the legal and policy aspects of rescheduling as such, i.e. within or outside the framework of a general rescheduling exercise, and it is to that point that this memorandum is addressed. I shall first summarize the background and then suggest possible courses of action.

Background

There have been two instances of individual debt rescheduling on account of payment difficulties. The first concerned the Chilean coal loans. In that case the rescheduling was decided upon because of circumstances affecting the ability of the private borrower to maintain loan service. The second concerned Haiti and was based on the inability of the Government to pay as a result of a foreign exchange shortage.

There has been only one clear example of rescheduling by the Bank within the framework of a general rescheduling exercise, while in another instance it could be argued, although not convincingly in my opinion, that the Bank achieved a similar result indirectly. In the latter case, involving Brazil, the Bank did not formally participate in the rescheduling but decided to make new loans to Brazil (at a time when it otherwise might not have done so) in order to maintain the level of its outstanding loans in Brazil. The other case was the rescheduling of the Indian debt, decided upon in March 1968. It was on that occasion that there was extensive Board discussion of the legal and policy aspects of rescheduling and of the relevance to that subject of Article IV, Section 4(c) of the Bank's charter.

That section provides, in part, that if a member suffers from an acute exchange stringency, it may apply to the Bank for a relaxation of the conditions of payment. Mr. Woods' proposal with respect to rescheduling did not state that the Indians had requested the rescheduling nor that India was suffering from an acute exchange stringency and, on having this pointed out to him by several Directors, he said that the Indians had not made a request and that unless otherwise advised by the Counsel he would not force the Indians "to what amounts to the indignity of a pauper's oath". This led to the question whether the requirements of the Articles had been complied with and, if not, whether the Bank could or should act otherwise than in accordance with Article IV, Section 4(c). I was (and still am) of the opinion that the Bank has discretionary power as a creditor to reschedule debt owing to it and at Mr. Woods' request I sent him a memorandum to that effect which he attached to his substantive recommendations (Document R68-39, cited in footnote 2 of page 5 of the draft of your memorandum to the Executive Directors on debt relief).

After lengthy discussion, the Executive Directors on March 19, 1968 accepted Mr. Woods' recommendations and the following statement was inserted in the minutes (SM68-14, IDA/1168-11):

"The Executive Directors, noting that their action had been taken in the light of Article IV, Section 4(c) of the Bank's Articles of Agreement, agreed that within the next few months they should further discuss the legal and policy implications of the provision."

On April 3, 1968, Mr. Skjerdal sent you a memorandum explaining the reasons for his dissent from my opinion, which was circulated to the Executive Directors (SecM68-97, dated April 10, 1968).

Because of the pressure of other business, the item was not placed on the agenda during the summer of 1968 and no request for a meeting on the subject has been made since then.

#### Possible courses of action

We must assume that when the Executive Directors receive the Debt Relief memorandum for consideration, at least some of them will remember the decision to examine the "legal and policy implications" of debt rescheduling in the light of Article IV, Section 4(c) of the Articles. The first question to be answered, therefore, is whether to wait for an Executive Director to raise the issue, or note it ourselves. I think the answer is clearly the latter.

The second question is what position to take on the substantive issue, which comes down to this:

Under Article IV, Section 4(c), if a member suffers from an acute

exchange stringency so that the service on loans made to that member or guaranteed by it or one of its agencies cannot be met, the member may apply for a relaxation of the loan terms and the Bank may (i) agree to accept service payments in local currency for a period up to three years, or (ii) "modify the terms of amortization or extend the life of the loan, or both".\* There is a consensus that the Bank has a general power to reschedule loans, but a number of Executive Directors have expressed the view (in opposition to my view with which other Executive Directors agree) that in the balance of payments crisis situations described in Article IV, Section 4(c) this general power is limited to what is stated in that provision. In practical terms this means on the formal side that there must be an application by the member and a finding by the Bank that contractual loan service cannot be met (presumably taking into account debt owed to other creditors), and on the substantive side that only certain modes of debt relief may be granted and, notably, that only principal, but not interest, may be postponed. Since the Debt Relief memorandum suggests that the Bank should not waive interest, the recommendations made in the memorandum are compatible with Article IV, Section 4(c), provided the formal requirements are also met.

On the assumption that the substantive recommendations of the memorandum will not be changed, we could say to the Executive Directors that without considering the legal question it would seem appropriate as a matter of policy that the Bank deal with balance of payments crises within the confines of Article IV, Section 4(c). If at a later stage it became desirable to review that policy, the legal significance of the provision would have to be examined. This I consider the preferred position to take. If the Executive Directors want the legal question examined forthwith, we could undertake to prepare a paper for the Directors for an early discussion without, however, conditioning the adoption of a response to the Pearson recommendation on a prior determination of the question of interpretation. Only in the event that a substantial group of Executive Directors would be in support of a debt relief policy going beyond the modes of debt relief set forth in Article IV, Section 4(c), prior interpretation of the provision would become necessary.

---

\* The full text of the provision is attached hereto.

*As attached, 9 B*

Attachment

Text of Article IV, Section 4(c)

If a member suffers from an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payment. If the Bank is satisfied that some relaxation is in the interests of the particular member and of the operations of the Bank and of its members as a whole, it may take action under either, or both, of the following paragraphs with respect to the whole, or part, of the annual service:

- (i) The Bank may, in its discretion, make arrangements with the member concerned to accept service payments on the loan in the member's currency for periods not to exceed three years upon appropriate terms regarding the use of such currency and the maintenance of its foreign exchange value; and for the repurchase of such currency on appropriate terms.
- (ii) The Bank may modify the terms of amortization or extend the life of the loan, or both.

7/11/5/15

December 22, 1969  
Jan. 6-1970.

MEMORANDUM TO THE EXECUTIVE DIRECTORS

r/v  
exchange  
on pg 7  
Lpew

Subject: Pearson Commission Recommendation No. 12 Concerning Aid Coordination

Recommendation

"We therefore recommend that <sup>shall</sup> preparations 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." <sup>1/</sup>

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

---

1/ Report, page 131<sup>5</sup>.

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 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.<sup>1/</sup>

#### 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 <sup>over 80%</sup> ~~75%~~ 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

---

<sup>1/</sup> Ibid., pages 130-131.

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; and
- (h) *an evaluation of the country's population problem* 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.

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 <sup>12</sup>~~11~~ 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 <sup>most of</sup> ~~all~~ 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 <sup>12</sup>~~11~~ 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 <sup>of</sup> ~~selected Latin American countries~~. 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 ~~certain~~ of 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 groups for Ceylon, Colombia, East Africa, Ghana, Korea, Morocco and Tunisia. <sup>As for other "ANNUAL REVIEW" countries</sup> I am informed that the groups for ~~Guyana~~, 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 <sup>most, if not all,</sup> each 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.<sup>1/</sup> 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.

---

<sup>1/</sup> Report, page 130.

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

*omit this 9/1*

The Commission saw as a particular advantage of regional groupings that they permit the membership of a number of developing countries, all of which would participate when the performance of each developing member was under examination. In this connection, it cited the case of CIAP as a possible precedent.<sup>1/</sup> While I see some benefits from the wider participation of the developing countries, I question whether, in the immediate future, multilateral groupings providing for such participation would be more effective than the Bank's consultative groups. Accordingly, I believe that, in connection with coordinating groups to be created in the near future, the Bank should continue to favor the single recipient country approach for

---

<sup>1/</sup> In fact, individual country reviews by CIAP are normally conducted with only one member of the CIAP present, that member serving as chairman. Other members of CIAP are entitled to attend these meetings but do not normally do so. The other participants are staff members of the OAS and representatives of the IBRD, the IMF, IADB and U.S. AID.

the larger nations and to reserve the regional approach for smaller countries, particularly those trying to develop within the framework of an economic region.

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 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

711/5/18

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendations Nos. 24 and 27, Concerning Research

Recommendations

"Multilateral lending agencies also will need to finance research and development projects on a larger scale than before. The World Bank Group, as well as the Regional Banks, should pay greater attention to problems of research and development in their country studies and should themselves identify needs for scientific and technological research."<sup>1/</sup>

"Regional or national laboratories and research institutes should be established to study techniques of natural resource utilization and to improve industrial product design and production techniques ... Industrialized countries should assist in the establishment of international and regional centers for scientific and technological research in developing countries, designed to serve the community of developing countries and specializing in distinct fields of research and their application."<sup>2/</sup>

Background

These recommendations appear in the context of a strong plea by the Commission for greater support, by all sources of development assistance, multi-lateral and bilateral, for research activities focussed on development problems. Research in new techniques of education and in human reproduction and fertility

---

1/ Report, page 205.

2/ Report, page 207.

control are specifically proposed for financial support by the Bank Group.<sup>1/</sup> The portion of the report concerning assistance to research in general, in which the recommendations quoted above are found, suggests several other areas as deserving of investigation (e.g., tropical agriculture, housing and urban planning, utilization of natural resources, improved design of industrial products, weather control), but adds that it is not possible at this point to identify the specific subjects that might most usefully be studied.

Noting that a considerable, but insufficient, amount of external assistance has been devoted to research in the past (especially in agriculture and medicine by former colonial governments and by private foundations), the Commission takes the view that not enough thought has been given to getting the most out of this total international effort. Research efforts in the developing countries have too often been imitative of research done in wealthier countries; too often their budgetary support has been wholly insufficient; and too often limited funds and research staff have been scattered too thinly over too wide a set of activities. Also, too few resources have been devoted to social science research. To overcome these many deficiencies, the Commission recommends that developing countries establish top policy-making bodies to guide scientific and technological research activities and to link the nation's scientific community to planning authorities. Activities regarded as "scientific" should be linked to universities; activities to promote technological change should be assisted by the establishment of regional or national laboratories and research institutes.<sup>2/</sup> Although there is no formal recommendation

---

<sup>1/</sup> The recommendation for support of research in education (Recommendation No. 26) is the subject of a separate memorandum. The recommendation for support of research in human reproduction and fertility control (Recommendation No. 23) will also be separately analyzed.

<sup>2/</sup> Report, page 203.

by the Commission that the Bank should finance the establishment of such technology-changing institutions or that it should assist in the establishment of international research centers designed to serve the needs of several countries, the text makes clear that the Commission believed that the Bank should do so.

#### Analysis

~~In general,~~ the Commission's emphasis on the need for more research on applied development technology and for its necessary scientific infrastructure is surely correct. We can, I believe, accept the recommendation that we broaden our country study work to include consideration of scientific and technological policies and institutions, ~~although I do not think that it will be feasible for every country economic report to include a section on research and development needs.~~ I am instructing the Area Departments to arrange for coverage of this topic in country economic reports when in their judgment it would be both practicable and important from the standpoint of the country concerned to do so. I am also instructing those Departments to place the topic on the agenda of meetings of Bank-sponsored aid coordinating groups when they consider that it would be appropriate and useful to have it discussed by donors.

In the past, the Bank Group has been more concerned with the transfer of existing technology to the developing countries than with the adaptation of technology or the development of new scientific and technological knowledge. ~~On one occasion we provided technical assistance for establishment of a research institute: we helped the Government of Ceylon to organize an Institute of Scientific and Industrial Research and later made a staff member available to serve as the Institute's first director.~~ Occasionally we have supported

research and development-oriented activities and institutions when these were integrated into projects: for example, we have helped to finance agricultural research activities as an aspect of an agricultural college or a multipurpose water-use project. But we have not directly financed activities and institutions which are primarily research and development-oriented.

I believe that we should accept in principle the Commission's view that the Bank Group should be prepared to finance the establishment of national and international research and development institutions. Indeed, as the Executive Directors will recall, their report on "Stabilization of Prices of Primary Products", <sup>1/</sup> which I transmitted to the Board of Governors on June 25, 1969, stated that the Bank Group would be prepared, ~~while applying its normal lending standards and procedures,~~ to "participate in financing agricultural and other research having high priority in developing countries, as much as possible in cooperation with other national and international institutions".


The record of technological and research institutes is not everywhere favorable. Frequently they have functioned without any clear set of national policies, with wholly inadequate budgetary support and a consequent inability to attract competent staff; often they have failed to establish effective relationships with the productive sectors they are intended to serve. On the other hand, there are a number of successful research and development institutions, both national and international, which demonstrate the extraordinarily high productivity which these activities can attain if properly organized, financed and staffed. It would be important, I believe, that we <sup>limit our</sup> ~~not~~ support ~~any~~ <sup>to</sup> institute <sup>in</sup> operating

---

<sup>1/</sup> R69-144/1, June 24, 1969.



in <sup>process</sup> a field<sup>s</sup> in which we lack the expertise necessary to evaluate performance or where we cannot ally ourselves with a technical partner competent to provide it. This suggests that for the present we should concentrate primarily on the fields of agriculture, industry, education and population, in all of which, as the Commission suggests, there is need for a great deal more research. We would of course wish to be sure that the particular institute proposed for Bank Group financing was soundly organized and managed or, in the case of a proposed new institute, that the contemplated arrangements are satisfactory.

The financing of national institutions presents no particular problems. They may appropriately be financed by a loan or a credit to the government concerned. Some financing of local currency expenditures may be required. <sup>1/</sup> International institutes <sup>since their</sup> ~~whose~~ activities are designed for the benefit of a number of countries, not merely ~~and perhaps not even primarily~~ for the country in which they are located, ~~are~~ are in a different category. Always assuming they are soundly organized and managed, institutes of this type are, I believe, particularly worthy of our support. An international institute can expedite the establishment of, strengthen, and provide guidance to, national institutes and programs, which can benefit from and adapt to their own requirements the work done at the international center. The teams of scientists assembled at an international institute can provide training of scientists and technicians to staff national institutes and may be called upon by the latter for advice and technical assistance. Through them, programs carried on in individual developing countries can be linked together. 

---

1/ See the memorandum analyzing Recommendation No. 17, on financing of local currency expenditures.

October

The International Rice Research Institute (IRRI) in the Philippines and the Center for the Improvement of Maize and Wheat (CIMMYT) in Mexico are outstanding examples of what can be accomplished. <sup>9/2</sup> ~~I have in fact recently~~ <sup>1969</sup> invited the U.N. Development Programme (UNDP) and the Food and Agriculture Organization of the United Nations (FAO) to join with the Bank in exploring the possibility of mobilizing long-term financial support from international agencies, governments and private sources to supplement present arrangements for financing existing international agricultural research institutes and, over time, a number of new ones. The UNDP and FAO have both expressed interest in cooperating with us in this matter. ~~This initiative on our part preceded, and was independent of, the Commission's recommendation.~~ If, as I hope, the exploratory discussions prove promising, I shall make specific proposals to the Board with respect to the Bank's participation.

However, a problem we shall have to resolve in undertaking to provide financial support for any international institute is the form which our assistance is to take. The government in whose territories such an institute is, or is to be, located may well be prepared to make a site available and even to contribute to the costs of establishing such an institution. But it is not likely to be willing to assume a continuing obligation for its support, particularly since the work of the institute would be designed to benefit equally a number of other countries. While we shall want to explore all possibilities of providing our assistance in the form of long-term credits, it seems likely that grant funds will be required. In that event, it might be desirable to propose, in recommending allocation of the Bank's net income, that a specified small percentage should be available, through the Bank or IDA, for grants for research purposes. However, at present we do not have any clear

idea of the order of magnitude of financial support which could usefully and appropriately be provided. I believe, therefore, that, while accepting the <sup>Bank Group</sup> ~~objective of a general enlargement of~~ <sup>policy</sup> our support for research, we should proceed on a pragmatic basis, starting with the initiative relating to international agricultural research institutes mentioned above.

Conclusion

The Commission's recommendation that our country economic reports take explicit account of problems of research and development, including, where feasible, the identification of need for scientific and technological research, should be accepted, ~~to the extent it proves practicable to do so.~~ We should also accept, in principle, the recommendation for Bank Group support of national and international research and development institutions, ~~both existing and new,~~ which satisfy our normal project criteria. We should, however, proceed cautiously, <sup>confining</sup> ourselves initially to research institutes in the fields of agriculture, industry, education and population. If the initiative already put in train to mobilize long-term financial support for international agricultural research institutes proves successful, I expect to present specific proposals for Bank <sup>Group</sup> participation to the Executive Directors for approval.

Robert S. McNamara