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December 23, 1965

Monetary Reform and Development

This memorandum reviews the relations between monetary reform and economic development under two principal aspects; namely, the attitude and views on liquidity and reserve creation, as expressed by officials of developing countries in international discussions, and the various arrangements which have been proposed for extending monetary reform from advanced to developing countries. In concluding, the paper comments on the possibility of meeting the problem of liquidity and reserves in developing countries in a parallel, but distinct way, from the course adopted for the more advanced countries and of a link that could be forged between the two systems.

I. Developing Countries' Interest in Monetary Reform

The various academic plans and official discussions and the general debate on monetary reform over the past years have touched only indirectly on developing countries. The major concern and interest was focused until recently on the relations between the two "key reserve" currencies--dollar and sterling--and the currencies of other advanced countries in the "group of ten", and the imbalances which have emerged in the past decade within this group of industrialized countries. The close economic and political ties established since the end of the war have led these countries to seek solutions for their problems in "tete-à-tete" discussions, with due regard to their broad international commitments, but no specific attention to the different problems of the rest of the world. It has been assumed that the maintenance of stability and convertibility of their currencies and the restraint on their reciprocal imbalances would automatically benefit the trade of the rest of the world and contribute to the continuing flow of funds for development purposes. These assumptions have not been challenged so far by any country.

Many of the developing countries, on the other hand, have held to the view that their economic advance could be better sustained by trade and exchange restrictions and that the way to a freer system could not be found in an unequal competition with the advanced countries, but only in closed regional systems, behind protective curtains or, alternatively, by obtaining preferential trade and investment treatment from the advanced countries. There was little reaction, in consequence, to the separate way followed since 1960 by the "group of ten" in their reciprocal monetary arrangements. So long as their imbalances were viewed as temporary and their approach as particularly related to their problem, rather than as the beginning of a new monetary order, developing countries showed a relative disinterest in the subject. This came to an end in the past year, however, as the advanced countries moved forward to changes that would result, in effect, in a reform of the overall monetary system. The reactions of developing and advanced countries, as they found expression in the last Bank-Fund meeting, may be examined in three respects, namely

(i) the concept of closed group vs. open system; (ii) the creation of reserve assets vs. transfer of real resources; (iii) the provision of liquidity vs. development financing.

(i) Concept of "closed club" vs. "open system"

Irrespective of any substance or merit of the case, developing countries are reacting sharply to the notion that a self-created group of nations (the "group of ten") could discuss problems and reach decisions in separate and closed councils which, by their own nature, are related to international responsibilities and affect the rest of the world. The sharpest objection to this approach was voiced by Australia's Treasurer, Harold Holt, stating that "it would not be acceptable to the great majority of members to have decisions on matters so vitally affecting every one of us determined in substance, if not also in form, by a small and strictly limited group." These sentiments have found broad echo among the representatives of developing countries (Ethiopia, Malaysia, Nigeria, Philippines, Iran, Ghana, Uganda, India, Argentina (on behalf of the South American nations), Liberia, Afghanistan, Israel, Tanzania, Guinea, Nepal, United Arab Republic) and also of certain European countries, (Austria, Denmark, Yugoslavia, Greece and Ireland).

It is from these various countries, as well as from the United Kingdom and Canada, that the strongest support has come for the position taken by the Managing Director of the International Monetary Fund, that "international liquidity is the business of the Fund." Representatives of other countries from the "ten" have adopted a less positive, or outright negative attitude with respect to the interest of developing countries in monetary reform and the role of the International Monetary Fund. Leading in this has been the Swedish delegate (Mr. Asbrink), with the blunt statement that "it is difficult to see that the problem of the less developed countries has much to do with our international monetary system." This attitude was seconded, in a more moderate form, by the German delegate, Mr. Blessing, placing principal emphasis on the "adjustment process" and by the delegates from the Netherlands (Mr. Holtrop) and Italy (Mr. Colombo), to the effect that the responsibility for the monetary reform should be borne by a limited group of industrial countries. Similar views have also been voiced by Spain's delegate.

A compromise position between these divergent courses, and between the many unimportant and the few decisive countries, has been taken by the United States, with the proposed two-stage procedure--the first in "active negotiation among responsible policy officials" within the "group of ten," leading to the second, centering in negotiations in the IMF designed to assure that the basic interests of all members in new arrangements will be "adequately and appropriately considered and represented." How this compromise will be worked out in practice by the European countries and the "group of ten" and how it will satisfy the insistence of developing countries for participation in substance and not in form alone, remains, of course, to be seen.

(ii) Creation of Reserve Assets vs. Transfer of Real Resources

Moving from the point of procedure to the substance of the problem, there is a widespread feeling that by their own arrangements the advanced countries are creating new reserve assets out of "thin air," while developing countries are expected to build up their reserve position by the accumulation of payment surpluses. This view has perhaps been best expressed by Governor Castillo, from the Philippines, in his statement that a scheme "for creating additional liquidity which confines the direct benefits, in the form of enhanced purchasing power in the world market, to the rich countries,...would in effect impose another inequity on the less developed countries, limiting their acquisition of needed reserves to those earned through balance of payment surpluses within a disadvantageous world market situation." Similar views, and a positive emphasis on the need for better terms of trade, were voiced by the delegates from China, South Africa and the United Arab Republic; the delegate of India took position in favor of liquidity being created by the issuance of credit certificates in favor of developing countries and therefrom redistributed to the advanced countries through trade channels (the Stamp "stamp" plan); and the delegate from Dahomey expressed his specific support for new liquidities to be created on the basis of primary products (the Hart-Kaldor-Timbergen commodity reserve plan). The restrictive effect of inadequate reserves on trade, and the vicious circle of inadequate reserves, trade restrictions and persistence of inadequate reserves were stressed by the Argentinian and the Turkish delegates, while others (such as the Israeli and the United Arab Republic delegates) connected the needs for reserves with the magnitude of payment swings, not only in terms of imports of goods and services, but also of debt services.

In rebuttal to these views expressed by developing countries, the delegates from the "group of ten" pointed out that the creation of reserve assets involves willingness, responsibility and ability to transfer real resources--and that "what the world needs is not so much a general reform of the international monetary system as an improvement of national policies of adjustment" (according to the German delegate, Mr. Blessing). Therefore, because the creation of reserves implies a risk that such reserves might be called upon in real resources, the provision of additional international liquidity should be borne by a limited group of industrial countries, "as only those countries are in a position to back such a scheme by their own resources " (Mr. Blessing; also, Mr. Holtrop, Mr. Colombo). This fundamental philosophy is at the basis of the "closed group" concept --that would limit the process of liquidity creation to countries with a reciprocal willingness to extend credit to each other and ability to exchange such credit for real resources; the ground for such reciprocal exchange of liquidity and resources being the tested processes of adjustment that European countries have proved willing and able to apply. Contrarywise, no such willingness and ability have been demonstrated (according to most European observers) by developing countries in general. In consequence, it is implied, the application of automatic rules to monetary arrangements could not be extended to developing countries, but there has been no real explanation of how a testing experience and case by case process could lead to such possibility.

(iii) Provision of Liquidity vs. Development Financing

The fact that the creation of new reserves involves the risk and responsibility of transfer of real resources should not be interpreted, according to the view of the "ten," in the sense that the creation of such reserves should be intended as an instrument for the transfer of real resources. Quite on the contrary, according to President Holtrop of the Netherlands Bank, "the purpose of any new form of liquidity creation should not be to bring about a transfer of real resources to the countries that might, on the basis of some agreed formula, be the beneficiary of such creation, whether they be industrialized or developing countries." This position has been reaffirmed by other Europeans: from Germany by Governor Blessing, placing major emphasis on the process of adjustment to be pursued by deficit countries, since it is up to them "to put their house in order;" from Sweden by Governor Asbrink, explaining that "monetary arrangements can give countries with balance of payments deficits a reasonable time to put their house in order, and should also give them strong incentive to do so;" and from Italy, by Minister of the Treasury Colombo, to the effect that the creation of new reserve assets should not, in itself, affect demand, nor give rise to outward transfer of real resources.

As a subordinate question, European representatives have asked whether the creation of new reserves and provision of additional liquidity among the advanced countries should or should not be linked to the flow of their own funds (and resources) to developing countries. That they should be kept separate is the view expressed by Finance Minister Kamitz, of Austria, stating that "it does not seem appropriate to combine the granting of aid with the creation of international reserves." This view is widely shared by other European countries, although not by France--whose Finance Minister Gerard d'Estaing proposed that the allocation of additional liquidity to advanced countries should be related to their grant of aid to developing countries.

The representatives of developing countries have given only scant attention to whether newly created reserves should or should not be available for financing current transactions, including investment needs. A direct link of liquidity creation with developing aid has been proposed by the delegate from India, Mr. S. Bhoothaligam, that "the initial additions of purchasing power should be placed in the hands of the poorer countries who can use them most profitably." There is on the part of all developing, as well as developed countries, a recognition of the need for more development financing and also, by and large, of the need to keep reserve creation separate from capital flow. None has dared to advance, however, any suggestion as to how reserves provided for liquidity purposes could be kept from being used in investment financing; yet the possibility of linking one to the other so as to maintain or step up the flow of real resources to developing countries, has been a recurrent theme in all discussions.

In a sense, the question as to whether liquidity reserves should or should not serve as needed for meeting current deficits is reminiscent of the many doubts concerning the purpose of stabilization loans in the twenties, and again in the early fifties, for countries in the process of stabilizing their currencies and moving from a controlled to a free monetary system. There have been few or no attempts to classify developing countries as to their ability to receive and hold liquidity reserves on the basis of the degree of stability achieved, the role of their currencies in international trade, their experience in maintaining cyclical swings within manageable length and depth, and in terms of the amounts of reserves that could be made available. Some delegates of developing countries have given, as principal argument for their needs of reserves, the swings of their balance of payments, related in turn to wide shifts in exports and terms of trade, problems which are also part of discussions of compensatory financing schemes. A positive argument finding developing and developed countries in accord is that the inadequacy of reserves tends to close the capital markets of advanced countries, from which additional development financing is usually provided; so that, in reverse, adequate reserves would help to sustain the flow of resources by maintaining capital markets open for development financing, whether through international institutions or directly for developing countries.

The main concern of the European countries is, of course, that the provision of additional liquidity would be used by the developing countries for investment financing, so that in effect it would mobilize additional real resources and call for still more liquidity to be provided in the long run. This concern is a recognition of the pressures under which developing countries are operating, and of their difficulty or inability to manage their affairs even with larger reserves. The examples of Argentina, Brazil, India, Malaysia, Ghana and other countries, which entered the development stage with large reserves, but also with a determination to draw them down for investment purposes, are in the back of the Europeans' skeptical attitude with respect to developing countries in general. This concern is related to the view that any process of adjustment could only succeed by the willingness of the countries to contain their programs within the limits of the existing flow of resources, whether of their own or borrowed, and in the short as well as the long runs.

II. Monetary Reform Proposals and Their Relation to Developing Countries

The present monetary system presents three aspects: automaticity in the convertibility of the leading currencies among each other and into gold, cooperation among a restricted group of advanced countries in reciprocal credit arrangements, discretionary authority of international institutions concerning the use of their resources by members. The various approaches to monetary reform concentrate on one or the other of these three aspects, namely: the return to the stricter gold standard and the reliance on fluctuating rates may be related to a desire for greater automaticity and market adjustments, with lesser need for external or official intervention; the adoption of gold-ratio formulas, multiple reserves, or pooling arrangements would depend on a greater degree of cooperation among the "ten;" and the increase of resources and liberalization of the Fund's operations, as well as the redistribution of reserves and resources from advanced to developing nations by financial or commodity schemes, would place decisions in international hands. Each of the various schemes and proposals would affect the relative position of advanced and developing countries in different ways, which may be commented upon as follows:

(1) Proposals based on greater automaticity

The two principal proposals under this heading are: a return to a gold standard, pre-1914 vintage, which has been attributed primarily to France; and the lifting of exchange parities, allowing currencies to float to their "proper" level, advocated by several members of the academic community in the United States. These proposals are intended to be neutral as to monetary reform objectives for developing countries.

A return to a gold standard, with gold settlement of any net payment position, is defended on the ground that monetary discipline and balance of payments adjustments should fall principally upon debtor countries, irrespective whether within advanced or developing groups, and that incentives and advantages for creditor countries should not be undercut by arrangements that would limit their choice of reserve assets. This proposal would seem to affect severely developing countries, being relatively weaker in the competitive game of world trade and capital movements; but would also have adverse effects on deficit countries within the "group of ten", and on the "reserve" countries in particular.

Conversely, the lifting of fixed parities for currencies would allow the market to set their values in response to changes in the credit and debit positions of the respective countries. This would, in the view of the proponents, facilitate payment adjustments not only among advanced, but also for developing countries, especially primary commodity producers. While it is argued that fluctuating rates would undermine the universal acceptance of reserve currencies for world trade and liquidity purposes, the success of sterling in the thirties, with exchange stability within its area and managed fluctuations with respect to the dollar and gold bloc currencies, has been cited by a Brooking study in support of a renewal of such experiment. In another version, the adoption of higher and lower gold-points, more acceptable from the point of view of central bankers, would allow exchange rates to vary within wider, but still definite margins. However attractive any of these and similar schemes might appear in theory, they might induce, in practice, strong doubts as to the strength of reserve currencies and faster speculative movements in trade and exchange. These are deep convictions of officials and bankers of advanced countries and it is unlikely that any such approach (except for reversible variations within narrow margins) would be acceptable to their governments, with which the actual power of decision for world-wide monetary reform does finally rest. Individual countries may, of course, continue to pursue autonomous gold policies, or to allow their currencies to fluctuate, as at present, but their attitude could hardly exert a determining influence on the shape or framework of the international monetary system.

(ii) Proposals based on closer cooperation

The principal proposals in this group are the gold ratio formulas advanced by Professor Posthuma (former Director of the Netherlands Bank), the composite gold standard, by Edward Bernstein, former Research Director of the International Monetary Fund, and the deposit-exchange of reserve currencies by Professor Zolotas, former governor of the Bank of Greece. These proposals are, in effect, an extension of the gold and credit arrangements which have developed in recent years (since 1960); they are essentially based on the concept that the present monetary system is workable and may be improved by gradual and spreading transformation, and that any sudden, universal and untested, changes are not called for. These proposals have in common their immediate applicability to the advanced countries, and their proponents have shown little concern or effort to extend them to developing countries.

In substance, the common rationale is that the maintenance of stability and interchangeability for the leading currencies would help to sustain current policies in the industrial parts of the world, with beneficial effects on the demand for raw materials from, and the flow of capital to, developing countries. These proposals also have in common a mixing of "hard" and "easy" settlements, in proportions to be mutually agreed upon by countries with identity of interests and practices. The purpose of these schemes is to ease and, at the same time strengthen, the adjustment process of payment difficulties for countries within a well defined group.

The gold-ratio formula, as proposed by Posthuma, could have several advantages: it could be agreed upon within the "group of ten" initially, but become applicable informally to any other country; it would not require any country to deprive itself of the gold it holds, nor would it necessarily require any legally binding international institutional arrangement. The formula could be applied through informal understandings, under which a central bank with a larger than average share of gold in its reserves would gradually increase its credits (whenever in surplus) to deficit countries, and conversely dispose of some of the gold, whenever in deficit within the group, until reaching the defined proportion of gold and foreign currency holdings.

Bernstein's proposal of a currency and credit pool is similar as to effect, but implies a more definite arrangement on firm and fixed procedures through the International Monetary Fund. It would provide for a mixing of the industrial countries' reserves to the extent of two thirds in gold and one third in new Reserve Units - which, in turn, would be created to the extent of 80% by deposits of participating countries', and for the remaining 20% in credit extension by the International Monetary Fund. Any surplus countries could surrender their claims on debtor countries to the International Monetary Fund, receiving in exchange two thirds of the amount in gold and one third in Reserve Units. Zolotas' proposal would provide, in a similar way but by a once-and-for-all decision, for the consolidation of United States and United Kingdom short-term liabilities against a new reserve creation from the International

Monetary Fund. For the creditor countries, this would have the advantage of dislinking their reserves from dependence on the currency of another country, and for the debtor countries of re-arranging their liabilities from a demand to a long-term schedule, thereby alleviating the pressure on their gold reserves. On the whole, the scheme is intended to provide for greater freedom of action by all participant countries.

(iii) Proposals based on discretionary international authority

The proposals of this type are generally designed to favor developing countries and foster world expansion. The common principle is the reorganization of present institutions into a new authority, or the formation of a new one, with wide powers to provide automatic clearing and discretionary credits, and, in extreme forms, to intervene, by open markets operations in national markets, so as to influence the payment and settlement pattern between countries.

In its simplest form, some of these effects could be obtained by an increase of Fund's quotas, a liberalization of the Fund's exchange transaction with respect to amounts, repurchases and purposes, and the attribution to the Fund of new types of operations and functions. These steps in the Fund could be complemented by financial measures to be taken by the International Bank, with respect, for instance, to supplementary financing for commodity-producing countries with respect to irregular and sharper savings in their trade position. From a certain point of view, these changes may be regarded as a continuation of trends initiated in the mid-50's, but the speed and spread by which they would be brought about reflect the pressure exerted by developing countries, in contrast to the more restrained attitude traditionally manifested by the more advanced countries. There would seem to be little chance over the next few years, however, for any advancement in the direction of three main proposals, widely advocated and debated in recent years.

The successive schemes proposed by Professor Triffin (of the United States) have in common, amidst their many variants, the principle that the International Monetary Fund be transformed into a central institution, with powers to create a new international reserve unit and to regulate the level of international reserves of its members by its credit and investment operations. While the outward analogy with the Federal Reserve System is frequently offered in support of this type of reform, no adequate account is taken of the difference between a national institution, operating in an homogeneous economy and a well organized market, and an international institution, confronted with conflicting interests and widely different practices; nor of the difficulties that the Federal Reserve itself has encountered in its course in harmonizing its credit policy to the nation's economic policy.

The second proposal is one advanced by Maxwell Stamp, the British economist, to the effect that the International Monetary Fund -- acting as a supernational agency -- should create reserve certificates, that would provide a credit base for lending operations by the International Bank and its affiliates on behalf of developing countries. The backflow of such credits from the importing developing to the exporting advanced countries would, in turn, add to the reserves of the latter. This process might or might not lead to a redistribution of reserves in ways consistent with the objective of bringing about a better balance among the "ten". In fact, imports by developing countries might well tend to concentrate on countries that might need least, rather than on those that might need most, compensatory additions to the reserves. For this reason, and also on the more fundamental ground that reserve creation should not, in itself, cause transfer of real resources, this scheme (in such form) would not seem acceptable to the advanced countries.

Last, but not least, old commodity schemes have been redressed in new style in the Hart-Kaldor-Tinbergen Plan, submitted to the UNCTAD in March, 1964. In the past a major obstacle to such operation was seen in the absence of an organization adjusting changes in financial flow and the stockpiles of commodities, and exerting a discretionary authority in the choice of types and amounts of commodities in which to operate. It is now frequently assumed that the existence of the Fund could obviate this basic difficulty. This, however, would thrust upon the Fund the responsibility of creating a new international currency unit by operations in leading commodities over widely spread world markets. The technical and political difficulties that prevented the practical consideration of the commodity reserve plan in the past still appear to be present; the administration of such a plan within the Fund would probably be magnified by the combination of frequently contrasting objectives (liquidity provision and price stabilization). In the meantime, alternative avenues of compensatory financing are being opened by the Fund and the Bank to meet the needs of countries affected by irregular trends in the terms of trade of their commodities. All in all, there is no indication that the Fund, the advanced or the developing countries could easily agree on the commodities, conditions, terms and limitations underlying such operations -- a few of many requirements for the implementation of such plan.

III. The Outlook of Monetary Reform and its Link between Developed and Developing Countries

The debates and consultations on the subject of the international monetary reform are reaching a turning point, as two positions seem to be emerging, sufficiently firm in their presentation and authoritative in their backing to deserve specific attention; namely, the proposal formulated by UNCTAD in its last October meeting in New York, and the outline for monetary reform traced by Governor Carli in a speech delivered in Grenoble, France, on November 3. (Other voices, by Governor Baumgartner, of the Bank of France, and President Holtrop, of the Netherlands Bank, have placed more specific emphasis on the adjustment process than on monetary reform). There are rapproaching expressions between the two views, that might open the door to a compromise solution, and yet there are also signs of widening dissent, that might bar the reaching of any agreement.

It may be noted that UNCTAD appears to have made a stronger effort to move toward the advanced countries' positions, than some of the developing countries might be willing to condescend, and that Dr. Carli's views may prove much too flexible in their formulation for some of his colleagues in Europe. Should their respective positions be taken not as points of departure for positive discussion, but as the extreme which each group could concede to the other, the gulf between advanced and developing countries would be wide indeed -- presumably unbridgeable.

The UNCTAD approach to the problem of liquidity and reform is based on five assumptions; namely, that:

(a) a mechanism for the deliberate creation of reserve by collective international action be devised, independently of any judgement as to the present adequacy of reserves;

(b) both reserves and credit facilities are needed, to finance deficits and surpluses among countries, "without resorting to measures destructive of national and international prosperity";

(c) adequacy of reserves cannot be judged on the basis of statistics alone, "but must be governed by prevailing symptoms of the international economy";

(d) any new arrangement should provide for truly international monetary management and cooperation," corresponding with the idea of an international economic community which was perhaps the greatest contribution of Bretton Woods";

(e) "adequate provision for long run assistance to developing countries must be assured in order that they too may participate in an orderly international system."

On the basis of these principles, UNCTAD examined the Collective Reserve Unit proposal, as outlined in the Ossola Report, and though admitting that it "might indirectly confer benefits on the rest of the world", it dismissed it for being restrictive in its effects and not meeting the "truly international" canon postulated in the "d" assumption. UNCTAD' then proceeded to outline how "a proposal potentially open to all members of the IMF and which might also include participation of the IBRD as an intermediary" could operate. Although UNCTAD is silent as to the "assets" contribution that would be required from the members, it provides for an initial distribution of Fund Units, presumably "created" by the IMF and (as implied) issued to members against the counter value of their national currencies. The distribution would be made in accordance with the quotas of each member in the IMF, this being the only internationally agreed basis for the weighting of their interests in the international monetary system. The management of the system would similarly be governed by weighted voting (as contrasted with the unanimity provision of the Ossola Report), with full eligibility for participation open to all countries. The system would extend the transferability of Fund Units from developing to advanced

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countries, without requiring any partial gold payment, but subject to quantitive or implicit "creditor limits" and negotiated lines of credit. There would be, within these limits, automatic transfers of Reserve Units from one to another member, or between a member and the IMF, as is now provided for "gold tranches."

The UNCTAD proposal states that the creation of Fund Units should be related to the liquidity needs of advanced and developing countries, without regard to the development financing requirements of any of the members. The proposal is silent on how developing countries could maintain the liquidity allocated to them under the system, in presence of pressing financing needs for development; it assumes in another part of the report, "that most developing countries are conscious of the advantages of having adequate reserves and could be expected to try and retain these advantages". Proceeding from these assumptions, the UNCTAD advances to the forging of a "link" between creation of liquidity and financing of development through the intermediation of the International Bank. It suggests that part of the currencies deposited by the advanced countries, against the issue of Fund Units, be invested by the Fund in obligations of the World Bank and its affiliates for transfer to the developing countries. The guiding motivation is that "a given amount of additional liquidity would provide more stimulus to effective demand if it were created actively, in the form of expenditure by developing countries for goods supplied by developed countries, than if it were created passively by distribution of Fund Units against national currencies". Since the currencies made available to the IBRD by the advanced countries would be convertible, and the loans that the Bank made would be untied, the developing borrowing countries would be free to obtain needed imports from the best possible sources. Consequently, advanced countries would have to compete actively for the additional orders for development goods engendered by the Bank financing, and the gain of liquidity for each advanced country above the initial share would be related to its willingness and ability to transfer real resources to developing countries. These patterns, therefore, would bring about a reallocation of real resources and reserve positions among the advanced countries.

The UNCTAD sums up by stating that:

> "In final analysis, the developing countries will gain in two ways. They will have their share in the original creation of liquidity, and they will obtain real resources for development to the extent that the Fund invests the currencies of the developed countries in IBRD bonds. The developed countries as a group gain in terms of additional liquidity in proportion to their share in the original creation of Fund Units."

Dr. Carli's speech is particularly significant in that it re-states and re-defines the views expressed at the Fund and Bank meetings in September by various European spokesmen (Italian, Dutch, German and others). In brief, Dr. Carli rules out any change in the price of gold and any departure from the system of fixed exchange rates, and postulates the following rules of international monetary conduct, namely;

(a) reserve currency countries should give top priority to the problem of eliminating the deficit of their balance of payments;

(b) advanced countries should agree, as a group, on common rules with regard to the management of their reserves and, individually, on the gradual achievement of a uniform proportion between gold and other assets in their reserves;

(c) any expansion on international liquidity should be effected through collective decisions, to be taken in accordance with the needs of the world economy and trade - neither to compensate for the deficit of some important country nor to meet needs of economic development.

Given these principles, Dr. Carli considers certain problems, essentially of a political nature, that, in his view, need be faced to bring into being new reserve instruments. These involve the relation between gold and the new reserve instrument, the selection of the countries that would participate in its creation and its distribution, their responsibility in the management of the new reserve, and the relation of this group of countries and their reserve system to the International Monetary Fund. Dr. Carli presents in this respect some technical and political choices, namely:

(a) As to nature, the new reserve instrument could be in the form of a unit of account or a line of credit with an international institution. Any such instrument, with an automatic drawing right and exempt from repayment obligations, could be acceptable as a valid reserve instrument.

(b) It would be neither advisable to require the convertibility of a new reserve instrument into gold (since it would add to the instability of the international monetary system), nor reasonable to expect creditor countries to accept and accumulate it in unlimited amounts. There is need, therefore, to set some limits, either in terms of gold reserves or of specified quotas.

(c) Whatever arrangement will be made, it would be difficult to keep the creation of new reserve instruments outside the I.M.F.; but such a new monetary function should be kept separate from the Fund's present task of providing intermediate credits to its members.

(d) Although it might be impossible to contain the distribution of new reserve instruments among industrial countries only, the control and management of the new system should be kept within a restricted framework -- since only the industrial countries have real resources adequate to meet the heavy obligations involved in the creation of new reserves.

(e) Last but not least, irrespective of any voting procedures, only the rule of unanimity could prevail in fact, if not de jure, since no major decision could be taken, except by unanimous accord.

Dr. Carli concluded by re-stating his position that the coexistence of a new reserve asset with the dollar will be possible, "provided the reserve currency countries accept the same balance of payments discipline as other countries, that is, that they accept to subordinate the creation of dollars in non-residents' hands to a collective discipline."

There are certain points of contacts between the two proposals (UNCTAD and Dr. Carli). Both agree that the creation of a new reserve instrument should be entrusted to the I.M.F., and its use by the debtor or acceptance by the creditor be subject to specific limits. Although the UNCTAD opts for a general distribution of the new instruments among all I.M.F. members (and perhaps other countries), Dr. Carli does not exclude the possibility that the new system be open to some countries outside the "group of ten." Both concur in the view that decisions related to the operations of the new reserve pool should be adopted on the basis of some agreed voting rights, but whereas UNCTAD would spread them among many countries, Dr. Carli would confine them to a restricted group, - and put emphasis on unanimity as the only basis for major decisions. Both agree that the creation of new liquidity should be related to general needs, and not to the position of any individual country, but whereas Carli insists on the necessity that reserve currency countries bring their balance of payments into equilibrium, UNCTAD is significantly silent on the subject. UNCTAD proposes a "link" between liquidity and development by the transfer of some part of the advanced countries' currencies to the developing countries through the World Bank; Dr. Carli is significantly silent on this subject. They disagree as to the present need for liquidity, and could not easily be brought into accord on the concept and measurement of needed liquidity. Some of these differences may constitute not a basic dissent, but points on which the Europeans might eventually strike a compromise with the developing countries. While some reconciliation could be found for technical details, the basic difference consists in the relative closeness or openness of the two approaches: the European countries feeling, as they do, that liquidity creation implies a transfer of real reserves that need be controlled by the countries that would be called upon to provide them, and the developing countries seeing liquidity creation primarily in function of transfer of real resources to meet their expanding development needs.

IV. CONCLUSION: A Selective "Link" for Developing Countries

There remains one possibility which does not seem to have been given adequate attention in these exchanges of public views and proposals between Europeans and the developing countries. In view of the position of strength held by the Europeans in any negotiation toward an agreed arrangement, it would seem that the outcome (if any) will be closer to the Carli proposal than to the UNCTAD aspirations. Under any rule of conduct that the Europeans might put forward, not many developing countries could aspire to a participation in the creation and distribution of the new reserve instrument. The need to maintain an "open-end" system arises, nevertheless, from the recognition that there are some developing countries that could rapidly become eligible for much participation on a full basis, and others that might be accepted as "associate" participants, as they advance to a level of development and stability consistent with the obligations inherent in the new international reserve system. Furthermore, the pressure for additional liquidity will continue and may find support on political, if not on economic or financial grounds, from the United States and United Kingdom, because of their own problems and also of their close relations with the major developing areas of the world.

Under these circumstances, one wonders whether the best use that could be made of any excess of advanced countries' reserves and liquidity in the new system would be to spread it thin, in small additions to the development financing of many countries, or to preserve it to provide strong support to those few countries, on a case by case basis, proving their ability to emerge to development and stability. The experience of stabilization loans in the mid and late 20's, when the central banks and governments of leading countries joined among themselves and with the League of Nations and the Bank for International Settlements in the spreading stabilization of the world's currencies, may be recalled. It could set an example for the International Fund and the International Bank to join with the "group of ten" in combining short-term facilities with long-term reserve loans to countries endowed with resources and committed to policies consistent with the twin objectives of economic development and monetary stability. The extension of reserve loans could be handled on a case by case basis, in support of developing countries meeting two conditions, namely;

(a) Adopting and maintaining a set of policies and actions that, in the opinion of the International Monetary Fund, could effectively sustain internal and external stability over the long run, and;

(b) Undertaking and implementing a development program that, in the opinion of the International Bank, would be consistent with the availability of real and financial resources from within and without, conducive to higher productivity at home and competitiveness in world markets.

Developing countries meeting such conditions could be made eligible to receive an unconditional line of credit from the new reserve system, up to some specified amount, that would take the form, when used, of a loan from the World Bank. The resources for such credit could be obtained from the currencies contributed by the advanced countries, subject to such terms and conditions of repayment as the International Bank and Fund would determine, case by case. Although the receiving country should be allowed the unconditional use of such line of credit, it should also be made subject to multilateral surveillance, by agreement between the Bank, the Fund and the "group of ten," that in a definitive way would provide the real resources behind the credit extended. There should be a reservation, therefore, providing for the possibility of suspension or termination of the arrangement, if the policies or program of the recipient country departed from the agreed conditions. On the other hand, should the recipient country strengthen its position to the point of gaining acceptance, as associate or full participant, in the reserve system, any unused part of the reserve credit could be cancelled against the distribution to it of an equivalent (or larger) amount of reserve units under the system.

Such a scheme would seem to dispose of the contention of developing countries, that advanced countries would be creating a new reserve asset out of thin air, refusing to extend its benefit to the developing countries. It would also be paving the way for developing countries to move from exclusion to participation in the new system. Over time, developing countries that will prove their ability of meeting adjustment tests in their balance of payments might gain the full participation in the reserve system that Europeans are stubbornly refusing to grant outsiders at this time.

Dev - Fin.

Mr. Irving S. Friedman (through Mr. Kamarck) January 13, 1966

Mervyn L. Weiner

Reserve Assets and Development

I read with interest the minutes of the Senior Staff Meeting, SSM/M/66-1 of January 10, 1966 which refer to your report on the subject of linking the creation of additional international reserves with development financing. I learned there for the first time that studies on this subject are now being prepared within the Bank. The purpose of this note is to suggest that the members of the Economic Committee might welcome some information, perhaps in the form of a brief oral comment at an Economic Committee meeting, about the scope and status of these studies.

cc: Mr. Wright

MLWeiner/mcw

W

Dev. - General

January 6, 1966

Dear Mr. Guernier:

Mr. Woods has asked me to acknowledge your letter of December 8, 1965, relating to the International Development Center and the enclosures.

We appreciate being informed of your activities.

Sincerely,

Michael L. Hoffman
Associate Director
Development Services Department

Mr. Maurice Guernier
Secretary General
International Development Center
23-25 Avenue Mac-Mahon
Paris, France

MLHoffman/pnn

cc: Mr. Woods
Mr. Chadenet (with incoming letter and associated material)
Mr. Lind
Mr. Miller (European Office)

Dev.-Pan.

December 29, 1965

Dear Mr. Miller:

Mr. Hoffman will be away from the office until Monday and has not yet seen your letter of December 20 in which you request a copy of the letter from M. Guernier in its original French. In Mr. Hoffman's absence, I am taking the liberty of forwarding a copy to you.

Sincerely yours,

Pauline N. Newton
(Secretary to
Michael L. Hoffman)

Mr. John D. Miller
Director
European Office
International Bank for Reconstruction
and Development
4 Avenue d'Iena
Paris 16e, France

Re: Letter to Mr. Woods from M. Guernier dated 12/8/65 on the Intern'l Development Center. That letter has not as yet been replied to.

December 29, 1965

Dear Mr. Miller:

Mr. Hoffman will be away from the office until Monday and has not yet seen your letter of December 20 in which you request a copy of the letter from M. Guernier in its original French. In Mr. Hoffman's absence, I am taking the liberty of forwarding a copy to you.

Sincerely yours,

Pauline N. Newton
(Secretary to
Michael L. Hoffman)

Mr. John D. Miller
Director
European Office
International Bank for Reconstruction
and Development
4 Avenue d'Iena
Paris 16e, France

HEADQUARTERS:
WASHINGTON 25, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
CABLE ADDRESS-INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION
CABLE ADDRESS-INDEVAS

EUROPEAN OFFICE:
4, AVENUE D'IÉNA
PARIS (16E) - FRANCE
TELEPHONE: KLEBER 25-10

December 29, 1965

Dear Mike:

Re: International Development Centre

I enclose a memo from Arthur Karasz on a recent experience with Mr. de Castro. You will note that his account of where his money comes from hardly matches the Carnegie Endowment's. No doubt most of the rest of the forty U.S. institutions are equally doubtful.

I also enclose a note from Jean-Pol Simond on Guernier with brief notes on the other French names. As they are mostly harmless I think one can assume that the fellow-travelling flavour of the pamphlet comes from de Castro himself.

I would think a polite but negative reply would be right, as you suggested in your memo of December 15th.

Yours ever,

John Duncan Miller
Director, European Office

Enclosures: 2

Mr. Michael L. Hoffman
Associate Director
Development Services Department
International Bank for Reconstruction and Development
1818 H Street N. W.
Washington, D. C. 20433

Form No. 57

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. John Duncan Miller

DATE: December 27, 1965

FROM: Arthur Karasz

SUBJECT: International Development Center

I met Mr. Josue Castro last June when I gave a talk to a conference on industrialization of developing countries held in Geneva. The conference was privately sponsored under the chairmanship of Mr. Lindt, former Swiss Ambassador to the U.S.

One of the participants was Mr. Josue Castro. He speaks excellent French and English, is a former diplomat with the well-known smooth Latin American manners. He is an exile from Brazil.

However, what he had to say on that evening was extremely left-wing fellow traveller stuff. He started explaining the purposes of his new Center: "Save peace through development", etc. Most of what he had to say consisted in rather venomous attacks against everything done in the West, and particularly in the United States. It was one of those rather disagreeable speeches held in the Castro (Cuba) style.

According to Mr. Josue Castro, his institute has received already important contributions from forty or over excellent U.S. organizations, like the Carnegie Fund, Harvard, Columbia - he said - but as he wants to keep his independence he asked for contributions also from Soviet institutions. He was silent on whether and how much he did receive from behind the curtain.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Operational - Development - General - Correspondence - Volume 7	30132382

Document Date	Document Type
June 1965	Curriculum Vitae

Correspondents / Participants
Erwin Schuller

Subject / Title
Curriculum Vitae

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
A. Miller	Aug 30, 2011

Wes. Per.

Mr. Alexander Stevenson   December 28, 1965

O. J. McDiarmid

Comparative Statistics

I thought it might be useful to try a statistical comparison among a number of countries in the Middle East and South Asia. These data are obviously subject to considerable error because of exchange rates and other problems. For example, it doesn't seem reasonable that India's savings is over 2 per cent higher than Pakistan's or that her GNP exceeds the GDP of Pakistan by $23 ahead.

Attachment.

cc: Messrs. Martin
Baneth
Katz

OJMcDiarmid:ke

COMPARATIVE STATISTICS
1963/64 Unless Otherwise Noted
(Millions of U.S. Dollars)

	Population			G.D.P.			Origin of GDP (Percent)			Investment /GDP	Savings /GDP	B/P Current Account Deficit(-) or Surplus (+)		Consumption		Government Budget			Money and Prices				For.Ex.Reserves	
	Million	Density per sq.mile	Growth %	Amount	GDP Per Capita	Growth %	Agric.	Industry	Other	Percent	Percent	Amount	% of Investment	Amount	Per Capita	Current Revenue	Per Capita	% of GDP	Money Supply	% of GDP	% Growth of Money	Ann.Price Increases	Amount	% of Imports
Pakistan	109.6	1,115 3/	2.6-3	8,624	79	5.2 (1959-65)	50.1	10.5	39.4	16.9	10.2	-661	39.1	7,658	70	[illegible]	9	11.7	1,677	19.4	8.9	7 (1960-65)	[illegible]	[illegible]
Iran	23	500 3/	2.5	5,060 1/	220 1/	4.6 (1959-64)	25.4	12.1 2/	62.5	12.6	14.3	+ 96	n.a.	4,336	188	861 Oil 485	37 Oil 21	17 Oil 9.5	1,124	22.2	7.1	3 (1964/65)	350	40
Afghanistan	8-12	n.a.	n.a.	683 6/	80-100	3-4	65-70	5-6	25-30 Oil 17	18.5	5.8	- 70	n.a.	n.a.	n.a.	60	6	6-7	110	14.0	14.1 (1959-65)	10-20	48	38
Iraq	[illegible]	290 3/	1.7	1,850	260	2.2 (1962-63)	16	14	70 Oil 35	9.4 4/	n.a.	+ 44	n.a.	n.a.	n.a.	510	72	27.6	374	20.0	5.2 (p.a.)	3.2 (1958-64)	290	75
Syria	5.4	77	3.0	888	164	4.5	38	18	44	6.0 4/	n.a.	+ 2	n.a.	n.a.	n.a.	153	28	17.2	289	32.5	10.5	1.0 (1964)	39	12
Jordan	1.9	863 3/	3.0	361	190	9.6 (1959-63)	15.5	12.4	72	11.3	-6.0	- 88	21.5	408	215	59	31	8.6	121	33.0	10.0 (1958-64)	-2.0 (1958-62)	153	80
Israel	2.4	1,428 3/	3.5	2,500	1,100	10.0	10.3	23.4	66.3	28.3	11.9	-389	52.0	1,819	758	668	278	26.7	564	22.5	28 (1963)	6.3 (1959-64)	630	76
U.A.R.	29	2,680 3/	2.5	3,680	127	6.4	28	29	43	18.2	10.7	-324	48.3	3,286	113	977	34	26.5	1,405	38	10.6	5.0	208	21
Turkey	31	105	3.0	5,578	180	4.0	38.4	18.2	43.6	15.8	14.4	-106	12.0	478	154	1,212	39	21.7	1,555	28.0	10.0	3.6	144	25
Lebanon	2.1	500	2.5	900 5/	429	5.0 (1950-64)	20	10	70	n.a.	n.a.	-120	n.a.	n.a.	n.a.	128	61	6.8	612	68.0	18 (1958-63)	6 (1963)	213	50
India	487	386	2.4	49674	102 7/	3.4	47	19.5	66.5	15	12.5	-1613	16.7	43465	89	7534	15	15.2	8568	17.2	10.2	6.9	524	21

1/ G.N.P.
2/ Excluding oil.
3/ Per cultivated square mile.
4/ Public sector only.
5/ Very rough estimate.
6/ At free exchange rate $1 = 72 Afghanis
7/ 1964/65-est. GNP

Mr. Larre December 22, 1965

Michael L. Hoffman

I have just been reading a paper on "La Politique Francaise de Coopération" by Simone Malet-Buisson published as a supplement to the L'Economie of October 22, 1965, which I am told has been reviewed and approved by the various ministries concerned. It is an extremely interesting and impressive document and will be very useful for reference purposes. I am particularly impressed with the figures on the number of French teachers now at work in less developed countries outside "L'etranger traditionnel." This is indeed a tremendous effort and from a long-range viewpoint may, it seems to me, be as important as almost any other part of the program.

I am also intrigued by the references to ASMIC which is a new organization to me, and hope to learn more about it the next time I am in Paris.

I am, however, disturbed at the way this paper presents France's relations with the Bank group. The Bank isn't mentioned at all in the first brief reference to multilateral or international aid on page 4, unless it can be presumed to be covered by the phrase "crées sous l'égide des Nations Unies," which is hardly likely to suggest the World Bank to most readers. In the more detailed discussion of multilateral aid on page 19, and in the table on the bottom of page 18, the Bank and IDA are lumped together with the Special Fund, Regional Commissions of the U.N. and other organizations for which annual contributions are made and one gets the impression that a kind of annual contribution is all that France does in connection with the Bank and IDA. There is no mention whatever of the fact that France has subscribed more than $1 billion to the capital of the Bank and a total of nearly $115 million all told to IDA, being one of the major shareholders in both. Nor is there any reflection, in the table on technical cooperation, of the sizeable contribution France makes to Bank missions and our whole technical assistance program. In fact, the Bank isn't even mentioned in that table as an organization engaged in technical assistance.

It seems to me that this whole treatment grossly understates France's contribution to the multilateral development effort through the Bank, IDA and IFC. It also, as I say, leaves the impression on the reader that the Bank's role in economic development is more or less on a par with the ILO, International Atomic Energy Agency, etc., which I think is quite misleading. Perhaps there will be another edition of this valuable paper in which a more realistic picture of France's very important contributions to our organizations can be included.

MLHoffman/pnn

HEADQUARTERS:
WASHINGTON 25, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
CABLE ADDRESS-INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION
CABLE ADDRESS-INDEVAS

EUROPEAN OFFICE:
4, AVENUE D'IÉNA
PARIS (16E) - FRANCE
TELEPHONE: KLEBER 25-10

December 20, 1965

Mr. Michael L. Hoffman
Associate Director
Development Services Department
International Bank for Reconstruction
and Development
1818 H Street N. W.
Washington, D. C. 20433

Dear Mike,

Your letter of December 16th about the International Development Centre is very intriguing. We must be slipping in the European Office because we have never heard of it. (I except Arthur Karasz who is in Geneva. He may have heard of it but if so he has not mentioned it.)

Nor do I recollect ever having come across Monsieur Guernier. I will institute enquiries all round as I think we should get to the bottom of this affair. Anybody who has perfected a formula for coordinating aid is just the man we want for the Bank. (Incidentally, could we have a copy of M. Guernier's letter in the original French. Not, of course, that I mistrust our translation section but he is, I should judge, the kind of man who might walk in at any moment and if I retranslated his letter he could deny its implications.)

I spoke to John Goormaghtigh yesterday and he gets us hardly any further. He confirms that he told them that they could use his name. He is obviously rather bemused by de Castro who is quite a spectacular character. He referred to him as a "romantic enthusiast" who needed help and advice to keep him on the rails but who, he thought, had something worth encouraging. (John, of course, is by no means unromaghtigh himself.) But, he stressed, only worth encouraging - he would not advise anyone to give the organization financial support.

Where the money comes from is the most interesting question. They must have had some to get as far as they have. The founding members are mostly professional joiners but not subscribers. My old newspaper nose smells fellow-traveling all through the document. It is not only the

HEADQUARTERS:
WASHINGTON 25, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
CABLE ADDRESS-INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION
CABLE ADDRESS-INDEVAS

EUROPEAN OFFICE:
4, AVENUE D'IÉNA
PARIS (16e) - FRANCE
TELEPHONE: KLEBER 25-10

December 20, 1965

Mr. Michael L. Hoffman
Associate Director
Development Services Department
International Bank for Reconstruction
and Development
1818 H Street N. W.
Washington, D. C. 20433

Dear Mike,

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Where the money comes from is the most interesting question. They must have had some to get as far as they have. The founding members are mostly professional joiners but not subscribers. My old newspaper nose smells fellow-traveling all through the document. It is not only the "over-industrialized countries" or the "Institute of Peace-Keeping Techniques" but the whole tone - the phoney equating of capitalist and communist to lull suspicion, the stressing of "human values". It is the kind of document Bertrand Russell might have put together.

It will take a little time to get to the bottom of this. Most people are getting ready for the holidays and it is hardly worth asking the founders themselves. Robert Buron is another "romantic enthusiast"; Scheyven is always looking for a means of hatching SUNFED in some form; François Perroux would love to find something to take over the Bank's job, etc. etc.

So this is a preliminary note.

Yours ever,

Johnnie

John Duncan Miller

December 16, 1965

Dear Johnnie:

Dec. 15/65

It is quite probable that you have also received communications from M. Guernier. As you will see from the enclosed memorandum, I am seeking your help in trying to pin this outfit down a bit more before replying on behalf of Mr. Woods. My personal inclination would be not to reply at all but this will probably be ruled out.

Joe Johnson says that Goormaghtigh suggested names of American educators to attend a meeting in September 1965 under Spaak's chairmanship to discuss the university project. Neither he nor I know whether this meeting was ever held. He suggests that you might talk to John Goormaghtigh. He read me everything in their file which shows nothing more than that John is rather favorably impressed with de Castro and thinks the initiative is worthy of support.

Sincerely,

Michael L. Hoffman
Associate Director
Development Services Department

Enclosure

Mr. John D. Miller
Director
European Office
International Bank for Reconstruction
and Development
4 Avenue d'Iena
Paris 16e, France

ack. Dec. 20/66

MLHoffman/pnn
IBRD

Dev. - Fin.

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. S. R. Cope and Mr. D. J. Fontein DF

DATE: December 15, 1965

FROM: C. H. Thompson

SUBJECT: Development Finance

Mr. Friedman telephoned today to say that he had decided to set up an informal group to whom Mr. King, who was to be in charge of general work on the availability of development finance, could refer, and he proposed that I should be included.

I suggested that Mr. van der Mel should be referred when I was absent.

CHThompson:mb

cc: Mr. van der Mel

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

x alph

OFFICE MEMORANDUM CONFIDENTIAL

TO: Mr. Woods 12/17

FROM: Michael L. Hoffman

SUBJECT: International Development Centre

DATE: December 15, 1965

DECLASSIFIED
AUG 30 2011
WBG ARCHIVES

I propose in due course to send a cautious and probably rather negative reply to the letter from M. Guernier asking for Bank collaboration with this group. But before doing so I would like to find out a little more about them and about M. Guernier in particular.

I know at least half the individuals listed as founder members. I am surprised to find some of them, including B. K. Nehru, at this particular party. Josue de Castro was once President of the FAO Council, during which term of office he created considerable difficulties for the Organization, is the winner of a Stalin (or perhaps it is a Lenin) peace prize and is, I believe, not in the good graces of the present Government of Brazil, though that in itself, of course, should not necessarily be held against him. He is a brilliant person, a good publicist and often described by those who have dealt with him as "unstable." Without mentioning any other names, I may say that the group contains a good many continental academicians whose names would very likely appear as sponsors of any organization containing the words "international" and "development." Their presence, among other things, leads me to conclude tentatively that this is not a venture that should be taken seriously by us.

I note that one of the organizations listed in the annex to Guernier's letter is the "Fondation Carnegie" as being an organization "favorable in principle whom we expect to join." I have talked with Joe Johnson, President of the Carnegie Endowment, which is the organization referred to (not the Foundation). He says that their European representative, Mr. Goormaghtigh, has had several discussions with de Castro and has been on the whole rather favorably impressed by his energy and his ideas. The Endowment has, however, made no commitment whatever to "join" anything, and is not putting up any money.

You will have noted the clause that the Centre "aims neither to supersede nor to duplicate other existing international organizations, etc." In fact, the body of the document indicates that they propose substantially to duplicate, if not supersede, the United Nations, UNCTAD, the specialized agencies, the EDI, and MIT. Guernier's article in Le Monde, of which he sent you a copy, is pegged on some obscure remarks of President De Gaulle. It urges that there be formed 100 odd "consortia," one for each developing country, incorporated in Switzerland, and presided over by an "outstanding local personality," into which all aid providers (including us) would put their money. How the money would be spent would be entirely up to the recipient government, but its consortium would give it good advice. Each consortium would borrow on the international market "perhaps with the guarantee of its administrators" and so on and so on. He wants our help in drawing up the charters of these consortia.

I think the only really interesting thing about this initiative is the question of who, if anybody, is behind it. Unless the organizers are completely irresponsible, which is at least possible, they would not be putting out a manifesto stating that they are going to found a university, operate a kind of world-wide substitute for the U.N. system, convene heads of states, and mobilize advisers to counsel them, unless they had some hope of financial and political backing. There is not a hint in the document of what this backing might be, except for the implication of the repetition of the curious term "over-industrialised capitalist countries."

I am writing Johnnie Miller suggesting that he look into this, and the group in general. If my preliminary comments turn out to be unjust, I shall hasten to inform you.

cc: Mr. Demuth
Mr. Miller
Mr. Lind

Form No. 89
(9-62)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP	Date Dec. 14, 1965

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Hoffman	

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks This letter has come in further to the booklet which I sent on to you yesterday. You might consider whether there is anything in this approach which could be helpful in our Consultative Group work, and whether there is any help we should give in answer to the writer's request.

Please send a reply to the letter with a copy to me for my information.

From G. D. Woods GDW

FORM NO. 337D
(12-61)

This is a draft translation: it has been checked by translator only, but not by reviser. Translation Section Archives Division, IBRD

Mrs. Lee

Room 1220

INTERNATIONAL DEVELOPMENT CENTER

(Non-profit-making association constituted under Swiss law.
Head Office: Servette 93, Geneva, Switzerland)

EXECUTIVE BUREAU IN PARIS

23-25 Avenue Mac-Mahon, - Tel: GAL 28-22

Paris, 8 December 1965.

Mr. George Woods,
President, I.B.R.D.,
1818 H Street, N.W.,
Wash. D.C.

Dear Sir,

Our International Development Center has just perfected a formula that will make it possible to coordinate much more effectively than at present the aid being given from many sources to the developing nations.

The institution in question takes the form of "Development Consortia" and it is to some extent similar to the consultative groups you have set up in India, Pakistan, Tunisia, etc.

But we have gone much further and we have envisaged the establishment of veritable local public agencies, set up by each of the developing countries and conforming in their articles of association to a common international pattern. In the coming months, we propose to define the form of these articles of association and of the regulations that will govern the activities of the development consortia.

The essential feature of our project is that these international agencies should act like real corporations, each with its own president (appointed by the Chief of State of the country concerned), its own directors (each representing a country providing funds but with a number of votes proportionate to the aid it furnishes), its own general manager and, what is most important, with the legal status of a body corporate. The possession of such legal status should enable the Consortium, provided it has the necessary standing, to negotiate with the World Bank, to borrow on the world market, to provide security for borrowings, to act as guarantor vis-a-vis groups of industrial investors, etc.

"Le Monde" has just given prominence to an article I have written on this subject and of which I am taking the liberty of enclosing a copy. - His. Docs.

ack Jan 6/66

TRANSLATION SECTION 1819/65

Translated From: French: 12/14/65 By: JHH:jn

I should be particularly grateful if you would let me have your frank views on this proposal and, if these are favorable, I would like to ask your organization to join with us in the preparation of the draft articles of association.

I am forwarding to you under separate cover a short report on the International Development Center of which the Bank has been previously sent a copy and I am enclosing with the present letter a list of the countries that are present members of our organization. - His. Docs.

I remain,

Yours very truly,

(signed) Maurice Guernier
Secretary General

CENTRE INTERNATIONAL POUR LE DÉVELOPPEMENT
(Association non-lucrative constituée selon la législation helvétique - Siège : Servette 93, Genève, Suisse)

BUREAU EXÉCUTIF A PARIS :
23-25, Avenue Mac-Mahon - GAL. 28-22

Paris, le 8 décembre 1965

Monsieur George WOODS
Président de la B.I.R.D.
1818 High Street

WASHINGTON, D.C.

Monsieur le Président,

Notre Centre International pour le Développement vient de mettre au point une formule qui permet de coordonner de façon beaucoup plus efficace que dans la réalité actuelle, les aides qui sont consenties de multiples parts aux pays sous-développés.

Nous avons appelé cette institution :

"Les Consortiums de Développement".

Cette formule ressemble pour une certaine part au "groupe consultatif" que vous avez créé, notamment aux Indes, en Tunisie, etc.

Mais nous sommes allés beaucoup plus loin et nous avons conçu la création de véritables établissements publics locaux, créés par chaque pays sous-développé, selon un statut-type international. Nous nous proposons de définir au cours des prochains mois, ce statut et les règles de fonctionnement des Consortiums de développement.

Ce qui caractérise essentiellement notre projet c'est que ces établissements internationaux se comportent comme une véritable entreprise avec son Président (désigné par le Chef d'Etat du pays intéressé), avec ses administrateurs (chacun représentant un pays donneur de fonds, mais avec un nombre de voix proportionnel à son aide), avec son Directeur Général, et surtout avec sa personnalité juridique.

./.

CENTRE INTERNATIONAL POUR LE DÉVELOPPEMENT
(Association non-lucrative constituée selon la législation helvétique - Siège : Servette 93, Genève, Suisse)

BUREAU EXÉCUTIF A PARIS :
23-25, Avenue Mac-Mahon - GAL. 28-22

Paris, le 8 décembre 1965

Monsieur George WOODS
Président de la B.I.R.D.
1818 High Street

WASHINGTON, D.C.

Monsieur le Président,

Notre Centre International pour le Développement vient de mettre au point une formule qui permet de coordonner de façon beaucoup plus efficace que dans la réalité actuelle, les aides qui sont consenties de multiples parts aux pays sous-développés.

Nous avons appelé cette institution :

"Les Consortiums de Développement".

Cette formule ressemble pour une certaine part au "groupe consultatif" que vous avez créé, notamment aux Indes, en Tunisie, etc.

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./.

./.

Cette personnalité juridique doit permettre au Consortium, s'il a le crédit nécessaire, de traiter avec la Banque Mondiale, d'emprunter sur le marché mondial, de se porter caution pour des emprunts, de se porter garant auprès de groupes industriels investisseurs, etc...

"Le Monde" vient de publier en excellente position un article que j'ai rédigé sur ce sujet et dont je me permets de vous envoyer une copie.

Je vous serais particulièrement reconnaissant si vous pouviez me donner votre opinion sincère sur ce projet et, si vous y êtes favorable, je vous saurais gré de bien vouloir demander à vos services de participer avec nous à la mise au point du projet de statuts.

Je me permets de vous envoyer, par courrier séparé, une courte documentation que vous avez déjà d'ailleurs, sur le C.I.D. et j'ajoute à la présente lettre la liste des pays qui font actuellement partie de notre organisation.

Je vous prie de croire, Monsieur le Président, à l'assurance de ma très haute considération.

Maurice Guernier

Maurice Guernier
Secrétaire Général

Dev. - gen.

FORM NO. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Messrs. Aldewereld, Chadenet, Demuth, Hoffman, Rosen, Cope, Kamarck

DATE: November 18, 1965

FROM: Irving S. Friedman

SUBJECT:

I am attaching a memorandum and a curricula vitae of someone whom you may already know. I have known Mr. Schuller for some time and, on a purely personal basis, he has expressed the views contained in the attached memorandum. I told him that this was the kind of thing of possible interest to many people in the Bank.

I have invited Mr. Schuller to have lunch with me on December 17 to discuss some of these thoughts and told him that I would invite others in the Bank who might also be interested in talking about these matters. At my suggestion Mr. Schuller has also sent a curricula vitae as I thought this might be of interest to those who would meet him.

Please let me know if you would like to join us at lunch.

called 11/29/65 MR.

Attachments

October 30, 1965

DEVELOPMENT FINANCE and NON-GOVERNMENTAL PARTICIPATION

Material Improvement and the Better Life

1. There has been abroad an assumption that increased material facilities will automatically improve the life of the people for whose benefit the richer nations are making available some of their resources. Yet, the better life of the people of under-developed countries does not necessarily always automatically flow from the creation of better material facilities such as transport power, etc., or from an increase of the statistically accessible total wealth of a nation.

Political Decisions

2. To some extent, it is a matter of political decisions and of social conditions whether and to what extent increased national wealth contributes to the better life of a country which is receiving external financial aid. It can be argued that political and social decisions are the sole concern of a sovereign nation and no business of a Development Finance Agency, which should confine itself to the technical problems of Development Finance.

Technical Decisions

3. However, to some extent, the impact of development projects and programs on the lives of people in under-developed countries is also a technical problem; the impact depends in many instances, to a considerable extent, on the methods which are employed for the selection and the implementation of development programs or projects. By adopting some methods and by dismissing or neglecting others for the planning and preparation of development projects, Development Finance Agencies, wittingly or unwittingly, can, in many instances, very importantly influence the benefits which accrue to the people of the host countries from the external resources made available for development. There is little doubt that in some instances a greater awareness of the implications of the methods selected by Development Finance Agencies for the planning and implementation of their programs can assure a more fruitful employment of the resources available than is possible if development is planned without regard for the social implications.

Non-Governmental Participation

4. There are many areas in which a governmental Development

Finance Agency can cooperate with non-governmental institutions and groups. One important set of relationships with great potential is the connection between, on the one hand, the World Bank, the Inter-American Development Bank, and similar agencies; and, on the other hand, private banks and financial institutions with experience of creating and promoting new worthwhile projects. Another relationship which is only beginning to be explored but promises great benefits for development operations is the participation of the ultimate beneficiaries of development projects.

<u>Civic Participation</u>

5. The active and responsible participation in the process of development by beneficiaries of development projects, rather than their passive acceptance of the fruits of such development operations, can, in many instances, assure a better employment of resources already available; it can also help to mobilize powerful new resources, both human and material. The effective enlistment of the participation of the beneficiaries of development operations can, therefore, provide a very important "multiplier" of the resources which are available for the development of under-developed areas. The enlistment of a satisfactory participation in the process of development of the beneficiaries of development programs can represent a third dimension -- in addition to funds and skills -- which is necessary to extract from the available resources the most fruitful results and, beyond that, help to mobilize new resources for development.

<u>Technology of Civic Involvement</u>

6. The enlistment of the participation, on satisfactory terms, of the beneficiaries of aid and development is a highly technical matter. There is available a considerable body of technical expertise to assure that the involvement of beneficiaries of development projects is encouraged on terms satisfactory to all parties. The relevant techniques have been developed in such areas as Welfare, Community Development, Civic Education, etc. There is no doubt that much of this experience could, with proper modifications and adjustments, be made available for practical use by Development Finance Agencies.

<u>Research and Experimentation</u>

7. If there is acceptance of the principle that it is desirable

to bring about effective participation in the process of development by the beneficiaries of development projects, efforts should be made to study the available techniques in relevant areas. As a first step, it would be useful to initiate some research to assemble information regarding the techniques which seem relevant in this respect, and to analyze the experience gained from the employment of such techniques in other fields. In the second instance, there might, in the light of the information gained, be initiated a series of controlled experiments which would provide material for relevant operational research to indicate in a practical way the benefits which can be derived from the employment in the area of development finance of the techniques of civic involvement. In the light of such operational research, there might then, as a third stage, be mounted a number of pioneer projects to indicate the benefits to be derived from participation of beneficiaries of development projects, and the difficulties and costs of employing these methods. A comparison of the costs and benefits, based on the experience of such pilot projects, should then indicate whether further efforts in this area are worthwhile and, if so, how such efforts should be organized.

Record Removal Notice

File Title	Barcode No.
Operational - Development - General - Correspondence - Volume 7	30132382

Document Date	Document Type
28 December 1965	Memorandum

Correspondents / Participants
To: John Duncan Miller
From: Jean-Pol Simond

Subject / Title
The International Development Center

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
A. Miller	Aug 30, 2011

Devel op - Gen.

IDA	IBRD	IFC

FORM NO. 92
(10-61)

CORRESPONDENCE RECORD FORM

FROM	DATED
MISSION PERMANENTE DE LA BELGIQUE Rockefeller Plaza, New York	Nov. 17, 1965

SUBJECT
Letter enclosing copies of Scheme to Increase Development Investments in Less Advanced Countries.

REFERRED TO	DATE RECEIVED
Mr. Friedman	Nov. 19, 1965 jgv

Files Dev. Fin.

November 16, 1965

Mr. Javier Marquez
Centro de Estudios Monetarios Latinoamericanos
Durango 46
Mexico City, Mexico D.F.

Dear Javier:

The subject discussed by Jorge Gonzales del Valle in his preliminary study on the reform of the international monetary system has interested me very much. As I told you, when we last saw each other in Washington, I have been involved in this subject and its implications for developing countries as part of my consulting activities for this Bank, and I am also giving a seminar on it at the American University. I found the summary description of the various plans very lucid, and I am sure that this paper has already helped in discussions at policy and international levels among Latin Americans and with others.

The time to discuss plans in abstract or academic ways has passed, I believe, and there is need now to concentrate on possible courses of action, keeping in mind the position, interest and weight of the various countries. For instance, at the last Bank and Fund meeting developing countries had little to offer, but signs of protest against the "group of ten"; there was no accord of interests or ideas, and the few positive statements emanated from developing countries which had demonstrated an ability to run their affairs in relatively good order. There was no ready answer to the question, raised by the "group of ten", that developing countries need resources rather than reserves, and to the doubts expressed as to whether reserves provided for liquidity could be held to such purpose, or would be "fixed" in investments, with subsequent calls for more reserves and more resources to come. To the view expressed by some delegates of developing countries, on the other hand, that "the ten" would be prepared to create reserves out of "thin air" for themselves, but not to do so for other countries, the answer given by several European delegates was that the creation of reserves involves risk and ability by each to provide real resources on behalf of others, in a reciprocal way, and that such reciprocity of risk and ability could not be counted upon in any large and amorphous group. A great progress has since occurred, apparently and in a very short time, as it seems that at the meeting of the United Nations Conference on Trade and Development, in New York, the developing countries have taken a more realistic view of, and advanced countries and international institutions given more positive attention to, the problem. The following points may be noted, both as a broad and personal comment to del Valle's paper and as suggestions for thought:

1. The present monetary system is neither all gold or all credit but a three layer structure consisting of owned reserves (generally gold and recognized reserve currencies not necessarily convertible in gold, but generally

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1. The present monetary system is neither all gold or all credit but a three layer structure consisting of owned reserves (generally gold and recognized reserve currencies not necessarily convertible in gold, but generally

available for unrestricted payment purposes); borrowed reserves, in the form of unrestricted lines of credit but subject to definite commitments as to policy and timing; and conditional (or borrowable) reserves, whose availability and use is subject to case by case agreement between the creditor and the debtor countries. The maintenance of this system is based on the full acceptance of an adjustment process, which, so far, has been tested successfully by "the ten" and by a few countries outside the group.

2. The various proposals, that have been advanced for monetary reform, may be examined from three standpoints--those intending to inject greater automaticity, those involving closer mutualism, and those proposing the imposition of a supernational regulatory mechanism. To the first group belong the proposals for a return to the gold standard, of pre-1914 vintage, or the adoption of floating exchange rates; to the third group the various ideas of a super-central bank regulating the flow of international credit, the exchanges, and the currencies of all its members. Neither one or the other has, in my opinion, a chance of succeeding. A return to the gold standard, apparently favored by France, would be rejected strenuously by the United States and the United Kingdom; fluctuating exchange rates, dear to American academicians, have been rejected by the authorities of "the ten" and, if adopted, would be taken as a sign of failure rather than success. A supernational monetary authority will under no condition be accepted by "the ten", since the arguments favoring it are on the side of unrestricted expansion; if adopted, it would not solve problems of liquidity and credits, but simply transpose their solution from one to another arena (as the history of the IMF should already have taught). Nor is there much likelihood that a European central bank will be set up, in a regional surrounding, in view of the sharp differences as to procedure and purpose of reform prevaling among "the ten". There remains the course of evolution from the present monetary system, toward more cohesive, broader and permanent relations, on which accord is being sought at present.

3. Even in this course differences of views are great. There is agreement that the maintenance of stability and convertibility among the advanced currencies would help to sustain free trade and open capital markets--the former to help exports of commodities from, the latter the flow of funds to developing countries. There is also agreement that the wide cyclical swings of commodities--exporting countries needs be supported by special reserves or compensatory financing; the latter has been under experiment and study by the IMF, IBRD, and other international organizations. There is, thirdly, the common view that the provision of developing financing and liquidity reserves are two separate problems and that the same principles could not be applied for a system of liqudity reserves for advanced and developing countries; such a view is strongly held by Europeans, and although subject to qualifications, it has hardly been object of rebuttal. Where agreement seems to be emerging is on a need for a linkage between the creation of liquidity reserves for the advanced countries and additional finance for the developing countries--whether for liquidity or developing purposes.

4. While these avenues are being explored for a more systematic flow of financing, that would add to liquidity and sustain investments for developing countries, ad hoc actions will continue to be taken in a pragmatic way, as they have been in the past. These are likely to include further

increases in resources and liberalization on drawings by the IMF, new arrangements for the financing of and by the IBRD and its allied institutions, and generally stronger efforts to shift official or regulated financing away from advanced towards developing countries. Most or all of these ad hoc measures will eventually be merged into an overall scheme of monetary reform, as it will evolve concurrently with them.

5. There are, however, some clouds on the horizon, which do not promise too well for the increase in the overall flow of resources to developing countries. In the first place, the very rapid advances in the economies of "the ten" has so far been largely concentrated in the private sectors of production and consumption, and rising social pressures and the need to improve the superstructure of education, health, communications, etc., are now adding to financial and economic pressures. Thus, the balance of payments difficulties of the United States are compounded with domestic pressures; several of "the ten" (Netherlands, Japan, Italy) are still recovering for the internal adjustment process; and others (Germany) are feeling the pangs of high internal and external pressures. The near-exhaustion of surpluses of agricultural products in the U.S. will diminish the role of this type of aid in meeting basic needs and alleviating social and economic pressures in the weakest of the developing countries (India). All this points to the fact that the debate on monetary reform may prove to be only one of many points at issue between advanced and developing countries in the years to come. In fact, it may prove to be one of the least significant, when compared with the greater problem of developing countries of how to it maintain their rate of growth with comparatively more of their own, and lesser of others' resources.

These personal comments have gone beyond my original intent, as you may see, but I hope that they might interest you in the broader framework of your concern for Latin American and other developing countries.

I hope to hear from you some reaction to these comments and I hope to have an opportunity of exchanging again these views with you. With all my best, I am

Cordially yours,

Frank Tamagna

FTamagna;lr
cc: Messrs. Kamarck, de Vries, de Fontenay, Friedman

Develop-Peru.

Mr. John A. Edelman

November 10, 1965

Benjamin B. King BBK

I attach a project manual sent me by Mr. Eugene Grasberg, of the National Planning Association, who was introduced to me by John Adler. I am still not clear what he is after, but it seems to me that we might at least see whether his manual is at all useful. If it is, I thought that Africa would probably be the most likely place. Any opinion?

I have also suggested, as you will see, that he contact Mr. Waterston.

Attachment: Guide de Preparation des Projets de Developpement, Octobre 1963

plus copy of incoming letter from Mr. Grasberg
(one copy of this letter also sent to Mr. Waterston)

Dev-Pan.

Mr. Friedman

October 20, 1965

Richard H. Demuth

RHD

A Project for Research and Experimentation: Civic Participation to Assist Economic Development - by Erwin Schuller

Concerning your memorandum of October 18 on the above subject, the copy of Mr. Schuller's paper which you sent to me had only Attachment I with it, which contains some nice generalities about the desirability of getting public participation in the development effort. Attachment II, which is described as indicating how a research project to achieve such civic participation might be carried out, was not included. As a result, I cannot react to Mr. Schuller's proposal except to state a general feeling that it is not down our alley.

RHD:tf

Dec-Pen.

IDA	IBRD	IFC

FORM NO. 92 (10-61)

CORRESPONDENCE RECORD FORM

FROM
UNITED NATIONS, New York

DATED
Sept. 24, 1965

SUBJECT
Re: Invitation extended to the IBRD on Aug. 3 to send an observer to the forthcoming meeting of experts on the subject of measuring the flow of capital to developing countries and that arrangements for the session have how been finalized.

REFERRED TO
Mr. Gordon

DATE RECEIVED
Sept. 27, 1965

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date

NAME	ROOM NO.
~~Mr. Cope~~	651

	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

From Rafiuu 641

Development Aid N.Z.Z., 6/4, Washington. In a report published by the U.S. Administration's Agency for International Development it is suggested that the assistance granted by industrialised countries to development countries should be reduced. In this connection it is stated that the current debt and interest burden represents an obstacle to progress in development countries. According to the report, the industrialised countries are spending more than $5 milliard a year on development aid, compared with $1 milliard in 1955. Should aid continue to be granted to the same extent as at present, development countries' outstanding debts will by 1975 have reached three times the present figure.

Dev. - Gen.

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Geoffrey M. Wilson

DATE: April 19, 1965

FROM: A. Broches

SUBJECT: Source of Funds for Development - Bilateral vs. Multilateral vs. Regional

It is frequently said that the creation of new channels for development assistance, and particularly the creation of new institutions, is not going to lead to an increase in funds for development. I think that it can probably be demonstrated without much difficulty that the statement is not true. On the other hand, while the total funds for development may be increasing, partly in response to the pressure of new institutions, there can be no doubt that there is a serious competition for development funds. The competing claimants used to be the multilateral (World Bank and IDA) vs. bilateral groups. More recently they have been joined by the regional institutions (European Investment Bank, Inter-American Development Bank, soon the African Development Bank and on the horizon an Asian Development Bank).

There is very little we can do on the bilateral/multilateral front except to continue pressing our case to administer an increasing share of funds for development. The entrance of the regional institutions on the scene presents some special problems which may call for special handling.

You may remember that the other day George Woods questioned the attitude of the Dutch Government in treating the Coal and Steel Community, the EIB and ourselves on an equal basis with respect to access to the Dutch market. Since Holland is a member of these two regional institutions I find it difficult to quarrel with the Dutch attitude. The same is true for issues in the United States by the Inter-American Development Bank. I think one might well consider these regional institutions as something in between bilateral and multilateral and once they have been created we cannot object to a portion of the development funds made available by members of the regional institutions to be channeled through these institutions. Matters are different however, and I do think we have grounds to complain, when a regional institution tries to raise funds outside the region. I have in mind the case of the Inter-American Development Bank which is trying to get access to European markets on the same terms as we and in addition is trying to obtain direct contributions from governments outside the region. I think it can well be argued that funds from outside the region should be channeled either bilaterally or multilaterally, that is to say through the Bank/IDA group. This is not to say that the European countries could not cooperate with the IDB, for instance by joint financing of particular projects which would really be a form of combined bilateral/regional financing.

$24m. Lire 1962
$15m. DM 1964
$8.4m U.K. 1964
Spain band neg.

I wonder whether you agree that this is a battle worth waging. The subject came up the other day in a conversation I had with George Woods and he said that he had once made these precise points to Secretary Dillon who at that time had not been impressed at all, saying that the first order of business was to get money out of Europe.

The African Development Bank and eventually the Asian Development Bank will present a problem in a less pure form, since they won't have capital exporters among their members and will have to be helped by non-members. However, I believe that the demarcation of hunting grounds will become increasingly important and is a subject that the capital-exporting countries might well be made to think about.

Dev Gen

March 2, 1965

Mr. James A. Black
Agricultural Economist
Membership Relations Branch
Farmer Cooperative Service
United States Department of Agriculture
Washington, D.C. 20250

Dear Mr. Black:

Thank you for your letter of February 25, 1965, summarizing the February luncheon meeting and informing me of the March meeting of representatives of agencies interested in international cooperative development.

It is my hope and desire to have the opportunity of attending some of the further meetings when the pressure of work and a heavy travel schedule will allow. I have also asked Mr. Stoops of the Agriculture Division to attend the meetings whenever possible. I am sure you will understand, however, that members of the professional staff of the Bank are called upon to make frequent trips overseas, and that our absence from some of the meetings should not in any way be interpreted as a lack of interest in the subject matter presented.

Sincerely yours,

Lionel J. C. Evans
Assistant Director - Agriculture
Projects Department

DS:nw DS

March 2, 1965

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Assistant Director - Agriculture
Projects Department

DS:mw

Dev. - Gen
Copy - Dev. Banks - Gen.

Service-Oriented Profit-Making

THE ROLE OF PRIVATE INSTITUTIONS IN DEVELOPMENT FINANCING

March 1965

WILLIAM DIAMOND

International Finance Corporation

THE PHILOSOPHY OF THE World Bank family, in dealing with development finance companies, is that it is possible to combine profit-making with a development orientation. And not simply possible. If a development finance company is providing financial, technical and entrepreneurial services which are in demand and not being adequately supplied, then it is service-oriented in the best sense of the term. The prospect of, indeed the need for, profit makes it possible to provide these services, to mobilize capital, both at home and abroad, and to take the risks which investment entails. The combination of profit-making with an orientation towards providing services crucial to economic development is, indeed, the fundamental justification lying behind assistance from the World Bank group to a development finance company.

The kind of company which we prefer to deal with is one which is national both in identity and outlook, vigorous in the promotion of productive investment, yet prudent in the conduct of its affairs. It seeks to promote industrial and other development on business principles in the interest of the sound economic growth of the country. It performs a valuable function by identifying promising fields for investment and helping to bring together the factors of production. By becoming an active and important element in a country's capital market, it helps mobilize domestic savings and, in combination with technical know-how, directs them into productive activities. At the same time it becomes a channel through which foreign and international capital and skills can flow into the national economy, reaching enterprises too small to be able alone to attract foreign capital and technology.

Not all private financing companies fit these criteria. But some do, and many can; and when they do, they become powerful instruments for the promotion of industrial development.

Two Crucial Functions

Let me illustrate two crucial functions of private development finance companies. The difficulty of finding capital bears very heavily on new large-scale enterprises and on relatively small- or medium-sized companies making that crucial jump to large-scale production. The needs of such enterprises are usually specific and evident. They need equity capital, not only for fixed assets, but also for the permanent working capital necessary to start production or to achieve and sustain higher levels of production. Private development finance companies can provide that equity. They can also, in the process of doing so, seek to arrange wide distribution of that equity. There are few tasks more important to the economic and political welfare of the developing countries, particularly in Latin America, than the widespread distribution of ownership of enterprise. Let me give you two examples of how private development finance companies in Latin America are working to provide equity capital and to distribute ownership.

The first case is that of Forjas de Colombia, in which two Colombian financieras—working with IFC—are helping to promote and finance the establishment of a new industry of high economic priority. The story goes back to 1961 when a group of private Colombian investors, principally from the Bucaramanga area, were drawn to the possibility of setting up a forge plant. The project appeared attractive for a number of reasons. Colombia is a heavy importer of forgings, and the creation of this new industry will save a significant amount of foreign exchange. Moreover, a forge plant seems a logical development in the metal-working industry emerging from the existence of the Paz del Rio steel mill.

The group engaged a German forge expert to make a basic study of the feasibility of the project. His analysis convinced them that they should go ahead and, after reviewing several offers, a contract for the design and construction of the plant as well as for machinery and equipment was placed with the important German engineering concern of Rheinstahl, which also took a substantial share interest. However, it became clear very soon that the capital required for the project was more than the original group could provide. They decided to approach other sources, starting with the Corporación Financiera Colombiana of Bogota and the Corporación Financiera Nacional of Medellín, with whom they had connections. Subsequently, other investors—both Colombian and foreign—were brought in; and the government gave its blessings in the concrete form of special privileges of various kinds and of an equity investment by the Instituto de Fomento Industrial.

IFC was invited into the picture by the financieras in late 1963 to provide the missing portion of share capital. IFC appraised the project (in the company of the financieras) and liked what it saw: a project of high priority in Colombia with prospects of suitable financial return, to be carried out and operated by capable and experienced sponsors and management. However, it became clear that the financial plan was not adequate, and that the project needed additional equity financing. A new financial plan was accepted by the promoters of the enterprise and, as a

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WILLIAM DIAMOND is Director of the Development Finance Companies Department, International Finance Corporation. After serving as an economist on U. S. missions in Turkey and Czechoslovakia, and as economic advisor with UNNRA, he joined the International Bank for Reconstruction and Development (World Bank) in 1947. He rose to Assistant Director of Operations, Western Hemisphere, and served in that post until he was transferred in 1962 to his present position in the IFC. This article is drawn from a speech at the First Latin American Meeting of Development Financing Institutions in December 1964.

result, it was possible to go ahead early this year with plans to complete the more than $14 million of financing needed to carry out the project. Of this amount, $6.5 million is being provided in the form of share capital. $4.0 million had previously been subscribed by private individuals and industrial and financial institutions, including the two financieras. As a result of the reappraisal, IFC agreed to take up $1 million Forjas stock; the two financieras, together with IFC, are underwriting the placement of another $1 million; and the newly formed ADELA is subscribing to $500,000.

This underwriting arrangement represented something new in Colombia. It was a true underwriting, perhaps the first true underwriting of a public issue of capital stock in that country. Other publicly-owned Colombian companies have, as a rule, relied on placing their stock privately, generally by offering rights to their shareholders; and so-called "underwritings" have in fact been "best-efforts" arrangements which carry no commitment and leave the company in doubt about whether it will have all the finance it needs. In this case, the financieras and IFC guarantee to place the shares, both inside and outside of Colombia, or themselves to take up what has not been placed in a specified time. The sponsors of Forjas can now proceed in the knowledge that their financing is assured.

The Role of the Financieras

I do not want to overemphasize the role of the financieras in this important operation, but I do want it fully appreciated. The financieras did not conceive the project; that was done by the promoters of Bucaramanga; but the financieras very early recognized the important economic contribution which this project could make to Colombia and decided to support it, despite the risks involved in establishing a new enterprise in a new field of industry. They backed up their decision with substantial investments in share capital.

The financieras then played an important part in interesting other investors, including investors in Germany, and the IFC. In the course of studying the project with IFC, they helped transform its financial plan and put it on a sounder basis. By participating in the underwriting, they are not only assuring that this important project can go ahead, but are pioneering a new type of financial service in Colombia. Finally, the shares they earlier subscribed, as well as the shares they have now underwritten, together constitute a pool of shares which one day, some sooner and some later, will be held by the Colombian public. For it is the policy of each of these financieras to work actively to widen the ownership of and market for industrial securities and to revolve its portfolio to a reasonable extent, when it can do so on a profitable basis, in order to assist in the growth of the capital market in Colombia.

This case also illustrates a point about IFC policy, to which I should like to refer. We prefer to work together with, rather than independently of, domestic financing institutions. If a well-run development finance company exists in a particular country, especially if it is one in which the World Bank family has a financial interest, our policy is to work with it, in joint investments. We would refer applications that came to us to that company. And we would expect that company to come to us to participate in a project which is too large for it to handle alone or if for some other reason our presence would serve a useful purpose.

Expanding Existing Production

The Forjas case involves promoting a new enterprise. Development finance companies can also assist in expanding capital markets to meet the equity needs of existing companies. A company may be able to finance its expansion from its own earnings or by offering rights to its shareholders. But one day it may find that its needs outrun such resources and that it must seek additional funds from the public—from domestic or foreign investors or both. Such a situation occurred in the case of Compañía Fundidora de Fierro y Acero de Monterrey, the largest privately-owned steel company and the second largest producer of steel in Mexico. Here again is a case in which IFC collaborated, but this time with a development finance company in which it does not have a financial interest.

Fundidora is an old and well established company (it was founded in 1900) which in recent years had experienced a sustained rate of growth matching that of the Mexican economy. In 1954, it started a modernization and expansion program to increase its capacity from 200,000 to 500,000 ingot tons of steel. This required close to $100 million. In the last stage of this program, in 1962, Fundidora lacked something over $5 million which were needed in the form of equity. The company's bankers, the Banco Nacional de México, and its investment subsidiary, the Crédito Bursátil, felt that a sum of this magnitude could not be obtained at that time from the existing shareholders. They felt that in the circumstances prevailing in Mexico early in 1962, it would not be prudent to try to raise additional equity by an offer of subscription rights without an underwriting syndicate prepared to subscribe any stock not taken up by shareholders and recognizing that it might have to hold much of the stock it took up for some time to come. They also felt that outside participation in that syndicate was essential.

Accordingly they approached IFC, which decided to invest $1.1 million. It also joined forces with Crédito Bursátil to underwrite a rights offer to raise the remaining $4 million. The IFC obtained three sub-underwriters in the United States and Switzerland to share its commitments. Despite the fact that conditions in the capital market in Mexico were not propitious and that there was abroad a monetary hesitation about Mexico, the underwriting was a complete (and, incidentally, an unexpected) success.

This story has a sequel. By early 1963, Fundidora had completed one expansion program, but by late 1963, its operations were approaching capacity because of the rapid increase in Mexican demand for steel. Therefore, it decided to proceed without delay with another round of expansion, aimed at raising output from 500,000 tons to 750,000 tons a year. It needed more than $55 million in order to complete this program, of which $12.5 million would have to be raised publicly in the form of equity capital. Market conditions in 1964 promised to be as favorable as they had been unfavorable for the earlier underwriting in 1962.

Nevertheless, in view of the size of the offer, it was again considered prudent to form an underwriting syndicate. Accordingly, IFC joined Crédito Bursátil again in a syndicate to carry out the biggest underwriting operation ever attempted by a private concern in the Mexican market. The American and Swiss companies that had joined IFC in 1962, joined again in 1964; but this time 7 Mexican institutions joined Crédito Bursátil. Moreover, while in 1962 Crédito Bursátil took only 25% of the underwriting commitment, it took 50% in 1964. Today, it is a matter of record that the underwriting was a complete success and that over 99% of the issue was subscribed almost immediately.

What was the importance of these underwritings? What did the Crédito Bursátil, working with the IFC, achieve? In the first place, of course, an important enterprise received the funds it needed to carry out important expansion programs. Secondly, the underwritings showed that Mexican investors—who by tradition have preferred fixed-income securities—can be persuaded to support well-conceived share offers, even very large ones. As a result of the 1962 underwriting, the number of Fundidora's shareholders increased from 700 before the underwriting to 2,500 afterward, evidence enough of the existence of an important potential source of industrial financing, which the right kind of institution can tap if it comes forward with the right kind of proposal. Further, the underwriting helped establish investment banking contacts abroad for Fundidora and showed that a company geared primarily to serving the domestic market in a developing country can prove attractive to foreign investors.

Five Contributions of Finance Companies

I have dwelt at some length on these cases because they illustrate certain functions which the service-oriented development finance company can perform in the pursuit of its objectives.

Firstly, promotion of new industrial enterprise. The Forjas case illustrates the entrepreneurial role of a development finance company, which needs to be able to pick up a good and important idea, help transform it if necessary to satisfy sound economic, engineering and financial standards, and help arrange the finance the project needs.

Secondly, provision of equity. In both cases, adequate loan funds were available; what was missing was the equity capital necessary for a sound financial plan. The development finance companies involved were prepared to take the risk of investment in share capital.

Thirdly, broad distribution of ownership. In both cases one technique adopted to provide equity was by true underwriting—by seeking to mobilize capital from the widest possible public, both at home and abroad, thus stimulating the capital market. This required particular courage in view of the thinness of that market. In the Forjas case, the financieras run the risk of having to hold on to the shares until the project is in operation and proves its profitability. In the Fundidora case, the underwriters ran the risk of momentarily unfavorable circumstances abroad and of an unusually large flotation for the home market.

Fourthly, mobilization of private savings. Except for the IFC contribution, the capital required in both cases has come from private savings, and represents an important contribution of private savings to industrial investment.

Fifthly, introduction of foreign capital. In both cases the financieras brought foreign financial institutions into the picture, to meet the needs of the particular cases. More importantly, they established permanent banking contacts abroad for the enterprises concerned, and gave the foreign institutions concerned a financial involvement in the countries.

Not all private development finance companies are prepared to or can act in this way. They fear the risks of equity investment, especially in new enterprises and in enterprises which they do not control; and they fear freezing their resources. These fears reflect dangers which are real. But they are not always as great as is sometimes thought.

The risks are not so great if they involve the shares of well-designed and timely projects, for which the economy of the country provides a basis and which give promise of profits commensurate with the risks incurred. In many countries an investing middle-class public is emerging, prepared to acquire seasoned industrial shares. In Peru, the shares of Lima Light and Power move actively, despite the very thin market for shares. In Colombia, Coltejer has more than 25,000 shareholders and Bavaria more than 60,000. A development finance company which is ready to take the risks of investing in equity, which is able to hold on until those shares prove profitable, which actively seeks to educate the public in the advantages of industrial ownership and to broaden the distribution of the shares it acquires may find the risks of liquidity less than is supposed. Its task of selling in due course, in order both to renew its own resources for new investments and to broaden ownership, will be facilitated to the extent that it has won public confidence in its own performance, that is by the profitability and safety of its investments.

I would submit that these functions can most advantageously be carried out by a private company. The classical relationship between an enterprise and its investment banker is one of great and continuing intimacy, particularly where share capital and the ownership it represents are involved. That kind of intimacy is often impossible between a private enterprise and a government bank. Where it is possible, it may be unacceptable to both sides; governments will not normally want to be involved in the ownership of private securities; private entrepreneurs, however much they seek government support, may not want government participation in ownership.

The examples I have given would not have been possible, nor are the objectives they were meant to illustrate be capable of achievement, in countries where the general climate is not conducive to private investment. A development finance company, public or private, designed to mobilize savings and channel them into private investment and to broaden the ownership of private securities, will be crippled or helpless in an atmosphere of monetary instability or of political uncertainty or in the presence of that myriad of factors that work to undermine investor confidence. A development finance company cannot provide, in the nation's company law, for adequate protection of minority shareholders; it cannot alone lead the business community to understand the importance of independent public accountants; it cannot create conditions which will lead a citizen to save rather than spend. Government has the principal responsibility for creating the right climate and conditions for taking entrepreneurial risks and for promoting the expansion of industry.

In the last analysis a development finance company can do little to broaden the capital market, unless the broadening of the capital market is a conscious objective of government policy. It is an objective that can be met only if government encourages the flow of private domestic and foreign capital into industrial ventures, supports the establishment of private financieras and builds public confidence in capital markets. It is no coincidence that, for the most part, those countries of Latin America, where industrial progress has been most rapid and where expansion of the private sector has achieved most in raising living standards, are also countries in which active capital markets have begun to develop.

LE RÔLE DE L'INSTITUTION PRIVÉE DANS LE FINANCEMENT DU DÉVELOPPEMENT

Abrégé

UNE FORME D'ESPRIT *semble prévaloir qui veut que les agences de développement gouvernementales soient essentiellement dirigées vers la création de services, tandis que les sources financières privées seraient nécessairement intéressées aux bénéfices. Il y a pourtant de bonnes raisons de croire que les agences de développement privées peuvent allier les deux qualifications. Il y a un besoin aigu de participations capitales dans les entreprises en développement, et le financement privé peut y subvenir.*

Un exemple qui illustre ceci nous est fourni par Forjas de Colombia, une entreprise nouvelle qui fut créée avec la participation de plusieurs agences de développement privées. Avec l'approbation du gouvernement, ces agences souscrirent avec succès le capital nécessaire à la mise en train d'un projet solide et de haute priorité dans un pays en développement. le rôle des agences locales de financement était strictement limité; elles n'avaient pas conçu le projet, qui était l'oeuvre de promoteurs privés; mais elles avaient reconnu de bonne heure l'importance économique du projet, auquel elles avaient donné leur appui, et elles jouèrent un rôle important pour attirer des actionnaires étrangers. L'International Finance Corporation a toujours cherché à opérer en collaboration avec les institutions financières locales plutôt qu'indépendament d'elles.

Un autre exemple nous est donné par la Compania Fundidora de Fierro y Aciero de Monterrey, au Mexique. L'IFC ici aussi collabora avec une agence de développement locale, le Credito Bursatil; cette fois-ci pourtant l'agence en question n'était pas une dans laquelle l'IFC avait un intérêt financier. L'IFC s'allia avec le Credito Bursatil pour souscrire une offre de participations afin de réunir les fonds requis par la Fundidora en vue de son expansion, et obtint trois sous-souscripteurs aux Etats Unis et en Suisse pour partager ses engagements. Malgrès la situation défavorable dans le marché des valeurs au Mexique à l'époque de la transaction (1962), la souscription fut un succès total. Vers la fin de 1963, les opérations de la Fundidora approchaient à nouveau la capacité de production, et une nouvelle expansion devenait nécessaire, entraînant un financement de $50,000,000: la souscription la plus importante jamais tentée par une société privée au Mexique. Un syndicat de souscripteurs fut formé à nouveau par l'IFC et le Credito Bursatil; les banques américaines et suisses qui s'étaient jointes à l'IFC en 1962 se joinrent à nouveau en 1964; mais cette fois sept autres institutions mexicaines se joinrent en plus au Credito Bursatil. La participation nationale, qui n'avait été que de 25% en 1962, passa à 50% en 1964, et plus de 99% de la souscription furent absorbés presque immédiatement. Le nombre d'actionnaires de la Fundidora augmenta de 700 à 2500, démontrant l'existence d'une importante source potentielle de financement industriel, à laquelle peut accéder l'institution financière sérieuse soumettant un projet sérieux.

La compagnie de financement de développement économique, orientée vers la création de services, peut accomplir plusieurs fonctions en poursuivant ses buts: promotion d'entreprises industrielles nouvelles, provision de participations résiduelles, distribution plus vaste de la propriété, mobilisation des fonds d'épargne privée, introduction de capitaux étrangers. Toute compagnie de financement économique a

LA TAREA DE LAS INSTITUCIONES PRIVADAS EN LA FINANCIACIÓN PARA EL DESARROLLO

Resumen

EXISTE UNA CREENCIA DIFUNDIDA *de que las agencias de desarrollo gubernamentales están orientadas esencialmente hacia prestar servicios, mientras que las fuentes de financiación privadas deben necesariamente realizar ganancias. Sin embargo, existen buenaz razones para creer que las agencias privadas para el desarrollo pueden a la vez prestar servicios a la economía nacional y operar en forma lucrativa. En los paises en vías de desarrollo existe una necesidad crucial de capital accionario, y la financiación privada esta en condiciones de proveerlo.*

Un buen ejemplo de semejante arreglo puede observarse en Forjas de Colombia, una empresa nueva que nació con la participación de varias agencias financiadoras privadas. Con el beneplácito del gobierno, estas agencias consiguieron suscribir el capital requerido para iniciar un proyecto de gran prioridad, sobre bases sólidas, en un pais en vias de desarrollo. El papel de las agencias financiadoras locales está claramente definido en el sentido de que las mismas no concibieron el proyecto—esto fué obra de promotores privados—pero sí reconocieron en una fase temprana la importancia económica del mismo, al cual dieron su respaldo y jugaron un papel importante en atraer a inversionistas extranjeros. La política de la Corporación Financiera Internacional ha sido consistentemente la de trabajar en colaboración, más bien que en forma independiente, con las instituciones domésticas.

Otro ejemplo de ello puede observarse en el caso de la Compañía Fundidora de Fierro y Acero de Monterrey, Mexico, donde la CFI aunó fuerzas con el Crédito Bursátil para suscribir una opción a conseguir los fondos requeridos por la Fundidora para su expansión, y obtuvo el apoyo de tres co-suscriptores en los Estados Unidos y en Suiza para condividir su compromiso. A pesar de las condiciones desfavorables para el mercado del capital en México en el momento de la transacción (1962), la suscripción fué un éxito completo. A fines de 1963 las operaciones de la Fundidora se acercaban nuevamente a su plena capacidad, por lo que se necesitaba una nueva expansión que implicaba la financiación de 55 millones de dolares—la suscripción más grande jamás intentada por una corporación privada en Mexico. Se formó una vez más un sindicato suscriptor entre la CFI y el Crédito Bursátil; los mismos bancos norteamericanos que habían apoyado la CFI en 1962 volvieron a juntársele esta vez, pero en esta oportunidad también siete instituciones mexicanas acompañaron al Crédito Bursátil. La participación doméstica, que fué solamente del 25% en 1962, alcanzó el 50% in 1964, siendo más del 99% de la emisión suscrito inmediatamente. En la transacción, el número de accionistas de La Fundidora aumentó de 700 a 2.500, indicando la existencia de una importante fuente potencial de financiación industrial—que la institución apropiada puede aprovechar si se adelanta con la propuesta apropiada.

Existen muchas funciones que una compañia financiera privada, orientada hacia prestar servicios, puede desempeñar exitosamente en el cumplimiento de sus objetivos—en términos de promoción de nuevas empresas industriales, provisión de capital accionario, distribución más amplia de la propiedad accionaria, mobilización de ahorros privados e introducción de capital extranjero. Existen naturalmente temores de parte

des raisons évidentes de craindre les risques attachés à la traite de participations capitales, mais ces risques sont diminués quand il s'agit d'actions d'entreprises bien conçues et venant à leur heure, et la confiance du public se gagne avec le temps dans la mesure où l'on peut se vanter d'un bilan d'actions passées profitables. Il incombe au gouvernement d'un pays de créer le climat de sécurité politique et économique nécessaire à la création et au développement d'entreprises industrielles. Ce climat étant favorable, les fonctions énumérées peuvent être avantageusement remplies par une compagnie privée.

de las financiadoras privadas en efectuar inversiones accionarias en empresas de desarrollo, pero los riesgos en realidad no son tan grandes si se refieren a proyectos bien concebidos y oportunos, para los cuales pueda ganarse con el tiempo la confianza del público; y tales funciones pueden llevarse a cabo en forma mas ventajosa por una empresa privada.

Reprinted from the INTERNATIONAL DEVELOPMENT REVIEW, Vol. VII, No. 1, MARCH 1965.

Dev. Gen.

Mr Sloops

Pl. speak to me on March 1

LJCE 2/27

UNITED STATES DEPARTMENT OF AGRICULTURE

FARMER COOPERATIVE SERVICE

WASHINGTON, D.C. 20250

February 25, 1965

Mr. Lionel J. C. Evans
Chief, Agriculture Division
Dept. of Technical Operations
World Bank
Washington 25, D. C.

Projects Dept. Correspondence
ANS'D BY Mr. Evans
DATE March 2, 1965

Dear Mr. Evans:

The February luncheon meeting for promoters of international cooperative development sponsored a program with 4 participants explaining programs in the development of cooperative credit.

Mr. Clarence Murphy, Global Projects Director, CUNA, had been on the program in the January meeting but had insufficient time to describe CUNA's projects. In the February meeting Mr. Murphy was able to brief the group on credit union development during the past year. The statistics on membership, loans outstanding, and savings in Peru, Brazil, Colombia, Bolivia and Ecuador give good evidence that efforts to mobilize capital through credit unions have been fruitful.

Mr. Albert Marbel, Chief of the Latin American Bureau, AID, spoke on his concern with all types of cooperatives and efforts to integrate cooperative endeavors in housing, consumer cooperatives, credit unions, banking, insurance, etc. Mr. Marbel looks favorably on credit unions as a mechanism to distribute money in small amounts for development banks and indicated that this is being done by Latin American credit unions on a voluntary basis.

Mr. J. T. Houk, representing the Inter-American Cooperative Bank Development Program, explained how his organization is working to provide technical assistance to adapt cooperative financing similar to the United States system for use in South America.

Arthur H. Pursell, International Cooperative Development Section, AID, explained the relationship between AID and the private organizations working in the field of credit. He pointed out that AID is helping the organizations do more of what they were already doing.

Mr. Pursell supported the use of credit unions on the grounds that they are putting hoarded money into circulation. In addition, the savings on interest costs in Latin America are estimated to have been $3.5 to 4 million in 1963. Savings and loan associations, while not cooperatives, have been very effective self-help tools. Since the first was formed in Chile in 1960, 80 have been added in Latin America with a membership of 214,000 persons.

The discussion period dealt with the socio-economic problems connected with the mobilization of money. A few interesting subjects were: Problems of Low Income and Illiteracy, Lack of Trust Among Members, Auditing, Development of Community Leaders, and Use of Peace Corps Volunteers in Development Projects.

The March meeting is scheduled for the same time and place, 11:50 a.m. in Room 6956, South Building, U. S. Department of Agriculture, March 3, 1965. We hope you or your representative will be able to join us for the luncheon and a program to hear Dr. John Eklund speak on programs of the National Farmers Union.

Sincerely yours,

James A. Black

James A. Black
Agricultural Economist
Membership Relations Branch

February Attendance List

Oswald B. Anderson	FCA
John P. Barron	FHA - USDA
John R. Beasley	IADS - USDA
James A. Black	FCS - USDA
D. E. Bremer	CLUSA
Marshall Brown	FCH
Roy J. Burroughs	HHFA (OIH)
Fernando Chaves	O.A.S.
Marion Fitch	Peace Corps
C. B. Gilliland	Coop. Adv. Com. - USDA
Lloyd C. Halvorson	CSRS - USDA
Robert N. Hampton	Nat'l Council of Farmer Cooperatives
Clint Hess	National Farmers Union
J. T. Houk	Inter-American Coop. Bank Development Prog.
George Jacobson	AID
Harold T. Jorgensen	AID
Albert W. Marble	AID
Clarence Murphy	CUNA
Arthur H. Pursell	AID
Verl Roberts	ILAB/Labor
Gordon Roth	AID
Irwin W. Rust	FCS - USDA
Frank M. Sahlman	AID
Kenneth L. Scott	IDB
Don Stoops	World Bank
Dwight Townsend	CLUSA
Thomas M. Venables	NRECA
Harold Vogel	FAO

Dev. Gen

Mr. Ross, Mr. Frost, Mr. Hawkins January 19, 1965

Barend A. de Vries

Research Project in Public International Development Financing

Mr. Rist will be attending a conference in March organized by the Columbia University School of Law to discuss the conclusions of its research project in public international development financing. Among the organizers of the conference are Professors Wolfgang Friedman and George Kalmanoff. I assume you have seen the studies of Chile and Colombia which were prepared as part of this research project.

Mr. Rist asked me whether we had any comments on these country studies. I told him that I had not had an opportunity to take a detailed look at the country reports, but that I thought it possible that you might have done so.

Please pass on any comments you might have on these country studies to Mr. Rist at an early opportunity.

cc: Messrs. Alter
Rist

BAdeVries/ya

BW.

Mr. G. M. Wilson December 17, 1964

J. Burke Knapp

The attached papers prepared by Drag are now ready for distribution to the Executive Directors and I think that the data are now suitable for this purpose. However, I would suggest that you have a look at the covering memorandum from the Secretary and the covering memorandum from the Economic Department.

As for the former, I have attached a suggested redraft.

As for the latter I would start with paragraph one without the last five lines, continue with paragraph two and then write a new paragraph three which would explain how the present figures were compiled, (particularly how they are based on DAC material) to show that these are subject to refinement and further study (without, however, mentioning a possible "second category of concessional terms") and state that we expect to take up with DAC in the near future the question of their collecting data which would lend themselves to our purposes.

Basically it seems to me that we should rely on DAC for the compilation of these data and should not take on additional statistical work in this field. If this is our policy, we should clearly state it to the Executive Directors.

Attachments

cc: Mr. Avramovic

JBKnapp/ms

SUGGESTED REDRAFT

FROM: The Secretary

Official Financial Assistance Through Grants and Loans on Concessional Terms Committed and Disbursed to Developing Countries in 1961-1963.

Attached for the information of the Executive Directors is a set of statistical tables prepared by the Economic Department covering official financial assistance to developing countries in the years 1961-63 through grants and loans on concessional terms. These data have been compiles in accordance with the wishes of the Executive Directors as expressed in discussions of the IDA Financial Policy Committee in (month). Any questions concerning these statistical tables may be directed to the Economic Department.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

REC. - GEN.

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

OFFICE OF THE PRESIDENT

December 2, 1964

Mr. Geoffrey M. Wilson
C/o International Bank for
Reconstruction and Development
4 Avenue d'Iena
Paris 16, France

Dear Geoffrey:

Here is Dave Gordon's latest draft of the operational memorandum on "Coordinating Assistance". In general I think it looks in pretty good shape, although in paragraph 14 I would redraft the last part of the first sentence as follows:

".... on the basis of a recommendation from the Area Department concerned, put forward after the proposal has been reviewed in the Country Working Party."

Sincerely yours,

Burke

J. Burke Knapp
Vice President

Encl.

DRAFT - DLGordon/pnn
November 30, 1964

OPERATIONAL MEMORANDUM

MEASURES FOR COORDINATING ASSISTANCE FROM DIFFERENT SOURCES TO DEVELOPING COUNTRIES

The Problem and Purposes of Coordination

1. In recent years the Bank has participated in a number of arrangements for coordinating policy and administration of development assistance provided from various international and bilateral sources. The purpose of these arrangements is to bring about more consistency of approach, conditions and contributions as among different aid-givers,1/ and to make the aid provided to specific countries fit their particular circumstances and promote their development more effectively.

finance

2. The problem of coordination has two broad aspects: (a) consideration by the aid-giving nations of global needs, problems and conditions of aid, with a view to reconciling their general policies and "sharing the burden" equitably; and (b) the organization and administration of aid from various sources to a particular country. The first is a principal function of the Development Assistance Committee of the OECD; the Bank is not a member of the DAC but cooperates with it and participates as an observer in its meetings. The present memorandum is concerned with the second aspect -- coordination of aid to specific countries.

3. The purposes of such country coordination arrangements may be summarized as follows:

1/ The term "aid" as used in this memorandum includes development loans on conventional terms as well as soft loans and grants; similarly the term "aid-givers" includes lenders and donors.

(a) to facilitate periodic, comprehensive review, jointly by the several aid-giving governments and institutions, of the country's development effort, with a view to highlighting its strengths and weaknesses and the sectors or problems that deserve priority attention;

(b) to enable the several aid-givers to make judgments, on the basis of common information and criteria, as to the developing country's absorptive capacity for external finance, its debt-servicing capacity, the appropriate types and terms and prospective amounts and sources of financing, and what performance or other conditions ought to be satisfied;

(c) to enable the authorities of the developing country and the several aid-givers to obtain accurate information about foreign debt obligations that the country is incurring, and to take concerted action to curb or correct excessive debt accumulation;

(d) to assist the developing country, as may be required, in strengthening the effectiveness of its development program -- for example, in analyzing policy issues, defining priorities, identifying and preparing projects, obtaining necessary technical assistance, etc.; and

(e) to help the developing country and the several aid-givers to match up specific projects or other objects of development financing with the most appropriate types and sources of such financing.

Existing Coordination Machinery

4. The principal types of formal coordination arrangements up to now have been Consortia and Consultative Groups. The essential difference between the two is that Consortia are expected periodically to make specific pledges of aid for a definite later period, which are then publicly announced,

whereas Consultative Groups have been formed on the understanding that no such systematic pledging will be called for. A pledge is an undertaking by a Consortium member to make grant or loan funds available in a specified amount, subject to agreement being reached with the recipient government on the particular projects or other purposes to be financed.

5. The Bank has taken the lead in organizing two Consortia -- for India in 1958 and for Pakistan in 1960 -- which continue to meet regularly, usually twice a year. [The practice has been for the first meeting to undertake a general review of the recipient country's development situation and progress and to give preliminary consideration to its aid requirements for the subsequent period; pledges have normally been made at the second meeting. The Bank does not at present contemplate organizing Consortia for any other countries. The special arrangements made for India and Pakistan are justified by the combination of the size and poverty of their populations, the magnitude of their external aid requirements and the systematic character of their planning efforts. It is possible that one or more other countries might sometime qualify for similar exceptional treatment, in which case the Bank, after consultation with the country concerned, would present the case for consideration by the principal aid-giving nations.]

6. Consultative Groups have been organized under Bank auspices for Colombia, Nigeria, Sudan and Tunisia (as of November 1964). The Bank is prepared to consider sponsoring similar arrangements in appropriate cases, as further defined in paragraphs 10 - 12 below.

7. Membership in Consortia and Consultative Groups organized by the Bank is open to any member of the Bank (plus Switzerland) and to any intergovernmental institution in a position to extend long-term financial assistance

to the country concerned. Other member countries may be invited in special circumstances to attend meetings as observers. The International Monetary Fund is invited to join or send an observer to all meetings, and an observer from the U.N. Development Program will also usually be invited. The country for whose benefit the Consortium or Consultative Group has been formed is not a member of the group, but may be invited, by agreement of the members, to take part in certain meetings to present its program and aid requirements and to participate in the discussion of its economic situation and use of aid.

8. Consortia have also been organized under the auspices of the OECD to coordinate arrangements for external assistance to Greece and Turkey; the Bank is a member of the Turkish Consortium and is considering participation in the one for Greece. The Inter-American Development Bank is organizing a Consultative Group for Ecuador, in which the Bank has agreed to participate. Other such non-Bank-sponsored coordinating groups may be organized in the future; the Bank will consider participation, if requested, on a case-by-case basis. It appears likely, however, that most new Consultative Groups will be organized under Bank auspices.

9. The degree of formality, the functions and the mode of operation of Consortia or Consultative Groups may vary considerably from one country to another, and their role is likely to evolve with time and experience. Other more limited coordination arrangements may also be appropriate for some countries, particularly where there are only two or three other important aid-givers; in such cases the Bank may arrange informal consultative meetings. Sometimes also joint financing may be organized for a particular project, as distinct from a broader development program. The Bank's approach to the problem of coordination is pragmatic and varying techniques may be

used as the different and changing circumstances of particular country situations may require.

Criteria for Establishing Consultative Groups

10. In the past, the Bank has been willing to form a Consultative Group only if it was satisfied that the development program and economic policies of the country in question could be recommended as a sound and feasible basis for financial assistance. This will no longer be a prerequisite; the Bank will be prepared to consider forming a Consultative Group where, although the existing development program, technical resources and management are inadequate, there are good prospects that performance will improve. Thus formation of a Consultative Group is not to be construed as implying, on the part of the Bank, any particular favorable attitude toward the country in question, nor any endorsement of its development program or of individual projects. It does, however, indicate a continuing concern by the Bank with the country's development efforts and external financial requirements as a whole, as distinct from individual projects, and it involves a considerable commitment of manpower.

X 11. The advisability of forming new Consultative Groups (or other coordinating machinery) will be carefully considered case by case, in light of the following criteria:

(a) that the country is receiving substantial external assistance from several sources and that there is prima facie need for coordination;

(b) that the recipient government wants the Bank to organize some sort of coordinating machinery, and a number of the other aid-givers, representing a major share of external aid to the country, are favorable;

(c) that there are reasonable prospects that the Bank/IDA will itself be in a position to provide financing for the country's development;

(d) that a sufficient volume of projects can be expected to be forthcoming (with the help of technical assistance in project preparation if necessary) to provide an adequate vehicle for external assistance; and

(e) that governmental stability and attitudes are such as to offer reasonable prospects that the coordination effort can have constructive results.

12. It is not an indispensable condition for formation of a Consultative Group that the country in question have a formal development program -- although such a program, if soundly conceived, will undoubtedly ease the task of coordination. In some cases an important purpose of a Consultative Group will be to help the country in organizing and orienting its planning effort, and in filling out the plan framework with specific projects; in these cases the Bank, as sponsor of the Group, will be prepared to provide technical assistance for these purposes or help the country obtain such assistance from other sources, including members of the Group.

Bank Responsibilities and Procedures

13. Sponsorship of a Consortium or Consultative Group normally entails the following responsibilities for the Bank:

(a) Making a periodic, comprehensive report on the country's development possibilities, problems and performance as a basis for the Group's deliberations, in greater depth, particularly as regards sectoral analyses, than is usually required for Bank operations alone.

(b) Making recommendations as to the types and terms of aid appropriate for the country, and highlighting any dangers arising from excessive debt accumulation; in the case of Consortia, recommending a target level of aid for the ensuing period.

(c) Helping the recipient government to prepare or revise a development program, or advising on problems of execution, where such assistance is desired.

(d) Assisting the Government, as may be necessary and desired, in identifying projects, arranging for feasibility studies, etc.

(e) Helping the Government to compile lists of projects suitable for consideration by the Group members as objects of financing. The Bank does not appraise these projects, except those it is considering financing itself, but may comment on their priority or readiness. Moreover, in some cases, by agreement with other members of the Group, the Bank may undertake to appraise a specific project on behalf of the Group, with a view to joint financing.

(f) Helping the Government and Group members to match up projects with appropriate sources and kinds of financing.

[(g) Helping (in consultation with the Government, Group members and the United Nations agencies) to relate technical assistance needs and priorities to the investment program.]

X [Sponsorship of a Consortium or Consultative Group may be a factor influencing the Bank to station a resident mission in the country in question, in order to deal adequately with the foregoing tasks.]

14. [The question of whether the Bank should undertake to sponsor the formation of a Consultative Group, or to join one sponsored by some other agency, will be considered by the Loan Committee on the basis of a recommendation from the Working Party for the country in question, through the Director of the Area Department concerned. For this purpose the Working Party will include a representative of the Development Services Department.]

Economic Dept. ?

15. The Area Department has primary responsibility on behalf of the Bank for the effective operation of a Consortium, Consultative Group, or other coordinating arrangement, once its establishment is decided. The Area Department keeps other departments informed and enlists their cooperation in the various aspects of these activities, in accordance with the normal interdepartmental division of labor. The Development Services Department is responsible for developing over-all Bank policy in connection with coordinating mechanisms, for providing staff assistance to the Area Departments in the operation of these mechanisms, and for evaluating their effectiveness from time to time.

16. Meetings of Consortia or Consultative Groups are usually held at the Bank's headquarters, or in its Paris Office; the main factor in deciding the meeting place should be the convenience of the members of the Group in question, which may often weigh in favor of the Paris Office. Exceptionally, meetings may be held in the recipient country, but officials from the members' headquarters (not only their field representatives) will be encouraged and expected to participate. A Vice-President of the Bank usually presides over Consortia meetings. Meetings of Consultative Groups are normally chaired by the Director of the Area Department concerned.

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date Nov. 23

NAME	ROOM NO.
~~Mr. Ripman~~	340
~~Mrs. Wishart~~	

Mr. RIPMAN. Thank you. I am telling Mr. WOODS so that he is warned if it reaches him by others. Can this come to [illegible]? [illegible] 18 Dec.

	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

I guess the only thing to do with this is to file it with the other similar papers!

HBR

P.S. Bob Sadove has looked through it, & we both feel that it is the same old impractical scheme —

From ~~[illegible]~~

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

(Copy of handwritten note to Mr. Ripman from Mr. Consolo)

November 23, 1964

Dear Hugh:

Mr. D.B. Durand came to see me (why I don't know!) before leaving for a trip around the world to sound out (and eventually "sell") developed and developing countries on his proposal for "Waste Natural Gas Utilization." He sent me the attached material.

He told me that in May 1964 he had seen Mr. Woods (confirmed by Wishart) and you--on the introduction of Mr. Nehemkis whom Mr. Woods knows well and respects.

You were away when Mr. Durand came. I could only listen to him and tell him I would send this material on to you.

I really don't know what you would want to do with it. He (Durand) asked that you should write to him any ideas you have on this subject. His address is

c/o Dr. Bartold Witte
Friedrich Naumann Stiftung
9 Schillerstrasse
Bade-Godesberg
Germany

/s/ Fred

what you would want to do with it - He (Durand)
asked that you should write to him
any ideas you have on this subject -
His address is

C/o Dr. Bartold Witte
Friedrich Naumann Stiftung
9 Schillerstrasse
Bad-Godesberg
(Germany)

Fred

Dev General

November 10, 1964

INTERNATIONAL STUDY GROUP ON DEMOCRATIC DEVELOPMENT, INC.

Project Statement

Proposal for an International Agency to Exploit Waste Natural Gas to the Benefit of the Decades of Development

The first Decade of Development has run half its course. Little of the promise held out for it by President Kennedy has been realized. Indeed, as the world moves toward the 1970's, the prospects for much of mankind are grimmer than before. The law of Malthus -- population outstrips food production -- is still in vigor. Under the projection of existing curves, starvation for millions is imminent in India and other countries, and chronic malnutrition will condemn hundreds of millions to lives that are "poor, nasty, brutish and short." And the tragedy is not that of the living alone. Recent genetic research indicates that the damage inflicted by hunger on the present generation may be transmitted organically to that which is yet unborn.

But Malthus law is not graven in stone. The fullness of the earth, even within existing technologies, can feed at least five times its present population. Achieving the ideal balance of population and resources is a matter for future generations. Our immediate concern is with arresting the present vicious cycle of overpopulation and undernourishment, and its attendant social and political deterioration.

Existing development programs are inadequate. Only a radical new initiative can vitalize them. Fortunately the means for a rapid increase of food production lie at hand in the vast quantities of natural gas which are being flared in most of the major oil producing areas. This flagrant waste is not merely a shame to the system which permits it; it is a lost opportunity for economic development.

Modern technologies make possible the liquefication and transportation of natural gas to any port in the world at low cost. It can be manufactured economically into the nitrogen component of fertilizer, ammonia, ammonium nitrate or urea -- (the latter is also an important enrichment of fodder). Natural gas can supply the raw material base for a host of modern industries -- plastics, synthetics, artificial rubber. It can be used as fuel in large factories and in peasant cottages.

Several trillion cubic feet of natural gas, worth hundreds of millions of dollars a year, are potentially available at little or no cost. Developing this asset for the benefit of the large fraction of mankind who have no money will require massive capital investment from public and private sources in the

developed countries, and extension of aid or long term loans to the undeveloped. But the productive potential of this undertaking is so great that it will yield profit to all who participate. It is economically sound and politically necessary.

The attached papers outline the proposed International Natural Gas Agency and several other economic organizations which would either have to be created or developed out of existing entities. The proposal is aimed at the complete elimination of the practice of flaring natural gas by the beginning of the second Decade of Development. It will make a major contribution to alleviating the fertilizer shortage in the developing countries and by greatly increasing agricultural production, it will bring large sectors of the subsistence economies into fruitful intercourse with the monetized market.

Proposal for

INTERNATIONAL FERTILIZER SUPPLY AGENCY

by Raymond Ewell
State University of New York at Buffalo

Most of the countries of Asia, Africa and Latin America are faced with the prospect of widespread famine beginning sometime during the 1970's. The more vulnerable countries will reach a critical stage in the early 1970's and others progressively during the 1970's. By 1980 most of the countries of these three continents, except Japan, Israel, South Africa, Argentina, Uruguay and possibly a few others, will be in the grip of widespread and steadily worsening famine, if present trends continue. This outlook is the resultant of an accelerating rate of population growth and a much slower rate of increase in food production.

If starvation on a massive scale is to be averted in these three continents, it will be necessary for the wealthy countries to take one or all of three foreign aid actions:

1) Ship food to the countries of Asia, Africa and Latin America

2) Ship fertilizer to these countries, so they can increase their own food production

3) Ship fertilizer manufacturing plants to these countries so they can produce more fertilizer for their own consumption

Probably all three approaches should and will be used.

All of this material -- food, fertilizer or fertilizer plants -- will have to be largely given to these countries for the simple reason that they don't have any money. The alternative will be widespread famine and political instability in Asia, Africa and Latin America on a scale unprecedented in history.

With regard to alternative (1), the principal foods concerned are grains (particularly wheat and corn), milk powder, and fats and oils. The only countries with large food surpluses at present are United States, Canada and Australia. The Soviet Union has had large surpluses in the past and probably will again in a few years. France, Rumania, Argentina, New Zealand, South Africa, Burma, Thailand, and a few other countries have smaller surpluses.

Even if adequate food surpluses were available from the wealthy, well-fed countries, there are three possible limiting factors in the movement of these surpluses to the deficit areas:

1. Ocean shipping capacity

2. Cargo-handling capacity at seaports of the recipient countries

3. Storage and transport capacity in the recipient countries

The present grain deficits of the underfed continents in 1961-62 were about as follows:

Asia	20	million	tons	per	year
Africa	3	"	"	"	"
Latin America	1	"	"	"	"
	24	"	"	"	"

If present trends of population growth and food production continue, the total grain deficits of these three continents will increase to 50-60 million tons by 1970 and to 100-125 million tons by 1980. Smaller, but very important, deficits will exist also for protein foods and fats and oils.

Without making a quantitative analysis of the shipping problem, it seems likely that all of these deficits could not be made up by shipping food from surplus areas to deficit areas. Therefore, it will probably be necessary to increase indigenous food production in these countries to meet the bulk of their needs.

Agricultural production can be increased (1) by increasing the land under cultivation and (2) by increasing the productivity of each unit of land. There is little possibility of any significant increase in land under cultivation in Asia, although there are substantial possibilities in Africa and Latin America.

Agricultural productivity can be increased by any or all of several technical inputs:

1. More fertilizer
2. Better seeds
3. More irrigation (and also drainage in some cases)
4. More pesticides
5. Better agricultural implements
6. Better cultivation methods, generally

Of these factors, more fertilizer is by far the most important. In general, a country has to look to greater use of fertilizer for about 50% of any increase in agricultural productivity and to all other factors for the other 50%. Another very important point is that fertilizer, seeds, water and soil must be carefully matched in order to achieve maximum benefit from changes in any of these factors.

Therefore, greater use of fertilizers is the principal key to increasing agricultural productivity in Asia, Africa and Latin America.

In the long run of say 15 years or more, it is probably desirable that most of the countries of Asia, Africa and Latin America should produce the bulk of their own fertilizer. This would require that the industrialized countries give fertilizer manufacturing plants to these countries through foreign aid. This is alternative (3) above.

However, this paper is primarily concerned with alternative (2) -- giving fertilizer to the countries of Asia, Africa and Latin America in rather large quantities in order to increase their fertilizer consumption by 300% to 500% or even more during the next 5-15 years. If this quantity of fertilizer were matched by better seeds, adequate water and other improved agricultural practices, most of the food needed to avert famine in the 1970's could be produced within these countries.

These increased quantities of fertilizer will have to be given by the industrialized countries -- in most cases at least -- for the simple reason that most of the countries that need more fertilizer don't have any money.

International Fertilizer Supply Agency

This paper proposes the establishment of a new international agency which might be called the International Fertilizer Supply Agency (IFSA). IFSA would have as its members most or all of the industrialized countries of the world, and more particularly the major fertilizer-exporting countries. IFSA could be established under the sponsorship of United Nations, World Bank or OECD. All of the major fertilizer-exporting countries, including Japan, are members of World Bank and OECD.

The major countries with exportable surpluses of fertilizer in 1961-62 were:

	Surplus nitrogen fertilizer metric tons N	Approximate market value (@ $175/ton N)
West Germany	493, 000	$86, 000, 000
Japan	394, 000	69, 000, 000
Italy	342, 000	60, 000, 000
Norway	235, 000	41, 000, 000
Netherlands	192, 000	34, 000, 000
Canada	180, 000	32, 000, 000
Belgium	159, 000	28, 000, 000
France	119, 000	21, 000, 000
U. S. S. R.	81, 000	14, 000, 000
U. S. A.	33, 000	5, 700, 000

Other surplus situations exist for phosphate and potash fertilizers. The above countries would be the most concerned in the organization and operation if IFSA, but other industrialized nations might want to be members even if they did not have an exportable surplus of fertilizer.

IFSA would therefore be a multi-lateral foreign aid organization dealing entirely with fertilizer, at least initially.

Method of Operation of IFSA

There are several methods of financing and operation that could be postulated for an organization such as IFSA. The following method is a possible method of operation:

1. Each member country would pledge so many tons of fertilizer each year to be manufactured in that country and turned over to IFSA free of charge. This is the principal foreign aid aspect of the plan.

2. Each member country would pay its own manufacturers in francs, guilders, marks, etc. for the fertilizer they produce for IFSA.

3. Each member country would also pay IFSA in cash for the transportation costs to the recipient country or countries or provide such transportation in its own ships. Probably shipping costs would be worked out on some equalized basis.

4. Each member country would also contribute 2-3% of the value of the fertilizer for IFSA administrative costs.

5. IFSA Board and secretariat would decide how much fertilizer to sell to each recipient country, and also which types of fertilizer and when it would be delivered.

6. IFSA would sell the fertilizer to the recipient countries for local currency--rupees, pesos, bahts, rials, etc. The sale could be either to the government or to commercial firms of the recipient country. The method of sale should be the decision of the government of the recipient country.

7. The price at which IFSA sells the fertilizer to the recipient countries is a delicate question. The price would be arbitrary since IFSA did not pay anything for the fertilizer. Presumably the price would be at or possibly slightly below the going world price. Also, presumably the price would be the same to all countries, after allowance for differing delivery costs.

8. The recipient country would sell the fertilizer to farmers either through commercial channels or through government channels, such as the Central Fertilizer Pool in India.

9. The method of distribution and pricing of the fertilizer should be the decision of the recipient country. The price to farmers might be low or high depending on the interest of the government in stimulating or restraining demand for fertilizer. The price to farmers should be low enough to stimulate demand, but high enough to discourage waste and black marketing.

10. In order to utilize the sale proceeds, which presumably would be in non-convertible local currency, IFSA might allocate the funds in one or more of the following ways:

a. Return part of the proceeds back to the government of the recipient country to use as subsidy to farmers who buy and use fertilizer, as in U. K. and Japan, if a fertilizer subsidy is deemed necessary to stimulate demand.

b. Return part of the proceeds back to the government of the recipient country to use as working capital for a credit program for purchase of fertilizers, if this is deemed necessary to stimulate demand for fertilizers.

c. Allocate part of the proceeds for development projects in the recipient country such as roads, dams, schools, clinics, etc.

d. Allocate part of the proceeds to various multi-lateral development organizations which could utilize local currencies.

Magnitudes Involved

The populations of Asia, Africa and Latin America will increase from 2.4 billion in 1964 to about 2.7 billion in 1970 and 3.5 billion in 1980, if present population growth trends continue. In order to feed these increased populations, even at the present low nutritional level, additional fertilizer over and above 1964 consumption would be required as follows:

1970 24 million tons (gross weight) of fertilizers containing 8,000,000 tons of plant nutrients (N, P_2O_5, and K_2O) and having a market value of about $1 billion, one-half to produce 40,000,000 tons of additional grain and one-half to increase production of other agricultural crops.

1980 72 million tons (gross weight) of fertilizers containing 24,000,000 tons of plant nutrients (N, P_2O_5, and K_2O) and having a market value of about $3 billion, one-half to produce 120,000,000 tons of additional grain and one-half to increase production of other agricultural crops.

The estimation of these quantities is a complex problem in agricultural economics, too complex to be discussed in detail here. However, the above estimates are offered for purposes of illustration only. The magnitudes are very large any way they may be estimated.

These are the additional amounts of fertilizer required in 1970 and 1980 to maintain present nutritional levels entirely by increasing indigenous food production. Some food will continue to be shipped in from surplus areas, of course, which would reduce these requirements partly. Then the countries of Asia, Africa and Latin America will produce more of their own fertilizer than they are now producing (in 1964). The combination of these two inputs might reduce fertilizer import requirements to one-third to one-half of the above quantities. This is the gap which IFSA is intended to fill.

Second Stage of IFSA Operations

The real need for fertilizer in Asia, Africa and Latin America may increase so rapidly even during the 1960's, it may become apparent within a few years that the above scheme will not provide enough fertilizer for the 1970's. That is, the United States, Canada, Western Europe and Japan may not have enough surplus fertilizer capacity to meet the needs of the hungry countries in the 1970's.

If and when this becomes apparent, IFSA should consider the idea of building and operating its own fertilizer plants in particularly favorable locations, such as the Persian Gulf, North Africa, Venezuela or Indonesia. All these locations have large supplies of natural gas, now being largely wasted, which should be available at prices much below the going prices in North America and Europe. Moreover, all these locations are strategically located for shipping fertilizer to countries which have the greatest needs. Also, all these locations, except Indonesia, are near phosphate deposits in case it should be desirable to make N-P complex or mixed fertilizers.

An alternative to IFSA owning and operating fertilizer plants in these locations, would be to enter into a contract with a consortium of chemical companies and/or oil companies to build, own and operate such plants with IFSA guaranteeing to take all or part of the output at stipulated prices. The money with which to buy this fertilizer from the consortium would be contributed by the member countries of IFSA on some formula. (This would be more foreign aid on a multi-lateral basis.) IFSA would be in a position to secure very favorable terms from such a consortium, probably prices considerably below world prices at that time.

Nitrogen fertilizer could be produced in the Persian Gulf and the other locations mentioned at a production cost much lower than any other plant in the world. The lower production cost would arise from two factors:

1. Lower cost of natural gas
2. Economy of scale from very large plants

Cost of natural gas represents about 25% of the cost of production of nitrogen fertilizer in the United States. In the Persian Gulf this would be cut down to 5-10% depending on the price negotiated for the natural gas. The economy of scale of a very large plant, say 500, 000 metric tons of nitrogen per year, would have an even larger effect on the production cost, relative to existing plants. The combination of both factors might reduce the production cost of urea, for example, to 20-30% lower than any other plant in the world.

Moreover, the contractual relationship with IFSA should encourage the consortium to accept a lower profit level than private firms usually consider necessary to cover the risks in Asia, Africa and Latin America. All these factors combined should work to give IFSA a very low price from the consortium. This would enable IFSA to deliver fertilizer to the recipient countries at quite low prices. The IFSA price of fertilizer from member countries and from the plants in Persian Gulf, etc. should be equalized, of course, to give a single IFSA price for a given fertilizer, regardless of source.

Another Approach to Second Stage of IFSA Operations

Another approach to utilizing the cheap and plentiful natural gas of the Persian Gulf, North Africa, Venezuela and Indonesia would be to ship liquefied natural gas in large quantities to coastal locations in major fertilizer-needing countries such as India, Turkey, Egypt, Nigeria, and Brazil. The technical problems in transporting liquefied natural gas are in the process of being worked out, and indications are that this will be a cheap, routine operation in a few years. When large supplies of natural gas can be delivered to coastal locations, there is no obstacle to building very large plants in the fertilizer-needing countries which would have the same operating efficiencies as the plants suggested above for the natural-gas-rich countries.

With this approach the delivered cost of urea, for example, at coastal locations in India might be equal to or even less than urea produced in the Persian Gulf area and shipped to India. In addition, India would have the advantage of having the manufacturing plants on her own soil. The disadvantage is that the supply line of liquefied gas might be interdicted by political developments or natural disaster. However, there are alternative supplies of liquefied natural gas from a number of areas in the world. And in a pinch a natural-gas-based plant can be shifted to naphtha as the basic raw material.

The plants in India, Turkey, Egypt, Brazil, etc. utilizing the liquefied natural gas might be built and owned by IFSA or they might be built and owned by public sector or private sector as existing plants are in these countries. However, if such plants were to be built in adequate numbers, the fertilizer plant equipment would have to be supplied by IFSA member countries either through grants or through long-term loans.

The supply of liquefied natural gas is a less formidable financial problem than the construction of the plants, and the countries concerned should be able to make their own arrangements. The foreign exchange requirements are not large. However, it might be necessary for IFSA to take the lead in this--make contracts with the various governments and private firms controlling the supplies of natural gas, buy or lease tankers and supply liquefied natural gas to the various fertilizer-needing countries.

SUMMARY OF DATA ON NITROGEN FERTILIZER PRODUCTION FOR 1970

(from UN Sources)

(April 1964)

1. World requirements for nitrogen fertilizer in 1970:

   World population 3.5 billion (now 3 billion)
   Expected nitrogen consumption 20 million tons (now 10 million tons)

2. To produce 10 million tons of nitrogen by 1970:

   Capital requirements $1.0 billion
   ($100/ton of nitrogen year - as liquid ammonia)

3. Natural Gas Required:

   28,000 c.ft. per ton of ammonia (1000 B.T.U./Cu.Ft.)
   280 billion c.ft. per year

4. Availability of natural gas (billion c.ft.)

	Reserves End of 1961	Production 1961
Africa		
Algeria	50,000	50
Libya	3,700	4
South America		
Trinidad	1,200	103
Venezuela	33,000	1,200
Middle East		
Iran	65,000	250
Iraq	22,500	250
Kuwait	33,000	275
Saudi Arabia	45,000	285
Far East		
Pakistan	15,000	29
Indonesia	2,000	80
North America		
United States	275,000	13,500
Canada	36,000	713

5. Cost of Production:

   10 cents per 1000 c.ft. of natural gas
   plant to produce 1,000 tons of nitrogen per day
   330,000 tons of nitrogen per year
   400,000 tons of ammonia per year

   Erected cost of plant $40 million

Estimated cost of production including depreciation	$20.00/ton
Cost including taxes	$30.00/ton
Transport in tankers for 5000 miles	$10.00/ton
Possible selling price C.I.F.	$50.00/ton

THE INTERNATIONAL DEVELOPMENT SERVICE: A PROPOSAL

Charles R. Dechert
June 1964

THE PROJECT

This paper proposes the creation of an International Development Service as a corporate entity capitalized by a mixed participation of international organizations, national governments, private corporations and private individuals. This corporation will engage in the provision of goods and services designed to advance the general economic welfare of the nations in the process of development, initially by the provision and distribution of fertilizer and other products designed: (a) to increase food production (b) to facilitate the development of modern industrial economies.

The International Development Service will have as its primary goal the economic development and social welfare of the nations and peoples who wish to cooperate in its activities. It will not be an agency for the provision of international relief or for direct aid or grants to cooperating states. Its activities will be governed by the principle of "economicity", that is the provision of a reasonable long term return on investment and avoidance of continuing long term losses. Normally it will reinvest the earnings of any national subsidiary in the cooperating country. As the economy of a cooperating country matures, IDS will avoid exporting capital but will export only goods or services, which in turn will be used to advance the developmental process elsewhere.

The International Development Service will create such corporate subsidiaries as may be necessary for the fulfilment of its purposes in accordance with the laws of the various cooperating states in which it operates. Normally it will seek co-participation in its various national subsidiaries by the citizens, corporations, and/or the government of the cooperating state. As a matter of policy it will seek to increase local participation to the point of full local ownership of its single enterprises. Concomitantly, IDS will emphasize the training and development of the citizens of the cooperating country in both operative and managerial positions, and will gradually place its local enterprises under complete local management.

The preceding statement is a summary outline of an institutional mechanism, already proven on a limited scale by certain U.S. and European corporations, which will permit the organic insertion of capital and enterprise into the developing economies without involving political commitments on their part. The rationale of this proposal and concrete suggestions on feasible areas of initiative are considered in the following sections.

DISCUSSION: THE SOCIO-ECONOMIC PREMISES OF THE INTERNATIONAL DEVELOPMENT SERVICE

1. The principal reality confronting the future of mankind is that the current rate of population increase on a world-wide scale is producing an unacceptable economic strain on the developing countries. Their rate of annual increase in national product is normally only slightly above the rate of population increase. The result is a per-capita national product that remains little improved in the face of a "revolution of rising expectations". This increase of population is usually ascribed to two factors:
a. Increased average longevity due to the introduction of more modern hygienic facilities and medical technology. These are particularly significant in reducing infant mortality. b. Persistence of more traditional cultural patterns emphasizing fecundity as a dominant social and personal value. This value is especially characteristic of economically more primitive rural populations.

Simultaneously with the rise in population, increasing pressure is being placed upon available agricultural resources. The rate of increase in agricultural product does not equal the rate of increase in population. It is estimated that today one-third of the world is fed inadequately. By 1975, unless radical changes are made in the pattern of agricultural production, there will be an absolute shortage of available food. Famine on a massive scale is an imminent probability. The presence of agricultural surpluses in the United States tends to mask from our national consciousness the real threat of acute agricultural shortages on a world-wide scale.

The political implications of imminent famine are, literally, revolutionary. Starving men, or men who foresee imminent starvation, will adopt desperate measures. In a world of absolute food shortages violence will become endemic, and a positive feedback cycle may be induced in which violence reduces the agricultural product and so engenders further violence. Unhappily, there always exist political opportunists, demagogues and ideologues who rejoice to exploit human fear and suffering.

2. It follows that concerted, organized, and massive activity must be undertaken to increase agricultural productivity on a world-wide scale, but particularly in the economically underdeveloped countries.

It may be argued that these countries can rely on the high productivity of the United States of America and other technologically advanced countries, that they ought not seek agricultural self-sufficiency. This argument is not attractive to emerging countries. To be blunt - a country that cannot feed itself must either be very strong industrially or militarily or it becomes a client state, a political pawn in the hands of the state or states on whom the physical life of its citizens depends. Secondly, there are regimes who may be willing to sacrifice the very lives of their fellow countrymen in order to develop their overall economies. The USSR exported wheat to gain foreign exchange for the purchase of capital goods in the early 1930s while some three million peasants died of starvation.

The development, as far as possible, of agricultural self-sufficiency is a compelling element in the process of economic development in order: a. to maintain physical strength and positive motivation of its citizens; b. to maintain political independence; c. to prevent a drain on foreign exchange needed to purchase the capital goods necessary to overall development.

Fertilizer, if used on a sufficient scale, will do much to resolve the problem of food shortages. The distribution of fertilizer together with relatively cheap agricultural capital goods and "know-how" is basic to the developmental process.

Synthetic fertilizer is already being produced world wide on a very large scale. Yet the use of nitrogen fertilizer on a world-wide basis at the levels currently employed in Western Europe would require that world production rise from ten million tons per year (1960-61) to three times that level.

Natural resources needed to produce nitrogen fertilizer, even in the quantities needed, exist today - and are being wasted. The natural gas now "flared off" in the oil fields of the Middle East and Latin America is abundantly adequate to meet existing and foreseeable demand for nitrogen fertilizer if even partially converted into ammonium nitrate, urea, and liquid ammonia.

Both the oil producing countries and the great international oil companies would be happy to see the profitable and socially useful employment of this presently wasted resource. What is lacking is an institutional mechanism whereby this resource (and other presently wasted or unused resources as well) may be converted into a marketable product. The International Development Service as herein proposed would provide such a mechanism.

Increased agricultural product may be consumed in two different ways. It may be employed to support a larger rural population living in a traditional way, or it may be used to support an increased urban or industrial population whose energies are devoted to providing goods and services in a more modern monetized economy. In the former case, the increased agricultural product simply raises the level of rural underemployment; in the latter case, it releases part of the rural population for more productive occupations, and it provides local sources of food to those who have already migrated to the cities.

Now it is clear that the provision of fertilizer to provide for an increased and increasingly under-employed rural population makes little sense. The fertilizer is in this case a gift. Its cost (the costs of production and distribution) cannot be compensated by the user unless the institutional machinery exists for bringing the agricultural surplus provided by fertilizer to the urban market. When marketed in the monetized sector, agricultural products provide a cash income that may be used to purchase both the fertilizer and the products of the urban economy. The International Development Service would develop the enterprises (industrial corporations, agricultural cooperatives, marketing organizations, credit institutions, etc.) needed to tie together the traditional agricultural and modern sectors of the economy.

Implicit in this discussion is the premise that modernization means a movement of underemployed or unemployed agricultural laborers into the more modern and monetized sectors of the economy where their productive contribution provides goods and services that enhance the national welfare. In the past, this has normally meant urbanization although it is entirely conceivable that institutional forms may be developed that would permit industrialization without the massive flow of population to the existing and already overcrowded urban areas of the developing countries. Historically, of course, urbanization has brought with it changes in traditional life patterns and values that reduce fecundity. Without the shift in life patterns and values associated with urbanization and modernization the continued pressure of population on resources may be foreseen for the indefinite future. The measures discussed above may do much to resolve this problem by increasing available food resources and encouraging social development that tends to reduce fecundity.

3. The third premise in this discussion is that the characteristic social form of a modern economy is the corporate enterprise. Interestingly enough, every modern economy, regardless of political ideology, has been obliged to resort to the enterprise as the basic economic unit. This is as true of the "planned" Soviet economy as it is of the "mixed" economy or the "liberal" economy.

The enterprise ties together people and resources into a productive whole. The modern enterprise is characterized by individuals or groups on whom redounds the ultimate authority and responsibility for the integration and coordination of the human and material factors of production, that is for decision making. These are the managers. A political economy becomes modern as it develops cadres possessing the skills necessary for the management of the enterprise. In time, hopefully, it may develop an innovative capability.

It is for these reasons that the International Development Service emphasizes the corporate enterprise as the characteristic institutional form under which it operates. The Service itself is a corporate enterprise, which in turn will set up enterprises on both a functional and a geographic basis. These, in turn, will create subsidiaries to perform whatever economic functions may prove necessary to the developmental process. <u>Over the long run each enterprise must prove its utility by its profitability - for this is a measure however inadequate of its social contribution</u>.

The use of the joint stock company mechanism permits extraordinary flexibility, and multiplies the dynamic impact of IDS' developmental activities. It increases the effectiveness of the necessarily limited resources of the IDS. Capital is employed as a catalyst to permit direct local investment and local participation in the productive enterprise. Credit institutions permit the mobilization of local savings. It is entirely probable that governments might wish to participate in enterprises at the national level; while subsidiary corporations might be predominantly private in ownership, or assume a cooperative or even community-corporative form.

Training local cadres in the management of IDS enterprises not only assures their long term viability, but helps to provide a managerial group whose skills may be applied to other sectors of the economy and society.

THE DEVELOPMENTAL PROCESS, PROFITABILITY, AND INTERNATIONAL EXCHANGES

The critical initial elements in the development process as previously discussed are: a. increasing agricultural productivity; b. tying the agricultural sector to the urbanized industrial sectors by stimulating monetary exchanges.

Institutionally, mechanisms are needed to: a. distribute fertilizer and other capital goods into the rural economy; b. stimulate the widespread rural use of more modern agricultural methods, primarily through technical advisers and later by the "demonstration effect"; c. transport and sell rural agricultural surpluses in urban areas in such a manner as not to penalize the productive agriculturalist through an inordinate decline in prices. Mechanisms must be devised to reward agricultural productivity while improving overall nutrition and providing industrial raw materials from the land.

The economic institutions proposed to satisfy these requirements may be set up as enterprises on the national level with a capillary diffusion of semi-autonomous organizations throughout the country. The basic support services would be: a. credit institutions to finance capital improvement at reasonable rates and to guarantee economic criteria for investment, rather than the use of funds as a partisan political reward, political "bribe", or to advance group interests; b. infrastructive projects, training facilities, maintenance and repair installations, initiatives to prevent local inflation and disequilibria in impacted areas, etc.

It is clear that these enterprises would require a very considerable capital outlay within each of the underdeveloped countries. (The capital requirements and organization for individual national companies would be the subject of separate studies.) The prospect of financial return in the short run will be severely limited. On the other hand, the enlightened self-interest of the more developed countries, and of the larger modern corporations has led to an increasing ability to take the long-run view. For example, lumber and paper companies are investing in reforestation that will pay off only in thirty to fifty years. Similarly, the long-term economic well being and political stability of the industrial countries requires expanding markets and international public order. This in turn requires that the new and developing economies become viable, develop exportable surpluses, and achieve some degree of social stability based upon an adequate level of economic welfare.

The IDS will use the economic criteria of profitability to assist in the development of viable national economies. These will in time contribute to the general welfare of the international community and will ultimately provide a satisfactory return on the initial IDS investment. Japan, employing the enterprise as the basic instrument of development, transformed itself from a feudal agricultural economy to a liberal industrial economy in fifty years, essentially without the intervention of foreign capital. By using foreign capital in part, and above all by creating or sanctioning institutions utilizing foreign "know-how" and modern technologies in developing its human and physical resources, the newly developing countries can today reduce this development period to two or three decades.

This statement does not imply that the development capital inputs of the IDS must be continued over even this period of development. Quite the contrary, after only a few years it is probable that many development operations will become self-sustaining at the national level. This does not mean that each and every one of the many enterprises and activities undertaken within a given country has become profitable, but that the overall operation begins to pay its way. Stronger and more profitable enterprises can carry the losses of less efficient or intrinsically less lucrative operations. The experience of the International Basic Economy Corporation indicates that after the initial stages, reinvestment may take place at a rate of 15% per year or more on accumulated capital. Through its capillary credit operations, IDS can effectively re-invest its profits and in fact "create" money.

A major problem that has constantly confronted private developmental activities in the less developed areas is the eventual repatriation of profits and of initially invested capital. Extractive industries have proven especially attractive to foreign investment because they offer the opportunity to take profits in hard currency through sales to the industrialized countries. It would be the working principle of the IDS that continued reinvestment in a developing economy will eventually help bring that society into effective participation in the international economy at which point IDS funds accumulated in a given society begin to become available as freely convertible currency for further developmental activities elsewhere. (It might be noted in passing that as economies mature, the motivation to repatriate profits or to "disinvest" disappears.)

It is entirely possible that at some point prior to the full insertion of a developing economy into the free international market, the IDS as an international corporation may be able to apply both the human resources and products of these more developed countries in which it operates to its developmental activities elsewhere. These exchanges could occur within the IDS corporate structure and thus be insulated from existing international exchange institutions. Such exchanges need not be reflected in the international balance of payments of either country. In effect only an internal corporate exchange is involved.

IDS subsidiaries could buy or sell specific commodities to other company subsidiaries in other countries without recourse to the mechanism of the competitive world market. In this way there might be established a system of international exchanges partially isolating certain key sectors of developing nations from the competition of more advanced economies. IDS through its organization on an international scale could provide a mechanism, paralleling the existing mechanisms of international exchange which could do much to prevent a continuing worsening of the relative trading position of the newer economies. It could accomplish this by the use of internal corporate planning and internal pricing policies that permit rational decision-making consistent with long-range profitability.

Two great advantages result from employing the enterprise as a price stabilizing, exchange, and planning mechanism in international trade as it involves certain sectors of the developing economies: a. The internal corporate price structure is constantly checked by world market prices. Over the long run the prices charged by any given IDS enterprise must insure profitability in the world market in which its subsidiaries will eventually compete effectively and independently. b. Unlike the controlled economy in which political power sanctions the economic plan, corporate planning takes place in a social context in which the aspirations and interest of the governments and major groups of each of the cooperating countries must be considered. Neither an effective plan nor a specific decision can be made in a social vacuum. The very necessity of cooperation prohibits exclusive reliance on profit-maximization as a unique criterion of decision. Business "statesmanship" is a prerequisite to the success of the IDS and its various national and functional corporate subsidiaries.

It is clear from this discussion that a major function of the IDS would be "organized entrepreneurship" - the continuing provision of productive initiatives at both the national and international levels. The very existence of technological lag among and between countries provides not only an immediate challenge, but an unlimited opportunity for IDS sponsored initiatives over the indefinite future.

CONCLUSION

The proposed International Development Service is designed to provide an international economic institution which will inter-relate with existing institutions and perform needed functions for which no satisfactory mechanism now exists. In order to be effective the IDS must operate internationally, must cooperate with local governments and groups, and must be adequately capitalized. It cannot be subject to the political decision-makers of any single state or group of states. Its criteria of effectiveness must be economic criteria. Its contribution to the welfare of any country in which it operates must be such that it can operate with considerable freedom, largely immune from the vagaries of local politics. IDS can become so important to the welfare of developing countries that the mere possibility of its withdrawal would be the ultimate guarantee of its freedom to operate without fear of expropriation or political dictation.

The success of the enterprise system in the United States, Europe, and elsewhere leads to the conclusion that its application on an international scale governed by criteria of both profitability _and_ the common welfare will prove of the greatest benefit to the less developed areas of the world. It may be used to bring into the service of mankind as yet untapped resources to whose productive utilization neither available financial resources nor economic institutions existing today are adequate.

Charles R. Dechert
June 1964

APPENDIX
ELEMENTS OF PROJECT FOR FURTHER STUDY

1. Corporate structure of IDS, Board of Directors

2. Headquarters organization and staff services of IDS

3. Initial capitalization: Sources, Institutional methods of participation

4. Operational Code: Mixed participation
   Local incorporation
   Basic functions: Distribution of fertilizer and basic capital goods,
   Agricultural product marketing,
   Credit and financial services,
   Manufacturing and industrial initiatives

5. Possible Patterns of International Corporate Exchanges

6. Internal Planning System - country level
   internationally

7. Internal Accounting System - country level
   internationally

8. Potential Role of IDS in International Commodity Price Stabilization

9. Preliminary Suggested Areas of Research:

   a. Juridical nature of IDS: management, relation to international organizations and cooperating countries
   b. World population trends and food supply
   c. Unused, wasted and/or unassigned resources
   d. Methods of agricultural development - role of technologies, changes in social patterns, monographic studies of Greece and Taiwan
   e. Techniques of indicative planning - key developmental sectors of underdeveloped economies - techniques of inducing self-sustained growth
   f. Capital saving technologies, labor consumptive industries in the development process
   g. Use of the enterprise as an instrument of economic development - case study of Japan
   h. Juridical and political conditions (socio-political "field") necessary to the effectiveness of the enterprise in economic development
   i. Country studies: IDS organization, functions, and capital requirements

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FORM NO. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

B.U. ~~Dec~~ 26.

OFFICE MEMORANDUM

TO: Mr. Geoffrey M. Wilson

DATE: November 24, 1964

FROM: JH John Hulley

SUBJECT: Capital Flight from LDC's and Possible Remedies

1. Are you interested in looking over the attached paper at this stage? Mr. Goodman thought you might like to. Thus far it has been reviewed by Professor Mason; Mr. Avramovic has approved it to go to the SEC; copies are going to Mr. Friedman; arrangements have been made for exchanging information with AID, who are interested.

2. The paper puts the Machado Proposal in a context of other plans which might help to reduce capital flight.

CONFIDENTIAL DRAFT

Capital Flight from the LDC's

and

Possible Remedies

(an introductory discussion)

J. C. L. Hulley
November 6, 1964

Summary

Estimates and discussions of capital flight from the less-developed countries with market economies (LDC's) have been published during the past year or so by the UN, IMF, OECD (confidential), EMA and BIS, as well as by Professor Balassa at Yale. From these and other sources, it is possible to infer the following general conclusions:

(a) Capital flight from LDC's is measurable in billions of dollars per year. In the early 1960's the rate probably exceeded $2 billion a year.

(b) The primary, though not the only, cause is gross insecurity - war, revolution, the fear of expropriation without prompt or fair compensation, and of persecution.

(c) Changes in volume are irregular from year to year, reflecting mainly the shifting political crises. Since the number of crises involving threats to life and property in the LDC's have been increasing over the past fifteen years, the rate of capital flight has been increasing also.

(d) Capital flight combines with another symptom of political jitters - withholding of foreign capital - to subtract critically from LDC investment.

(e) The cost of retrieving capital would impose a smaller burden on the balance of payments than does new capital. LDC's would need to pay in foreign currency only for banking charges, such as guarantees. Amortization and interest payments could be retained at home.

(f) There are various possible techniques which might, singly or in combination, reduce capital flight; they include arrangements for

channelling it back to its country of origin and for increasing the security of investment in LDC's.

These conclusions are tentative. The interpretation of the causes of capital flight could be confirmed by a more detailed analysis of movements in selected countries over time. The analysis might also provide information helpful in devising effective remedies. It is a major purpose of this paper to justify the necessary analysis and investigation.

I. Capital flight from LDC's probably exceeded $2 billion in 1960

Balance of payments statistics for the less-developed countries are hard to come by. IMF data are fairly complete for Latin America, but for other parts of the less-developed world the gaps are too large to permit the making of global estimates.

A recent UN report attempts to overcome this difficulty by combining IMF data with statistics on the balance of payments of France with the franc zone overseas. The result, shown on Table 6, is an estimated outflow of about $6 billion in the five-years from 1957 to 1961. By reference to the sources[1] it is possible to break this down year-by-year. The results are approximately $1 billion in 1959 and $1.5 billion each in 1960 and 1961.

For purposes of cross-checking, it will be useful to concentrate on a single year 1960. The figure for that year is $1.5 billion. However, even this total is probably too low. The figures for the sterling area omit the Persian Gulf Territories, Hong Kong, Singapore and other places; (the categories included in the sterling area estimate may also be incomplete). Other countries not belonging to either the sterling area or the franc zone or Latin America are also omitted, for example the Belgian Congo.

1/ See Table 10, and UN mimeographed document E/CONF. 46/20.

One way of filling out the estimate is to compare it with that of Professor Balassa.[1/] Balassa's figures (Tables 1 to 5) are inclusive of all LDC's outside Europe. However, they are more complete on trade and invisibles than on aid and capital movements. The latter, derived mainly from OECD/DAC figures, are in many cases net figures which conceal off-setting movements in opposing directions; they are incomplete on short-term credit; they lump reinvested earnings with new investment, and they do not include aid from such non-DAC sources as Australia, New Zealand and the Sino-Soviet area. Balassa's estimates also leave out reserve changes. They are therefore more complete geographically but less so in composition; the figure of $1.8 billion shown on Table 1 accordingly requires further adjustment.

Available data are not adequate to make this adjustment, but its direction and magnitude are suggested by the difference in the Balassa and IMF estimates for Latin America. (This is the only area where the two estimates can be compared, because Balassa's figures for other geographic areas do not correspond to the currency areas of the pound and the franc). As may be seen by comparing Tables 2 and 9, Balassa shows a balance of zero for Latin America, while the IMF indicates an outflow of $0.6 billion. Changes of reserves[2/] do not account for this discrepancy. The explanation is presumably to be sought in the differences of composition already mentioned.

Similar differences may be found for the other geographic areas. If so, the uncertain balance of probability is that total capital flight from the LDC's exceeded $2 billion in 1960.

1/ B. Balassa, Trade Prospects for Developing Countries, Yale, 1964.
2/ International Financial Statistics, October 1964, p. 17.

This very tentative conclusion is the result of a comparison of estimates, particularly IMF/UN statistics mainly on capital account, and the Balassa estimate for 1960 mainly on current account. A further comparison of these and other estimates permit the building up of a picture of capital flight over several years.

II. Irregular growth of capital flight from LDC's

1960 appears to have been a fairly typical year, part of an irregular upward trend. Looking through the main components in the estimates, only one item appears far enough out of line to make the total atypical. That is the figure of $0.6 billion for Latin America, which is about $0.3 billion larger than in preceding and following years (see Tables 9 and 11).

Even if the difference were subtracted, the total outflow in 1960 might still be in the neighbourhood of $2 billion. However, it is not clear that it should be subtracted. Capital flight is the result of unusual circumstances. And the continuing appearance of unusual circumstances is among the surer predictions. Between 1959 and 1961 about $250 million left the former dependencies of Belgium, especially the Congo (see Annex B). The emergency in Algeria resulted in an extraordinary outflow of about $0.7 billion in 1961 and $1.4 billion in 1962 (Table 10).[1/] These increments probably pushed the total outflow from LDC's into the range of $3 billion. Figures for 1963 and 1964 may turn out to be lower again. But past trends and current developments in many parts of the less-developed world offer at least a statistical probability of further crises.

An idea of the irregular but persistent growth of capital flight can be gained from the relatively complete data for Latin America. Country-by-country figures (Table 11) show wide swings and reversals. When these are added up,

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1/ The outflow from Algeria in these two years was about as large as the Algerian GNP for one year.

however, (as in Table 9), the net flow for the continent has been outward in nine out of ten years. The net figures vary markedly between years; on the average, however, errors and omissions doubled from the first to the second half of the decade 1952-61.[1/] This is an average rate of increase in the range of 15 percent per year.

Similar estimates are not available for other areas. However, there are global statistics for some of the major components of the balance of payments. Balassa has made projections for others. These make it possible to estimate the rate of growth of capital flight. The components are discussed in Annex G. The rate of growth appears to be greater than 5 percent per year. This estimate is obviously subject to a very wide margin of error.

One observation emerging from the estimate is that net imports of LDC's did not increase and may have decreased during the period under review (1958-63). The same statement is true for three of the four major areas, Asia being the only exception (Table 7). This means that the annual increase in public grants and loans of about $400 million a year is being off-set or absorbed by other items. These are mainly on account of private capital and earnings. In round numbers, they are: capital flight, $200 million increase per year; earnings on foreign private investment, $150 million; decline in foreign private investment, $100 million; total off-setting movements, $450 million.

There is some indication of capital inflow into the advanced countries. These are too imprecise to afford an exact check of the estimates of outflow from the LDC's, but they are generally consistent (see Annex A).

III. Political fears are the main cause

Apprehension about confiscation of investments and about physical violence to self and family are probably the principal reasons for sustained capital

1/ If the "exceptional" increment in 1960 is removed, the average is still larger by 66 percent. As previously noted, however, exceptions are to be expected.

flight. What happened in Algeria in a brief, massive outflow is probably going on in other places at a more gradual pace.

Certainly there are many persons with money dishonestly acquired who seek convenient hiding places for it. But this kind of activity would not necessarily result in the observed large net outflow from LDC's. The net outflow may largely consist of money honestly acquired, but illegally transferred abroad in quest of greater security. A parallel phenomenon which is perfectly legal is the decline of foreign investment in LDC's (Chart I). This kind of investment appears to have been declining since 1956. About three years later, earnings surpassed it; foreign private enterprise has since then been taking out more than it puts in each year.

Another symptom of the same problem may be seen in the shortage of project applications for bank loans.

The hesitation of private enterprise in the LDC's is attributed to a variety of inconveniences, hindrances and uncertainties. While some of these are discriminatory against foreign capital, it is clear that many of the circumstances which repel foreign investment are the same as those which expel domestic savings.

Fear of expropriation without fair or prompt compensation appears to be the most acute difficulty. This conclusion is suggested by the evidence already offered concerning capital flight in the franc zone and from Latin America.[1/] While the practice of nationalization had developed before World War II, it only became widespread thereafter. A variety of political movements have adopted it. In Latin America, for example, nationalization is practiced not only in Cuba, but in other countries of quite different

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1/ To make the interpretation more certain would require the survey of movements in and out of selected countries, as proposed at the end of this paper.

orientation. About 60 percent of the capital and reserves of the thirty largest firms in Argentina are government-owned; the same percentage applies to Brazil and Chile.[1/]

For every case where compensation has been prompt and adequate (as in postwar Britain under the Labour Government), there have been many more where it is late and little. For example, it has taken Egypt about a decade to approach a settlement with evicted Greeks and other national groups. Claims outstanding against Cuba by US citizens have been estimated at about $1.5 billion;[2/] it is now more than five years since Castro took power, and no settlement is in sight.

Losses like these might be manageable if assumed by governments or insurance agencies. But they impose a heavy strain on isolated individuals. Persons with family responsibilities may have their entire investment and livelihood taken away for unpredictable periods or perhaps permanently. In countries where confiscation appears possible, it is not surprising if business owners seek to protect themselves and their dependents. The strain is all the greater when persecution threatens.

The hesitancy of foreign and domestic capital reflects in part a simple lack of faith in the future. Investment often depends on an expectation of economic stability for 20 or 30 years ahead. That expectation is widely absent.

Market economies are more vulnerable to uncertainty than are centrally planned economies. This is because the former leave more decisions up to the individual, while the latter leave more to the leadership. If individual soldiers on the front line were allowed to make such decisions, some would find compelling reasons for a hasty return to hearth and home; others not yet

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1/ F. Brandenburg, The Development of Latin American Private Enterprise, National Planning Association, Washington, D.C., 1964, Chapter 3.
2/ Washington Post, September 9, 1964. (This is about 20 percent of GNP, without counting claims of Cuban citizens).

at the front would become sensitive to exigencies preventing them from going. Today the front lines are in the LDC's. In all but the most secure, the flight of domestic capital and the withholding of foreign capital reveals the consensus of decisions by thousands of individuals. The sapping of economic vitality reflects the disadvantage of market economies in a war of nerves.

One of the basic data developed for the meetings of the UN Conference on Trade and Development in Geneva in 1964 was the continued widening of the economic gap between rich and poor countries. Not only is the gap increasing absolutely, but the LDC's have not yet on average caught up with the rate of growth of the more advanced countries (Table 12).

Various measures to strengthen the position of the LDC's were recommended at UNCTAD. These took the form primarily of ways to increase foreign exchange at their disposal, through reduction of barriers to their exports, amelioration of fluctuations in export earnings, increases in foreign aid and other means. Some of the recommendations, notably on trade barriers, are already being carried out.

However, a continuing expansion of capital flight, together with a continuing decline in foreign investment, can off-set gains achieved by these methods. It is to be hoped that LDC's will gradually settle down to more predictable behaviour in relation to private enterprise, both domestic and foreign. But this evolution may be some way off in the future. In the meantime, the political constellation in many countries leaves room for reasonable doubt on the part of investors. Developments in recent years in Africa, Latin America and Southeast Asia suggest that the room for doubt may be growing. Capital flight and the abstention of foreign capital can therefore be expected to become more severe. Both the quantity and the quality of investment will continue to suffer.

It follows that improvement of the position of LDC's may depend on finding new ways to keep capital at work there.

IV. Possible remedies

In terms of total resources, foreign aid compensates for the losses of the LDC's in private investment; but the result is not quite the same. Foreign aid is most effective in building infrastructure (e.g., power and communications), as well as in the education and training of personnel; it is weakest in developing small and medium manufacturing, as well as distribution. Its strengths and weaknesses are almost the reverse of those of private capital.

From a balance of payments point of view, the private capital outflow most closely resembles grants or soft loans. Because it is often illegal and for other reasons, owners are frequently afraid to repatriate principal or earnings. Indeed earnings are often very low, or even negative as in Switzerland (see Annex A), because owners are willing to pay a higher price for security. Thus the relatively low rate of earnings on LDC investments abroad ($0.5 billion, compared to $3.5 billion in the opposite direction in 1960, shown on Table 1) does not necessarily indicate that the total investment by LDC's abroad is any smaller than foreign investment in them. It probably indicates simply that both the rate of earnings and the rate of remittance are low.

The outflow is therefore in the same category as the public grants and loans coming in the opposite direction. A corollary is that recapture of flight capital would have the favorable effects of grants or soft loans. The cost in foreign exchange of such recapture (e.g., for bank guarantees) is likely to be much smaller than the cost of new foreign capital (amortization and interest).

In the political context (described in Part III), it is clear that exchange controls can achieve only partial results. There follows a summary discussion of supplementary schemes for reducing the risks of investment in LDC's, and for collecting the capital after it has fled. Probably none of the proposals would be adequate to solve the problem, but the combination of them might reduce it substantially. They come from a variety of sources and are sketched in different degrees of detail. The purpose here is primarily to demonstrate that the problem can be tackled in several ways:

(A) Bearer Bonds: It has been suggested by Dr. Larsen that there might be a market in some parts of the world for bearer bonds offering little or no interest, but reasonably stable in value. Such bonds could be issued by IDA.

One way to limit value changes would be to denominate the bonds in EPU units of account (see paragraph 7, Annex C). The bonds could be marketed, and the proceeds could be used, as in the next proposal (B).

(B) International Savings Bank and/or Syndicate: An international banking organization might seek to capture flight capital from the LDC's by offering the same terms as the Swiss (described in Annex A) or better, including anonymity. The funds could be relent to the LDC's.

According to a form of this plan (worked out by D. Healey and myself), an International Savings Bank would be established. Part of the funds raised could be invested at short-term as a reserve, the proceeds of which would cover operating costs. The remainder would be lent to IDA without interest (see Annex C).

F. Collin (President of the Kredietbank, Brussels) has proposed that an international banking syndicate might perform a similar function (Annexes C and D).

(C) Saturation Scheme: According to a proposal submitted by a banker in Latin America (Annex E), bonds freely redeemable inside or outside the country of origin might be issued by LDC governments with an international guarantee. Being readily marketable, they should be attractive to flight capital. A saturation level for foreign redemption might be reached fairly soon because of the knowledge that the bonds have an international guarantee. Most of the capital would thus be retained in the LDC.

(D) The Machado Plan: According to this plan (SSM/A. 64-34), an LDC government would issue value-linked bonds offering insurance against inflation. An IBRD guarantee would increase their security. The bonds would thus attract capital nervous about either the depreciation of currency values or the unreliability of LDC government commitments or both.

(E) Guarantees for Indigenous Investors: At present many foreign investors in LDC's can obtain from their home governments guarantees and/or insurance against political risks (war, insurrection, expropriation). It might be useful to offer indigenous investors similar guarantees or insurance. This could be done through an International Guarantee Agency. It might be possible to utilize local currency subscriptions to IDA and IBRD as reserve funds. (See Annex F).

(F) A Code of Expropriation: It might be useful to develop and support a code of expropriation. The code might specify prompt and fair compensation; it might prohibit personal reprisals more severe than exile; it might apply to indigenous as well as foreign investors.

This is a field in which the Bank has already specialized to some extent, e.g., in its relations with Greece, Egypt and Indonesia, as well as in its proposal for Settlement of Investment Disputes.

The effect on investment would be greater if the risks could be borne in part by an International Guarantee Agency (such as that mentioned in Proposal E, preceding). The agency might partially reimburse expropriated owners in exchange for a share of their claims. As in Proposal E, local currency subscriptions might form a suitable reserve.

Next Steps

This note was prepared in too short a time to produce either firm estimates or detailed proposals. Its primary purpose is to justify continued exploration. The following steps are recommended:

(1) Country-by-country review: Considerable information is at hand on experience of individual countries with private investment and capital flight. The information should provide a check on the foregoing interpretation.

(2) Elaboration of practical remedies: Proposed remedies need to be winnowed. Those which are worthwhile should be worked out in further detail.

(3) Increase of personnel: The work would go better if more people could contribute all or part of their time to it.

Table 1

All LDC's[1]

Balance of Payments in 1960

($ billion)

	Earnings	Expenditures	Net
Current Account			
Trade (f.o.b.)	22.7	24.1	-1.4
Freight and insurance	0.4	2.2	-1.8
Interest, dividends and profits	0.5	3.5	-3.0
Military and diplomatic	2.3	0.6	1.7
Other	2.9	3.1	-0.2
Total current account	28.7	33.4	-4.7
Capital Account with DAC Countries (net)			
Private investment			2.2
Export credits			0.3
Bilateral loans and grants[2]			3.7
Multilateral loans and grants[2]			0.3
Total capital account			6.5[3]
Unaccounted for			-1.8[3]

1/ Less-developed market economies included in Tables 2-5. (Note: totals do not necessarily add exactly, due to rounding).
2/ For convenience, grants are listed under capital account.
3/ These figures should be adjusted upward (see text, Part I).

Source: B. Balassa, op. cit., pp. 95, 105, 106 and 393.

Table 2

Latin America

Balance of Payments in 1960

($ billion)

	Earnings	Expenditures	Net
Current Account			
Trade (f.o.b.)	8.5	8.2	0.3
Freight and insurance	0.1	0.8	-0.7
Interest, dividends and profit	0.1	1.5	-1.4
Military and diplomatic	0.2	0.2	0.0
Other	1.8	1.5	0.3
Total current account	10.7	12.2	-1.5
Capital Account with DAC Countries (net)			
Private investment			0.9
Export credits			0.3
Bilateral loans and grants			0.3
Multilateral loans and grants			0.0
Total capital account			1.5
Unaccounted for			0.0

Source: See Table 1.

Table 3

Africa[1]

Balance of Payments in 1960

($ billion)

	Earnings	Expenditures	Net
Current Account			
Trade (f.o.b.)	4.9	6.1	-1.2
Freight and insurance	0.1	0.5	-0.4
Interest, dividends and profit	0.2	0.4	-0.2
Military and diplomatic	1.2	0.2	1.0
Other	0.6	0.8	-0.2
Total current account	7.0	8.0	-1.0
Capital Account with DAC Countries (net)			
Private investment			0.7
Export credits			0.1
Bilateral loans and grants			1.3
Multilateral loans and grants			0.2
Total capital account			2.3
Unaccounted for			-1.3

1/ Excluding South Africa.

Source: See Table 1.

Table 4

Middle East 1/

Balance of Payments in 1960

($ billion)

	Earnings	Expenditures	Net
Current Account			
Trade (f.o.b.)	3.8	2.7	1.1
Freight and insurance	0.0	0.2	-0.2
Interest, dividends and profit	0.0	1.2	-1.2
Military and diplomatic	0.3	0.1	0.2
Other	0.2	0.2	0.0
Total current account	4.3	4.4	-0.1
Capital Account with DAC Countries (net)			
Private investment			0.2
Export credits			0.0
Bilateral loans and grants			0.3
Multilateral loans and grants			0.0
Total capital account			0.5
Unaccounted for			-0.4

1/ Excluding Turkey, including Iran.

Source: See Table 1.

Table 5

Asia1/

Balance of Payments in 1960

($ billion)

	Earnings	Expenditures	Net
Current Account			
Trade (f.o.b.)	5.6	7.1	-1.5
Freight and insurance	0.1	0.6	-0.5
Interest, dividends and profit	0.1	0.5	-0.4
Military and diplomatic	0.7	0.2	0.5
Other	0.4	0.5	-0.1
Total current account	6.9	8.9	-2.0
Capital Account with DAC Countries (net)			
Private investment			0.3
Export credits			0.0
Bilateral loans and grants			1.9
Multilateral loans and grants			0.1
Total capital account			2.3
Unaccounted for			-0.3

1/ East of Iran, excluding Japan, Australia and New Zealand.

Source: See Table 1.

Table 6

Reported Private Short-term Capital Flows from Developing Countries and Errors and Omissions in their Balance of Payments, 1952-1961 a/ Cumulative Total

(millions of dollars)

Item	1952-1956	1957-1961	1952-1961
Short-term assets			
Latin America	- 314	- 262	- 576
Sterling area	- 110	116	6
French franc area	12	- 92	- 80
Other	- 6	28	22
Total	- 418	- 210	- 628
Net errors and omissions			
Latin America	- 845	-1,711	-2,556
Sterling area	234	- 101	133
French franc area	- 408	- 559	- 967
Other	463	72	535
Total	- 556	-2,299	-2,855
Total funds			
Latin America	-1,159	-1,973	-3,132
Sterling area	124	15	139
French franc area	- 396	- 651	-1,047
Other	457	100	556
Total	- 974	-2,509	-3,484
Estimated French franc area not included above b/	-	-3,500	-

a/ The country coverage (for the franc area) for 1957-1961 is larger than that for 1952-1956. No sign indicates a net inflow of funds; a minus sign, net outflow.

b/ Based on the errors and omissions item of the balance of payments of metropolitan France with overseas franc area countries.

Source: UN, *World Economic Survey 1963*, Table 8-23.

Table 7

Trade Balances of Market Economy LDC's

(in millions of dollars)

	1958	1959	1960	1961	1962	1963
Latin America	- 820	- 80	- 260	- 380	+ 90	+ 830
Africa	-1,180	- 880	-1,070	-1,050	- 780	- 200
Middle East	+ 940	+ 750	+ 900	+ 700	+1,050	+1,270
Asia	-1,780	-1,170	-2,160	-2,480	-2,800	-2,560
Total	-2,840	-1,380	-2,590	-3,210	-2,440	- 660

Source: International Financial Statistics, October 1964, pp. 34-37. Note: These balances are exports f.o.b. less imports c.i.f. This and other differences reduce comparability with Balassa's estimates in Tables 1-5 (all on an f.o.b. basis). They serve however to indicate trends.

Table 8

Some Major Components of the Balance of Payments

(in billions of dollars)

	US Military Expenditures Abroad 1/	DAC Public Grants and Loans (net) 2/	DAC Private Investment in LDC's (net) 3/	Gold and Foreign Exchange Reserves of LDC's 4/
1956	2.9	3.2	2.5	
1957	3.2	3.8	3.4	
1958	3.4	4.3	2.7	11.6
1959	3.1	4.2	2.3	11.7
1960	3.0	4.9	2.5	11.5
1961	2.9	6.0	2.6	10.9
1962	3.0	5.9	2.1	11.3
1963		6.1	2.1	12.3

1/ W. S. Salant and others, The United States Balance of Payments in 1968, Brookings, 1963, Table 1 (Appendix).

2/ OECD/DAC, Development Assistance Efforts and Policies, 1964 Review, Table 3. (Data are for disbursements; they include aid to Southern Europe).

3/ Ibid.; (includes guaranteed export credits over 5 years).

4/ International Financial Statistics, August, 1964, pp. 16-17. (Figures are for end of year).

Table 9

Reported Private Short-Term Capital Movements from Latin America and Net Errors and Omissions in the Balance of Payments

($ million)

	Short-term Assets	Net Errors and Omissions
1952	-100	148
1953	- 68	-192
1954	- 77	-315
1955	- 33	-125
1956	- 36	-361
Total 1952-56	-314	-845
1957	- 72	- 76
1958	-155	-378
1959	46	-324
1960	- 29	-615
1961	- 52	-318
Total 1957-61	-262	-1,711

Source: UN mimeographed document E/CONF. 46/20, January 9, 1964, Table 1.

Table 10

Elements of Capital Flight in the Franc Zone

(in billions of $)

	France: errors and omissions with Franc zone 1/	Algeria: excess invisible payments with Franc zone 2/	Morocco, Tunisia and Vietnam: errors and omissions 3/	Other 4/
1959	0.6	0.0	-0.1	-0.5
1960	0.7	-0.2	0.0	-0.5
1961	1.4	-0.8	-0.1	-0.5
1962	2.1	-1.4	n.a.	

1/ OECD, Outflows of Financial Resources from Developing Countries, January 8, 1964, DAC/PWP/5, para. 5 (confidential).

2/ Comité Monétaire de la Zone Franc, La Zone Franc en 1962, Paris, pp. 207-211. (The figures given here are the amounts in excess of $0.1 billion, which was the level of invisible payments in 1957, 1958 and 1959).

3/ UN mimeographed document, E/CONF. 46/20, January 9, 1964, Table 1.

4/ Balancing item.

Table 11

Short-term Capital Movements
(including Commercial Banks)

and Net Errors and Omissions
(in millions of U.S. dollars)

Sterling Area	1962	1963
Burma	- 1	- 12
Ceylon	6	- 2
Ghana	11	3
Iceland	8	1
India	14	- 82
Ireland	24	64
Jordan	- 4	28
Libya	- 2	16 1/
Malaya	- 15	9
Nigeria	32	79 1/
Pakistan	- 11	- 37 1/
Rhodesia and Nyasaland	42	- 70 1/
U.K. Colonial Territories 2/	- 14	- 10 3/
Total	90	- 34

1/ Private long-term capital included in country figures, but not in total.
2/ Covering all areas that were colonial territories of the U.K. at the end of 1962 except Basutoland, Bechuanaland Protectorate, Hong Kong, Kenya Northern Rhodesia, Nyasaland, Singapore and Swaziland (but including North Borneo and Sarawak).
3/ IMF Staff Estimate.

Source: IMF, 1964 Annual Report, Table 17 (for 1963, many data are provisional).

Table 11 (cont'd.)

Latin American Republics	1962	1963
Argentina	- 44	- 22
Bolivia	- 4	- 2
Brazil	- 21	- 98
Chile	- 54	51
Colombia	23	34 1/
Costa Rica	2	- 9
Dominican Republic	- 15	- 25
Ecuador	6	2
El Salvador	- 1	9
Guatemala	6	- 3
Haiti	- 6	- 4
Honduras	- 1	- 13
Mexico	-148	- 79
Nicaragua	3	5
Panama	6	5
Paraguay	1	- 4
Peru	- 13	- 4 1/
Uruguay	20	7 1/
Venezuela	- 68	- 38
Total	-308	-207 2/

1/ Private long-term capital included in country figures, but not in total.
2/ IMF Staff estimate.

Other Countries	1962	1963
Ethiopia	- 4	- 6
Greece	2	- 34
Indonesia	80	- 58
Israel	23	- 47
Korea	- 11	18
Morocco	- 27	- 52 1/
Philippines	11	-105
Republic of China	11	- 11
Sudan	4	- 4
Syrian Arab Republic	- 12	- 24 2/
Thailand	24	16
Tunisia	2	9
Turkey	- 23	- 15
United Arab Republic	43	344 2/
Vietnam	-	3
Yugoslavia	5	-
Iran, Iraq and Saudi Arabia	- 40 3/	- 60 3/
Total	88	-298
Grand Total	-130	-539

1/ Private long-term capital included in country figures, but not in total.
2/ Private long-term capital, and central government capital and aid included in country figures, but not in total.
3/ IMF Staff estimate.

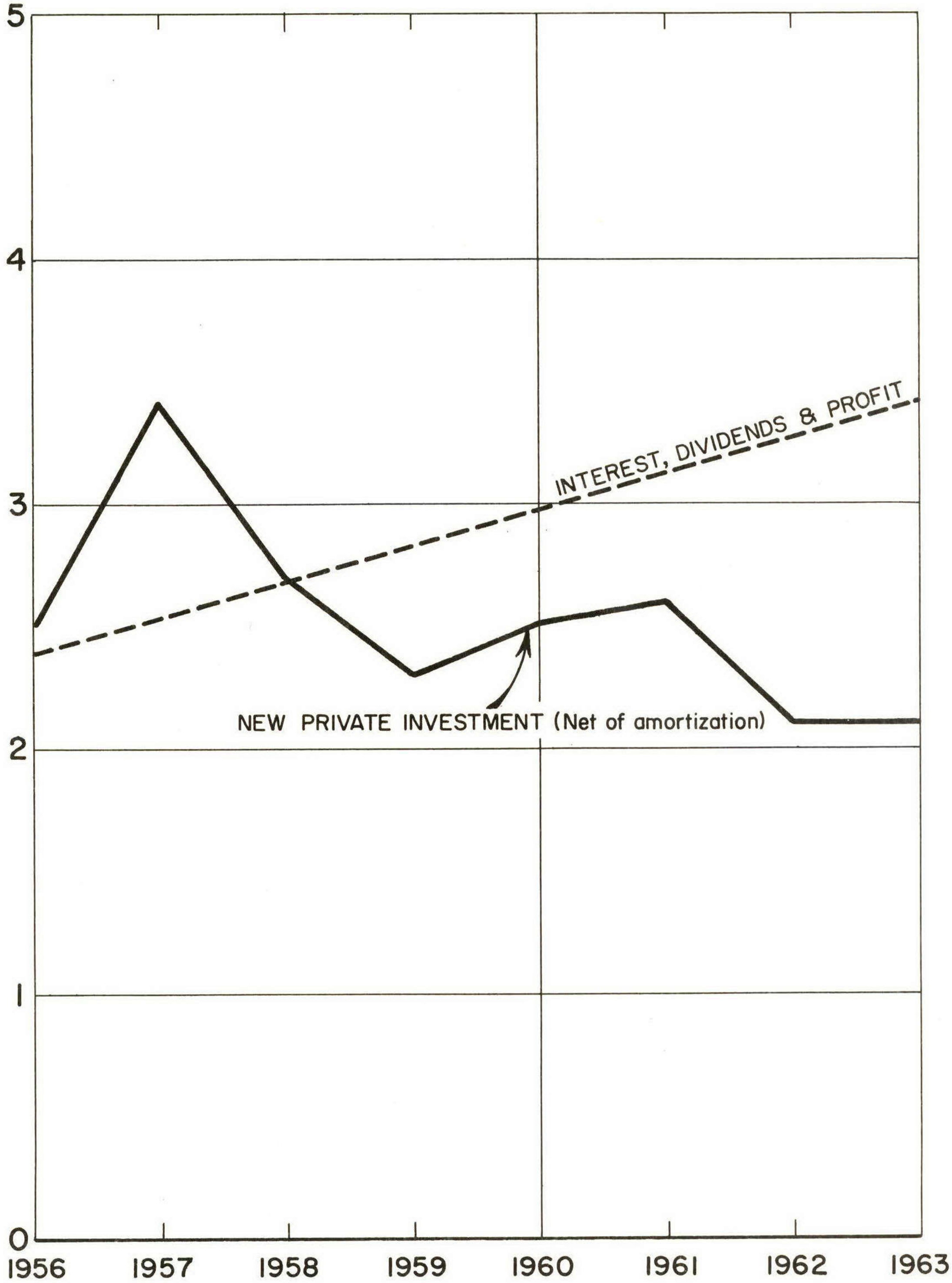
Table 12

Per Capita Gross Domestic Product

Region	Amount in 1960 dollars			Average annual compound rate of growth (percentage)		
	1950	1955	1960	1950-1960	1950-1955	1955-1960
All market economies	451	520	558	2.1	2.9	1.4
Developed market economies	1,080	1,277	1,410	2.7	3.4	2.0
North America	2,340	2,645	2,718	1.5	2.5	0.5
Western Europe	655	805	946	3.7	4.2	3.3
EEC	672	872	1,068	4.7	5.3	4.1
EFTA	941	1,090	1,229	2.7	3.0	2.0
Other Western Europe	232	282	322	3.3	4.0	2.6
Japan	193	278	418	8.0	7.6	8.5
Oceania and South Africa	800	872	948	1.7	1.8	1.7
Developing market economies	105	119	130	2.2	2.5	1.8
Latin American Republics	252	277	300	1.8	1.9	1.6
Africa	93	104	113	1.9	2.2	1.6
Far East	69	78	85	2.1	2.4	1.8
West Asia	164	189	214	2.7	3.0	2.4
Others	319	377	472	4.0	3.4	4.6

Source: A Review of World Trends in Gross Domestic Product, UNCTAD, E/CONF. 46/67, 9 March 1964, Table 3. (In general, GDP is at market prices).

FOREIGN PRIVATE INVESTMENT IN LDC'S (ACTUAL) AND EARNINGS REMITTED (TREND)
(BILLIONS OF DOLLARS)



SOURCE: See text, Part II.

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Annex A

Net Inflow of Capital into Europe

The balance-of-payments position of continental Europe was made more anomalous by the fact that while there was a deficit on current account there was a large overall surplus due to an inflow of funds from abroad. The rise of $2.2 milliard in official reserves in 1963 exaggerates this movement, as the net foreign position of the banks deteriorated by about $1.3 milliard. However, the fact remains that, instead of being a net exporter of capital, which would seem the appropriate structural position, Europe was a large net importer of capital - which in the main has been flowing into reserves. In this respect 1963 was worse than the previous year, as the rise in reserves was larger despite the bigger current account deficit......

Taking the world pattern of capital movements, there was not a great change between 1961 and 1963. However, the share of Europe in net capital receipts, by no means insignificant in 1961, had by 1963 equalled that of the rest of the world. Moreover, in both years it would appear that on balance Europe was a substantial net importer of capital from non-US sources, particularly the less-developed countries.

Two things point to this. The first is that the net capital imports of the less-developed group of countries - $0.3 milliard in 1961 and $0.9 milliard in 1963 - were surely much less than the gross amount of foreign capital they received during those two years. There must therefore have been a considerable gross outflow of funds from these countries. The second factor is that, on the basis of US balance of payments figures, not more than about half of Europe's net capital receipts in 1961 and 1963 can be attributed directly to US sources. Hence, it would appear that the inflow of capital into the less-developed countries, mostly from the United States, has been to a significant extent off set by an outflow from them, mostly to Europe.

Note: The overall balancesfor the different areas correspond to the changes in countries' official gold and exchange holdings and in their net IMF positions. They are affected by differences in statistical presentation and by movements of official dollar reserves into or out of the Euro-dollar market. If the overall balance figures are added across, a positive net result is obtained. In the absence of inconsistencies in the statistics of exchange holdings, this figure would equal the rise in monetary gold stocks for the year in question.

Source: Bank for International Settlements, Thirty-Fourth Annual Report, 1st April 1963 - 31st March 1964; pp. 25-28.

World Balance of Payments

1961	United States	Balance of Western Europe	Rest of the world
	in milliards of dollars		
Current account with			
United States	-	-0.6	-1.8
Western Europe	+0.6	-	-1.9
Rest of the world	+1.8	+1.9	-
Total	+2.4	+1.3	-3.7
Monetary gold sales	-	-	+0.6
Total current account	+2.4	+1.3	-3.1
Capital account, errors and omissions	-3.7	+0.9	+2.7
Overall balance, corresponding to change in official gold and foreign exchange holdings and net IMF position	-1.3	+2.2	-0.4
1962			
Current account with			
United States	-	-0.9	-1.3
Western Europe	+0.9	-	-0.9
Rest of the world	+1.3	+0.9	-
Total	+2.2	-	-2.2
Monetary gold sales	-	-	+0.3
Total current account	+2.2	-	-1.9
Capital account, errors and omissions	-4.1	+1.9	+2.3
Overall balance, corresponding to change in official gold and foreign exchange holdings and net IMF position	-1.9	+1.9	+0.4
1963			
Current account with			
United States	-	-1.1	-1.7
Western Europe	+1.1	-	-0.3
Rest of the world	+1.7	+0.3	-
Total	+2.8	-0.8	-2.0
Monetary gold sales	-	-	+0.8
Total current account	+2.8	-0.8	-1.2
Capital account, errors and omissions	-4.9	+2.6	+2.9
Overall balance, corresponding to change in official gold and foreign exchange holdings and net IMF position	-2.1	+1.8	+1.7

Inflow into Switzerland[1/]

Switzerland continued to experience a heavy inflow of short-term capital estimated at about $600 million in 1963 compared with $900 million in 1961 and $700 million in 1962. Here again, the authorities considered that, coming on top of existing internal pressures, this was exerting a serious inflationary influence and was preventing the operation of market forces (by swamping the liquidity-reducing effects of the increasing trade deficit and higher interest rates). Early in 1964, they took severe measures to discourage short-term capital imports.

As in the case of the German mark, the inflow in 1963 exerted strong buying pressure on the Swiss franc. Whereas earlier in the year, the spot rate for the Swiss franc was fairly easy, reflecting a further increase of the trade deficit, in the second half the rate remained against the upper intervention point. Relatively tight domestic liquidity and the capital flight from Italy led to a substantial capital inflow from July onwards, reinforced in the fourth quarter by end-of-year "window-dressing". The "gentlemen's agreement" between the commercial banks and the Swiss National Bank, designed to discourage the inflow of foreign funds, was continued until the end of the year.

Under this agreement, the banks paid no interest on non-resident deposits in Swiss francs and also undertook not to facilitate the placing of non-resident funds in Swiss securities, real estate and mortgages. However, as from August, the banks were no longer obliged, as previously, to impose a charge of 1.0 percent per annum on foreign deposits with less than 6 months' maturity.

As the effect of this agreement was insufficient to moderate the inflow of foreign capital into Switzerland, the Swiss authorities decided at the beginning of 1964 that it would have to be replaced by stricter measures. A new agreement with the Swiss banks and credit institutions has been drawn up, which has been given the force of law. The new measures have to be observed not only by the banks and the financial institutions of a banking charter, but also by all other institutions and firms dealing in foreign funds.

The main provisions of the new measures[2/] are:

(a) No interest may be paid on non-resident funds credited in Swiss francs since the 1st January, 1964, except for holdings of central banks and savings bank deposit accounts up to 20,000 Swiss francs.

1/ European Monetary Agreement, Annual Report, 1963, pp. 79-80.
2/ Direct investments by foreigners in Switzerland are not covered by these measures.

(b) The counter value of the increase in foreign holdings in Swiss francs since 1st January, 1964 must be placed in a special account with the National Bank unless it has been reinvested abroad (savings bank accounts up to 20,000 Swiss francs are excluded from this rule).

(c) Non-resident funds, whether placed in Switzerland before or after January 1964 and whether denominated in Swiss francs or in foreign currency, may not be invested in Swiss securities, (except on the conditions summarised in the following paragraph), real estate or mortgages.

(d) The purchase of Swiss securities for foreign account during a given month must not exceed an amount corresponding to the purchases by the institution concerned of such securities from foreigners (or foreign held securities which mature during that month). If there is a net excess of purchases for foreign account during a given month this excess must be eliminated during the following month and, if not, an amount equal to treble the amount of the excess must be placed on the special account with the National Bank.

These measures, which formed part of more general measures of credit restriction, appear to have had some considerable effect in the early months of 1964. Even before they came into force, some foreign funds which, would have been placed in Switzerland but for the announcement of the measures, were switched to other countries, notably Germany.

Statements about Latin American Capital Abroad

"Many economists estimate that there is now a minimum of $6 billion in Latin American capital abroad. Daniel Oduber, who has been designated Minister of Economics in the new Costa Rican Government that will take over on May 8, feels that the figure is closer to $10 billion". (Hearings before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, 87th Congress, USA, May 10, 11, 1962, p. 5).

"An estimated outflow of between $9 billion and $15 billion of Latin American capital over the past few years". (Speech by US Senator Javits at Mexico City on January 28, 1963, at a dinner of the American Chamber of Commerce).

"Wealthy Latin Americans are believed to have some $10 billion safely lodged in Swiss banks and elsewhere and another billion or so slips abroad each year". (Economist, London January 12, 1963, p. 107).

Annex B

Capital Flight from Belgian Congo

Some order of magnitude on reverse flows from the Congo may be obtained from the balance of payments of Belgium with the Congo and Ruanda Burundi.1/ At the beginning of 1959, no doubt as a result of political uncertainty, there was an increase of private transfer payments to Belgium. Recorded transfers amounted to $26 million in 1958 and were about $40 million annually above this level in 1959 and 1960. The flow of private capital which in 1958 had been largely in favour of the former dependencies, ceased completely and was replaced by an outward movement of capital amounting to about $65 million annually during this period. In spite of heavy borrowing from the Belgian Government and official receipts of transfers by these countries amounting together to about $180 million in 1959 and 1960 there was a spectacular decrease in their foreign exchange reserves. The Congo alone lost about $160 million during these two years. Large-scale private disinvestment seems to have continued in 1961 accompanied by a further loss of $40 million in reserves. On the basis of the available evidence flows to Belgium from its former dependencies can be estimated at about $250 million during 1959/61.

1/ Banque Nationale de Belgique. Bulletin d'information et de documentation. June 1960, p. 314 and July 1961, pp. 16-17.

Source: OECD, Outflows of Financial Resources from Developing Countries, DAC/PWP/5, 8 January 1964, Para. 6.

Annex C

International Savings Bank and/or Syndicate

First Alternative

1. It is proposed that the IBRD establish an international savings bank (ISB).

2. The purpose of ISB would be to tap a substantial portion of the flight capital leaving the LDC's each year, and to channel it back through IDA.

3. As has been demonstrated in Switzerland, considerations of security, anonymity and liquidity are paramount for much of this capital; earnings are unnecessary and servicing charges are acceptable. The ISB need therefore pay no interest.

4. The ISB should maintain a substantial reserve (e.g., 33 percent), to cover the possibility of concentrated withdrawals. The investment of this reserve at short-term should provide income adequate to cover expenses.

5. The remaining savings could be loaned to IDA without interest. The potential annual volume of loans from this source would permit a multiplication of IDA operations.

6. The ISB would maintain branches in key money markets under agreement with the host countries. The agreements would cover special immunities, privileges and restrictions, and would provide for close cooperation with monetary authorities.

7. In addition to maintaining savings accounts, the ISB might add to its income by issuing and selling bank notes. These might be denominated in the unit of account (UA) of the European Payments Union. The UA is now equivalent to one dollar; its future value is tied to the median movement of the currencies of the former members of the EPU. Use of the UA has evolved under the European Monetary Agreement, Economic Community, Community for Atomic Energy and Investment Bank; since 1961 seven bond issues denominated in UA, sponsored by Belgian banks, have found ready markets in Europe and New York.

8. Savings accounts might also be denominated in UA, spreading the risk of devaluation for account holders.

Second Alternative

1. F. Collin, (Chairman of the Kredietbank in Brussels) has recently proposed that flight capital from LDC's be channeled back to them by a large syndicate of international bankers.1/

1/ See Annex D.

2. The main elements of the First Alternative could presumably apply here with a few modifications. Banks participating in the syndicate would retain and invest a part of the reserves, passing on the rest of the savings to the aid-distributing agency or agencies. In return the latter would assist the former in obtaining any governmental cooperation in the form of immunities, privileges, etc.

3. If negotiable, the Second Alternative would simplify the job for IBRD/IDA. It would leave the details of handling deposits and other forms of saving to national and private agencies with experience and existing contacts. It is hard to say which alternative would be more successful in raising funds to be channeled through IDA.

Combination

A compromise between the alternatives would be to establish an International Savings Institute relying wholly or mainly on resources flowing in from national and private banks under contracts negotiated with the help of host governments.

Annex D

Remarks by Fernand Collin, Chairman of the Kredietbank, Brussels[1/]

"..... the refugee money which is now so abundantly available in Europe ..... might be lured into sound investments in the underdeveloped areas if the yield is also satisfactory.

Having a sound protection against the abuses of local governments and against monetary instability, the owner of refugee money may be attracted by such investments if he has one additional advantage: anonymity.

These savings must be afforded the possibility of finding their way back unnoticed.

Many owners of flight capital are established in the country of its origin. In some cases, they are liable to penalties for having transferred their assets to a safe place. They will at all costs want to keep their infringement of the law from becoming known, even if they are assured of an amnesty or some other form of immunity.

They will be most anxious to ensure that their reputation and good name are not jeopardized, and the majority of them will not wish to give the authorities an opportunity to make an inventory of their assets.

Such an attitude is most easily understandable in the case of countries where the regime is not perfectly stable and where civil rights are sometimes shamelessly trampled underfoot.

We have no right to pass judgment - and certainly no interest in doing so - on the behaviour of these owners of flight capital, nor on the attitude they now wish to adopt.

Instead we should adapt ourselves to the existing situation and take into account the fact that these investors, to a greater extent than their Western European counterparts, can be attracted by favorable investment prospects in their country.

This phenomenon does not occur solely in the developing countries. The securities which are placed by our Western governments abroad also show an irresistible urge to return to their country of origin.

After a few years nearly all bonds are back in the country that placed them abroad. The American investment bankers are well aware of this phenomenon.

The same may happen in the underdeveloped countries, if all the necessary precautions are taken by the underwriters.

The inflow of foreign capital will - at least at the outset - have to provide the majority of the investments. However, once business has shown that it is capable of holding its own, the savings of the assisted country - whether or not it is flight capital - can to a large extent take over the task of financing.

When foreign investors have exhibited confidence, domestic investors will be prepared to follow in their footsteps, if they can count on at least the same guarantees and the same protection.

Sufficient importance can never be attached to the monetary stability of the assisted country, without which it will prove impossible to attract capital, whether foreign or domestic.

To sum up, the financing of the developing countries cannot be done entirely by the affluent countries of the Western world.

The main difficulty today is that the greater part of the local savings in many underdeveloped countries is leaving the country to seek refuge elsewhere, when these funds are badly needed on the spot.

The problem we have to solve is not only to stop the hemorrhage but to bring the savings back and to put them to work in their country of origin.

In order to achieve this, confidence, full confidence must be restored.

To do this it is not enough that the local governments are mending their ways, and that they give the most solemn assurances that the rights of investors will be safeguarded. The savers must be certain that they will have a solid protection against possible abuses, and that they will be able to bring their flight money home unnoticed.

This can be done in different ways. But in my opinion the best way to do it is to entrust the financing to a large syndicate of international bankers, who would not only secure the indispensable safeguards, by contract or otherwise, but who at the same time would act as a screen to ensure the anonymity of the investor.

It may take some time to organize this. But if it succeeds it will be able to do much more than public authorities can with limited budgetary means.

We already have some experience of the useful financial work which can be done by international syndicates of banks and other financial institutions. The international loans in units of account to which I have referred were arranged by a European syndicate which had to overcome a host of obstacles, many of them having deep roots in the nationalist traditions of the various capital markets of Europe and of the government authorities which supervise them. They were extremely successful. If the same persistent ingenuity and spirit of international collaboration were brought to bear on the problem of arranging private financing for the underdeveloped areas, I believe that results would be shown on a really grand scale."

1/ Excerpted from F. Collin, "The Formation of a European Capital Market, and Other Lectures", given in the US in October 1963.

Annex E

Saturation Scheme[1]

One of the most serious problems for underdeveloped or semi-developed countries is the steady outflow of domestic savings.

Exchange controls have had poor results in a number of countries. In spite of the losses and risks involved, private savings continue to flee abroad in search of safety.

Meager results have also attended the efforts to attract local savings by means of adjustment clauses which take account of monetary depreciation. These efforts overlook the fact that the investor fears not only a loss of value in monetary terms, but also various other actions through which the local government (which he fundamentally mistrusts) may adversely affect his investment.

To cope with these difficulties it might be useful to consider the idea of permitting a free outflow of savings; the outflow would be managed in such a way that the savings automatically return at once to the country of origin in the guise of foreign capital.

The investor might, for example, be offered a bond which will retain its value whatever actions may be taken by the local government, and which will be freely and currently negotiable outside the country.

Obviously such a security can only be offered by an institution outside the country and with sufficient prestige and public confidence to be able to place its bonds successfully on international markets. Investors would buy the bonds because of their confidence in the issuing institution. The destination of the funds would be of no concern to them.

Even if the institution invests the savings in the country of origin, the bondholders will have the security guaranteed by the institution, regardless of the political evolution of their country. At the same time the country of origin will suffer no loss because the outflowing savings will be immediately returned.

Foreign exchange controls might then become more effective. Capital will not go to the more expensive and forbidden black market if it can achieve the same result by buying the proposed bonds.

The bonds might be sold on the local stock market where they would be purchased not only by persons seeking the safety of a foreign guarantee but also by those who wish, for other reasons, to invest locally. Such sales would help to build the market for the bonds.

1/ Dated September 18, 1964, submitted by a banker in Latin America through Mr. van der Tak (Economic Department), edited by Hulley.

The bonds should also be issued simultaneously in foreign stock markets. The market for them must be developed abroad in order to ensure their ready negotiability.

The purpose of this scheme is to mobilize local savings for local investment. If the bond issue is large enough to absorb the demand for foreign securities, the black market will disappear. This sort of bond could, therefore, be a useful instrument of monetary policy. A central bank could for example subscribe a substantial part of the issue, keeping it in portfolio in order to sell it in response to market requirements. The bonds would thus serve as a standby credit.

To the extent that private bondholders elect to cash in their bonds abroad, the foreign currency reserves of the underdeveloped country will be drawn upon. On the other hand, the arrangement will improve the reserve position to the extent that private investors accept bonds in exchange for funds which would otherwise have been held abroad.

The question is whether there is or could be an institution capable of assuming the risks involved. In general, private banking institutions are bound to limit their investment in underdeveloped countries to relatively small amounts. It would seem therefore that a bond issue on the scale indicated would be appropriate for one of the big modern international institutions designed to assist economic development by means which include assumption of some of the risks that deter private capital. A private bank or group of banks might nevertheless perform some service on the basis of experience and contacts in certain parts of the world. A profitable arrangement might involve the issuance of the bonds by one or more private institutions with the guarantee of one of the international institutions.

Annex F

LDC Local Currency Subscriptions as Reserve for Guarantees

1. LDC local currency resources of IBRD/IDA exceed $600 million

Unspent portions of the 9 percent subscriptions to IBRD from less-developed countries total about $409 million, as of February 29, 1964. The corresponding figure for IDA is about $219 million (see Table).

2. The value is guaranteed

Although LDC currencies are usually inconvertible, their value is guaranteed to IBRD/IDA under the maintenance of value clause. According to this provision, a country is required to make up the difference in the subscription if there has been either an official devaluation or - in the opinion of IBRD/IDA - an unofficial one.1/ Thus the local currency subscriptions already constitute a suitable reserve for guarantees against depreciation.

3. There are no servicing charges

As on all subscriptions to IBRD/IDA, there are no interest or amortization charges. Since charges for guaranteeing must be supplementary to normal interest charges, it is important that they should be low enough to keep the total cost within limits attractive to borrowers. Using the local currency subscriptions as reserves, IBRD/IDA could probably charge substantially less than 1 percent.

4. The rate of use has been slight

Under existing procedures, these funds are used by IBRD/IDA only if converted into hard currency or else to finance exports from the contributing country. From the date of its inception until February 29, 1964, IBRD had committed only about $92 million in this manner. IDA had not committed any of the funds.

5. New uses are sought which will minimize strain on LDC's

A recent paper developed some criteria for the use of these funds.2/ It is hoped to find a genuine use which will not make excessive demands on LDC's. A reserve fund for guarantees fits the criteria well; it must be maintained in reasonably liquid form, while actual disbursements are likely to be small.

1/ A small total of subscriptions, handled as "Philippines Transactions", are exempt from this provision.

2/ These criteria are described in documents SSM/A/64-33 and SSM/M/64-20.

Table __

Unused Subscriptions of LDC's to IBRD and IDA

As of February 29, 1964

($ million)

	Total	Africa	Europe	Far East	South Asia and Middle East	Western Hemisphere
(1) IBRD 9 percent	501.1	72.4	55.4	121.1	126.2	126.0
(1a) On loan	92.1	6.0	13.9	11.0	33.6	27.6
(1b) Unused	409.0	66.4	41.5	101.1	92.6	98.4
(2) IDA 90 percent	219.1	34.7	23.7	44.3	62.5	53.9
(3) Total unused (lines 1b + 2)	628.1	101.1	65.2	154.4	155.1	152.3

Source: Tables issued by Treasurer's Department, Finance Division, 31 March and 1 April.

Annex G

Rate of Growth of Capital Flight

(See Table)

(a) Trade: During the 1950's, LDC imports overtook and surpassed exports[1]; but during the period 1958-62 the resulting import surplus seems to have stabilized (see Table 7).

(b) Freight and insurance: The rate of increase in net expenditures for this item was estimated by Balassa (Chapter 5). It is about $70 million a year in the period under discussion.

(c) Interest, dividends and profits: On a net basis this item (almost half of which is for oil companies) is estimated (ibid) to rise by about $140 million a year in the 1960's; this is an approximate continuation of the rise in the 1950's.

(d) Military and diplomatic: U.S. military expenditures abroad were remarkably steady between 1955 and 1962 (Table 8). Considering the preponderance of this component, it seems reasonable to project all military and diplomatic expenditures in LDC's on a constant level.

(e) Other: Mainly on account of tourism, Balassa (ibid) expects this item to improve by $50 million a year.

(f) Private investment: This item has been declining since 1957 at an average rate of about $100 million a year (Table 8).

(g) Export credits: In the absence of adequate data, it is here conservatively projected at a constant level. Changes are in any case likely to be small relative to other items.

(h) Bilateral and multilateral loans and grants: Since 1956 this item has been growing by an average of $400 million a year (Table 8).

(i) Non-DAC aid: This aid rose from about $250 million in 1960 (Balassa, p. 105) to about $500 million in 1962, but may have declined somewhat thereafter.[2] An annual average increase of $50 million is a conservative reflexion of these alternative movements.

1/ A Review of Trends in World Trade, UNCTAD, E/CONF. 46/12, Table 4.
2/ Development Assistance Efforts and Policies, 1964 Review, OECD, p. 31.

Table

Average Annual Changes in LDC[1/] Balance of Payments
During late 1950's and early 1960's

Approximate
(millions of dollars)

Current Account (net)	
Trade (f.o.b.)	0
Freight and insurance	- 70
Interest, dividends and profits	-140
Military and diplomatic	0
Other	+ 50
Total current account	-160
Capital Account (net)	
Private investment	-100
Export credits (including short-term)	0
Bilateral and multilateral loans and grants (DAC)	+400
Non-DAC aid	+ 50
Total capital account	+350
Unaccounted for	-190

1/ LDC's included in Tables 2-5.

Source: See text, Part II.

Dev. Gen.

November 3, 1964

Mr. Bolek Brunak
19130 Nordhoff Street
Northridge, California

Dear Mr. Brunak:

Mr. Woods has asked me to thank you for your letter of October 25 addressed to him, in connection with the utilization of automation and electronic data processing as tools of economic development in newly developing countries.

The Bank is naturally interested in encouraging industrial development in the less developed countries and, for this purpose, has made a considerable number of loans for specific industrial projects and for the development of industrial finance companies in many countries. As you know, our main business is development finance and it is not within the functions of the Bank to disseminate knowledge concerning particular techniques of industrialization. However, I am sending your letter and the attachments you enclosed to our technical services and we shall be in touch with you again should we have any further comments.

Sincerely yours,

Richard H. Demuth
Director
Development Services Department

MPBenjenk/RHD/mct

cc Mr. Woods' office

Dev. Gen.
X-Ref - Consultants - Gen

FORM NO. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: FILES

DATE: October 28, 1964

FROM: Norbert W. Koenig N. W. K.

SUBJECT: German Engineering Projects in Less Developed Countries.

1. - In August the German economic weekly "Der Volkswirt" published a special report on German engineering projects in Germany and abroad. The report describes more than 150 pre-investment and design studies and projects under construction or just completed. A number of the pre-investment and design studies may be of interest to the area departments, and I am summarizing in Annex I the main features of these projects.

2. - The description of the projects also indicates in each case the firm of consulting engineers employed. Most of these firms are known to the Bank, at least as members of the "Association of Independent Consulting Engineering Firms", and a few of them have also been employed on Bank projects. The consulting engineering firms employed on the projects summarized in Annex I are listed in Annex II.

cc: Mr. Demuth
Mr. Gordon
Mr. Clarke
Mr. Riley
Mr. Fuchs

GERMAN ENGINEERING PROJECTS IN LESS DEVELOPED COUNTRIES

I. SENEGAL - Roads.

Ingenieurbüro Rhein/Ruhr GmbH (Dortmund) has been contracted by the Government of Senegal to plan and design a 250-mile (about 400 kilometers) highway along the Senegal River from N'Dioum via Matam to Bakel and from there to the border station of Kidira on the Dakar-Niger Railroad. The highway is to be usable throughout the year. The proposed new highway, named the "Route de Dieri", is to provide better connection between the coastal regions and the interior, in particular the valley of the Senegal River, and to improve local traffic.

2. GABON - Roads.

A 185-mile highway (nearly 300 kilometers) will be built from Libreville to Lastourville providing access to the great timber stands between the Ogooué and Offoué Rivers. The first section to be constructed is the 58-mile (94 kilometer) stretch from Ayem to Basse Obiga. Planning and design and supervision of construction for this section are being carried out jointly by a Gabon planning office, set up by French engineering firms, and the firm of Dr.-Ing. Walter Ingenieurberatung (Essen).

The firm of Walter has employed ten young Africans as assistant surveyors and technicians who were trained during the past few years in the Walter branch office in the Cameroons, "Camerounconsult". The most qualified of these African employees will be sent to West Germany for a year of further training. Dr.-Ing. Walter Ingenieurberatung maintains a special office and an apartment house in Essen for this purpose, the latter in cooperation with the Carl-Duisberg-Gesellschaft (Carl Duisberg Society).

3. TOGO - Seaport for Lomé.

The firm of Dr. Lackner--Dr. Kranz--Barth, Beratende Ingenieure (Bremen) was commissioned by the Federal Office of Trade and Industry (Bundesanstalt für Gewerbliche Wirtschaft) to establish the feasibility of a harbor at Lomé; upon completion of the study the firm was contracted by the Government of Togo to plan and design a harbor. The feasibility study was carried out in cooperation with the Franzius-Institut fuer Grund- und Wasserbau of the Technische Hochschule Hannover (Franzius Institute of Underground and Hydraulic Engineering at the Technical University of Hannover). The exploratory drillings were undertaken by Johann Keller GmbH (Frankfurt/Main).

In the meantime the contract for construction of the harbor at Lomé has been awarded to a West German consortium formed by Strabag Bau-AG (Köln), Grün and Bilfinger AG (Mannheim), and Ed. Züblin AG (Stuttgart).

4. RUANDA - Tea plantations.

In the African Republic of Ruanda Agrar- und Hydrotechnik GmbH (Düsseldorf) have undertaken the designing and implementation of a comprehensive tea cultivation project for which they received the commission via the European Economic Community (EEC). The assignment, to be completed within five years, comprises: (i) the planning of 2,470 acres (1,000 hectares) of tea plantations, subdivided into plots of 1 hectare each (2,47 acres) which are to become the property of African small planters; (ii) the designing and construction of a tea factory for processing the crop; (iii) the establishment of a marketing organization (for domestic and export sales); (iv) the formation of a planters' cooperative society that will eventually take over the management of the plantation, factory and sales organization; and (v) the training of African personnel.

The company in charge of this project is having the actual work carried out by a team of four European specialists and farmers who have experience in farming in the tropics. About 1,000 African farmers and workers are employed in ground preparation and soil tilling, planting, and construction work. Only part of their pay will be paid out in cash, the remainder is credited to their account for future purchase of their allotments. As a result of the lively interest which the project has aroused, work is proceeding much more rapidly than expected when the plans were drawn up.

5. RUANDA - Lake Kivu Methane Gas.

Lake Kivu's accumulation of methane is estimated at approximately 2,000 billion cubic feet (57 billion cubic meters), and a nitrogen fertilizer industry could be built up on this basis.

On the basis of a long-term advisory contract, the Imhausen International Comp., a German firm of consulting engineers with headquarters in Zürich, has submitted to the Government of Ruanda proposals for the utilization and exploitation of the gas in Lake Kivu.

6. EAST AFRICA - Industrial promotion companies.

In Tanganyika, Kenya, and Uganda, private development companies for the promotion of industrialization have started operating under the common name of East African Industrial Promotion Services (IPS). Kienbaum Unternehmensberatung (Gummersbach/Rheinland), on commission from the Aga Khan, advised on the set-up of these companies. One of the principal purposes of IPS is to assist in the intelligent use of aid funds by submitting project proposals to both East African and foreign governments. As a profit-making organization IPS participates in business ventures with promising prospects or arranges for partnerships. IPS also offers consulting services in the fields of factory planning and designing, business administration, market research, marketing organization, productivity and management policy.

Besides the three East African IPS companies with headquarters in Dar-es-Salaam for Tanganyika, Nairobi for Kenya, and Kampala for Uganda, a fourth company was established in Switzerland with its headquarters in Geneva which is primarily concerned with foreign investors interested in investing capital in suitable projects in East Africa. IPS shares can be acquired by anyone and are issued as personal shares that are registered with the company; they will not be traded on the stock market.

7. MADAGASCAR - Study of Development possibilities.

A mission consisting of Dutch, Italian, French and German experts, with F.H. Kocks KG Consulting Engineers (Koblenz) as the German member, was commissioned by the European Development Fund to undertake a study of development possibilities in Madagascar.

The report proposes in particular measures for the development of industry in the city of Antsirabe, located in the heart of the main market districts at the intersection of the main traffic routes. In this area, rice mills, textile factories, canning and tobacco factories, and a brewery are already in existence and public funds are being made available to induce the settlement of new "impulse industries" using natural products as raw material.

8. SPAIN - Water for Asturias and Gijon.

The German Water Engineering GmbH (Essen) was commissioned by the Government of the Province of Oviedo (Asturias) in Northern Spain to undertake a comprehensive hydrographic and hydrologic study for the purpose of water conservation. The study showed conclusively that actual and future requirements in potable water can be supplied by ground water alone. At various points determined in the survey exploratory drillings will be made, to be followed by the sinking of a number of ground water wells. The existing surface waters will be reserved for future industrial requirements. The execution of the survey required the establishment of a permanent hydrologic office that will be gradually enlarged to a department of Water Conservation for the province.

German Water Engineering GmbH also received the order from Spain to plan the repair, modernization, and extension of the obsolete and inadequate water supply system of Gijon, an industrial city and port in Northern Spain on the Bay of Biscay.

9. TURKEY - Lignite deposits.

Systematic research is being considered in Turkey to determine the location of lignite deposits of which only a few have been exploited so far. This proposal is based on a study by Büro für Bergbaufragen Dr.-Ing. Otto Gold (Köln), consultants for mining engineering.

10. JORDAN - Geological Survey.

A mission consisting of six to ten German geologists is assisting Jordan in establishing a geological service. The Mission's assignment is to prepare geological maps of Jordan and to explore the country for mineral deposits that are economically exploitable. The discovery of copper and phosphate deposits (near Maan between Amman and Aqaba that contain a mineral of good grade and have a favorable structure) are the first results of the Mission's work. The copper deposits in the Wadi Araba between the Dead Sea and the Red Sea, are at present being explored by the firm of Dr. Gold. The deposits will be thoroughly charted geologically; test drillings will be made; proposals for methods of mining, ore dressing, and transport will be submitted in detail; and marketing possibilities will be investigated.

11. SAUDI ARABIA - Reconditioning of Al-Hassa Oases.

In order to prevent further shrinkage of the largest coherent oasis region in Saudi Arabia and to extend the farming area now threatened by salt formation in the soil, an extensive investigation was undertaken by WAKUTI Karl Erich Gall KG, Ingenieurbüro Wasserwirtschaft, Kultur- und Tiefbau (Siegen/Westfalen).

WAKUTI surveyed the entire region and prepared maps. The "diagnosis" is to be followed by the appropriate "therapy", and a preliminary project study is being prepared at the present time; it is expected to be completed some time next year. It will provide for the extension of the net area available for cultivation from the present 35 square miles to 77 square miles (from 90 to 200 square kilometers) by means of an elaborate system of irrigation and drainage in which the main and subcanals, to be built of prefabricated concrete parts, will have an overall length of 465 miles (750 kilometers).

12. BOLIVIA - Water and power supply.

The Deutsche Projekt Union GmbH (Bonn), a consortium of a number of consulting engineering firms, has been engaged by the Government of Bolivia as technical consultant in the fields of water supply and waste water disposal; power supply; irrigation and drainage; land reclamation for agricultural purposes including planning of crop sequence and marketing; and for the training of Bolivian engineers and technicians. The different studies have been entrusted to Elektrizitäts-Actien-Gesellschaft vorm. W. Lahmeyer and Co. (Frankfurt/Main) and F.H. Kocks KG Beratende Ingenieure (Koblenz). A team of 16 German experts from the two engineering firms and about 50 Bolivian engineers and technicians organized under the name of "Ingenieria Global" have been at work in the country since early in 1963. Cochabamba was selected as the headquarters of the organization.

Repair, modernization, and extension of the inadequate systems of supplying potable water to the larger cities and electric power throughout the country, as well as specific planning to increase agricultural productivity, are the urgent projects selected for immediate attention. As a first step the supply of drinking water was examined, planned and projected for La Paz, Cochabamba, and Oruro.

In order to achieve an improvement in overall power supply as rapidly as possible, proposals were made for extension of existing plants by strengthening and increasing the height of dam walls; for replacement of obsolete machinery; and for reduction of capacity losses in networks and plant installations. In addition detailed investigations were conducted regarding future power requirements of the cities of Cochabamba, Santa Cruz, Sucre, and Potosi, and means of providing their supply.

13. BOLIVIA - Agriculture in the Villamontes Region and the Andes.

The region around Villamontes on the Rio Pilcomayo heads the list of irrigation projects within the scope of the development studies being carried out by "Ingenieria Global" for Bolivia. The plans for this region were drawn up in detail; they cover the organization of farms and their equipment with farming implements, the selection of crops to be produced and marketing possibilities.

14. CHILE - Expansion of Steelworks.

A study was undertaken by IPCO - Internationale Planungs- und Consulting-GmbH (Duisburg) - on order from a Chilean steel producer, the Compania de Acero del Pacifico S.A. (CAP). The purpose was to submit proposals for a progressive expansion of the Huachipato integrated iron and steel plant, the only steel works in Chile. In a 350-page typewritten report IPCO presented about 40 possible solutions including investment and operating costs, together with a number of recommendations. IPCO has now received an order to prepare detailed outlines for the solution selected by the Government.

15. PERU - Mantaro power project.

From an engineering point of view the Mantaro River in Peru represents a unique potential of electric energy. However, its usability has flaws at the present time, and this fact was virtually the first thing established by a group of experts sent to Peru by the German Federal Government as part of its Technical Aid Program. Salzgitter Industriebau GmbH, the engineering firm of Lahmeyer, and the Federal Institute of Soil Research (Bundesanstalt für Bodenforschung, Hannover) were represented in this study group, with Salzgitter Industriebau as leader of the group. The German study group examined in a preliminary form several development projects whose realization would increase the power demand of the country considerably.

ANNEX II

CONSULTING ENGINEERING FIRMS EMPLOYED ON PROJECTS LISTED IN ANNEX I

1. – Ingenieurbüro Rhein/Ruhr GmbH (Dortmund)
2. – Dr.-Ing. Walter Ingenieurberatung (Essen)
3. – Dr. Lackner--Dr. Kranz--Barth, Beratende Ingenieure (Bremen)
4. – Johann Keller GmbH (Frankfurt/Main)
5. – Agrar- und Hydrotechnik GmbH (Düsseldorf)
6. – Imhausen International Company (Zürich)
7. – Kienbaum Unternehmensberatung (Gummersbach/Rheinland)
8. – F.H. Kocks KG Consulting Engineers (Koblenz)
9. – German Water Engineering GmbH (Essen)
10. – Büro für Bergbaufragen Dr.-Ing. Otto Gold (Köln)
11. – WAKUTI Karl Erich Gall KG, Ingenieurbüro Wasserwirtschaft, Kultur- und Tiefbau (Siegen/Westfalen)
12. – Deutsche Projekt Union GmbH (Bonn) -- a consortium of several consulting engineering firms.
13. – Elektrizitäts-Actien-Gesellschaft vorm. W. Lahmeyer and Co. (Frankfurt/Main)
14. – IPCO – Internationale Planungs- und Consulting-GmbH (Duisburg)
15. – Salzgitter Industriebau GmbH
16. – Federal Institute of Soil Research (Bundesanstalt für Bodenforschung, Hannover)

Form No. 89
(9-62)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP	Date Oct. 27, 1964

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Demuth	

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

Please have someone send a reply to Mr. Brunak, with a copy to this office. I myself will not be able to visit with him.

G. D. Woods

Fr

Dev. Gen -

OCT 27 REC'D

X-Ref - alpha - Brunak.

19130 Nordhoff Street
Northridge, California

October 25, 1964

Mr. George D. Woods, President
WORLD BANK
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Woods:

Advanced technology might be the source of new and powerful impulses for international development.

My extensive experience, acquired in Chile of business methods and customs of this country - as an engineer, co-founder, partner and Director of Manufacturing of a national metal manufacturing company - has led to the concept of a development project whose subject is the industrial expansion and diversification in newly industrializing countries.

The central idea of this project is the utilization of automation and electronic data processing as tools of development with the purpose of intensifying economic growth in those countries and consequently international trade.

Considering the scope and diversity of the WORLD BANK'S activities in the field of international development, I feel that there is a chance that you might be interested in actively encouraging United States and foreign firms to join efforts and to develop international automated manufacturing systems as outlined in this project.

For your information, I am enclosing a copy of the write-up of the above mentioned project. It would be a pleasure to discuss with you further it's basic aspects.

Very truly yours,

Bolek Brunak

Bolek Brunak

encl.

ack. Nov. 3, 1964

PROJECT Development Project - South America, Industrial Expansion and Diversification

INTRODUCTION

For the growth of a country the development of a diversified industry is an essential necessity.

So far, industry has diversified mainly in countries with considerable internal markets. Countries with still relatively small markets were increasingly at a disadvantage.

Chile is an example of a country with a still small but potential growth market. Up to now, only a reduced number of articles could be produced utilizing conventional production equipment. Production methods and equipment in most of the cases were rudimentary for reasons of depreciation in low-volume production. Consequently, output per man-hour and wages were low.

However, it seems that technology now provides the means for initiating most advanced industrial activity in countries with still small markets, too.

Electronic Data Processing and Advanced Information Communication Systems make operations feasible which, up to now have been considered beyond possibility.

Numerically controlled machine tools, inexpensive short-run tooling and high speed tool changing methods make short runs of different products more economical and feasible than they are under mass production techniques.

This means that it should be possible to develop new, advanced industrial activity and diversification in countries with still small internal markets by manufacturing a great variety of products - so far not produced in those countries - in small lots, with the same equipment, with a high output per man-hour and at a low cost.

The following project outlines the phases by which this goal could be achieved.

PROJECT

SUBJECT Economic Development in potential growth countries in South America - - Diversification of Manufacturing - Metal Working Industry.

OBJECTIVE To initiate manufacture in South American countries of durable goods which, so far, are not produced there due to limited markets.

To increase efficiency of existing production.

To utilize most advanced technology and business administration methods.

To start such an enterprise as a joint venture in order to optimize results.

To initiate manufacture with pilot productions and gradually expand.

PHASES

1. Research and Planning. (U.S.)

   Utilize Advanced Information Processing Systems and Network Planning as project and manufacturing management tools.

   1.1 Market and licensing research.
   List all goods whose manufacture by advanced production equipment is considered feasible in potential growth countries.
   Investigate licensing; organization and administration of joint venture, marketing and other business aspects.
   Negotiate licensing agreements, joint venture contracts.

   1.2 Investigate application of advanced technology to short-run production.
   Utilize N/C Automation, tracer machining, duplicating, etc.
   Utilize and further develop inexpensive tooling and high speed tool changing methods.
   Achieve full use of production capacity by manufacturing a large variety of goods in short runs.

   1.3 Make complete plan for pilot production in one or more countries.

2. Initiate pilot production. Evaluate results of pilot production.

3. Expansion.

   3.1 Increase selected number of articles to be produced.

   3.2 Utilize the advantages of the Latin American Free Trade Association - LAFTA - as applied to manufacturing enterprises.

   3.3 Investigate potentialities of complementary productions in the United States and South American countries.

DISCUSSION 1. Research and Planning:

It seems to be convenient to centralize in the U.S. the research, engineer-int, planning (1) and management activities of a higher order, close to the sources of specialized knowledge and manufacture. Advanced Information Processing Systems would optimize the efficiency of communications between such an U.S. information center and South American plants.

1.1 Market and licensing research:

The large amount of information flowing from market and licensing research - products and parts design and manufacturing data, estimated demand of products, licensing information, etc., - would be stored and processed in EDP equipment.

1.2 N/C short-run automation and tooling (2):

"Secondary" advantages of automation in above mentioned countries: only a relatively small number of highly qualified professionals are required to operate an automated manufacturing plant. This would alleviate the task of training large numbers of specialized professionals. Audio-visual equipment - "teaching machines" - might be a significant help in training the staff of such a plant. Automation might be quite advantageous in adapting the social structure of a growth country to modern requirements (3).

1.3 Pilot production - feasible operation system:

A program-proposal for manufacturing a group of articles would be prepared in the U.S. information center for the South American pilot plant. This program proposal would be prepared with the aid of EDP stored information and by selecting a group of articles with similar manufacturing characteristics and which would fit the existing pilot plant production equipment.

Start with the least complicated articles to be produced with N/C equipment, inexpensive tooling and quick-change methods.

This program porposal, together with manufacturing engineering information would be transmitted from the U.S. information center - with tape, etc., as a communication vehicle - to the South American pilot plant.

Based on this information, the joint venture partners in South America would make the definitive manufacturing program. EDP equipment and N/C machine tools would perform the greater part of the complex functions of administration and manufacturing.

At the beginning, it might be convenient to concentrate in the pilot plant on automated production of essential components of a selected group of articles and to deliver the manufactured components to the individual plants of the joint venture partners for finishing, assembly and marketing of the articles.

Information feedback of pilot plant operation to the U.S. information center would close the loop.

(1), (2), (3), see next page FOOTNOTES

FOOTNOTES (1) Network Planning - PERT, CPS, - are advanced techniques utilized for the efficient planning and managing of complex projects, with the aid of EDP.

(2) Gilbert S. Schaller; "ENGINEERING MANUFACTURING METHODS":

"...Numerical control methods make it possible to machine one or a few parts with simplified workholders at nearly the same speed per part as if that part were one of hundreds made in a single production run on an automatic machine..."

"...The introduction of numerically controlled machine tools can well be compared in importance to the application of power in the industrial revolution..."

"...It is now no longer necessary to think in terms of mass production in order to develop satisfactory manufacturing costs. Small lot sizes lend themselves to efficient production by the use of computers and tape controlled equipment..."

S. E. Rusinoff, "AUTOMATION IN PRACTICE":

"...However, an even more significant implication of automation from the point of view of product variety, is that it makes short runs of different products more economical and feasible than they are under mass production techniques, where machines are geared to produce large volumes of similar or identical products. This is possible because automation permits greater flexibility in adapting production units to production parts with different specifications. Where old machines were restricted to producing large volumes of one or few parts, automatic equipment will be able to produce limited volumes of a large variety of parts..."

(3) John Diebold, Congressional Testimony:

"...Numerical Control Automation, which has just recently begun to be applied on a widespread basis, is especially applicable to small shops with short runs of greatly varying products - typical job shops..."

"...Such machines will be capable of producing a short run of one product and then, with a change of tape, producing a few more units of an entirely different product, all from the same tool..."

"...However the greatest gains in productivity from automation will come from being able to do altogether new tasks and achieve previously unattainable goals. Manufacturers have stated that, using a new numerical controlled machine tool, the total cycle times in the fabrication of an assortment of different parts are reduced from one half to slightly more than one tenth the cycle time using under numerical control than comparable tools under manual or tracer control..."

"...The next decade will see the spread of this kind of system in the plant, as the last decade has seen the spread of the computer in the office..."

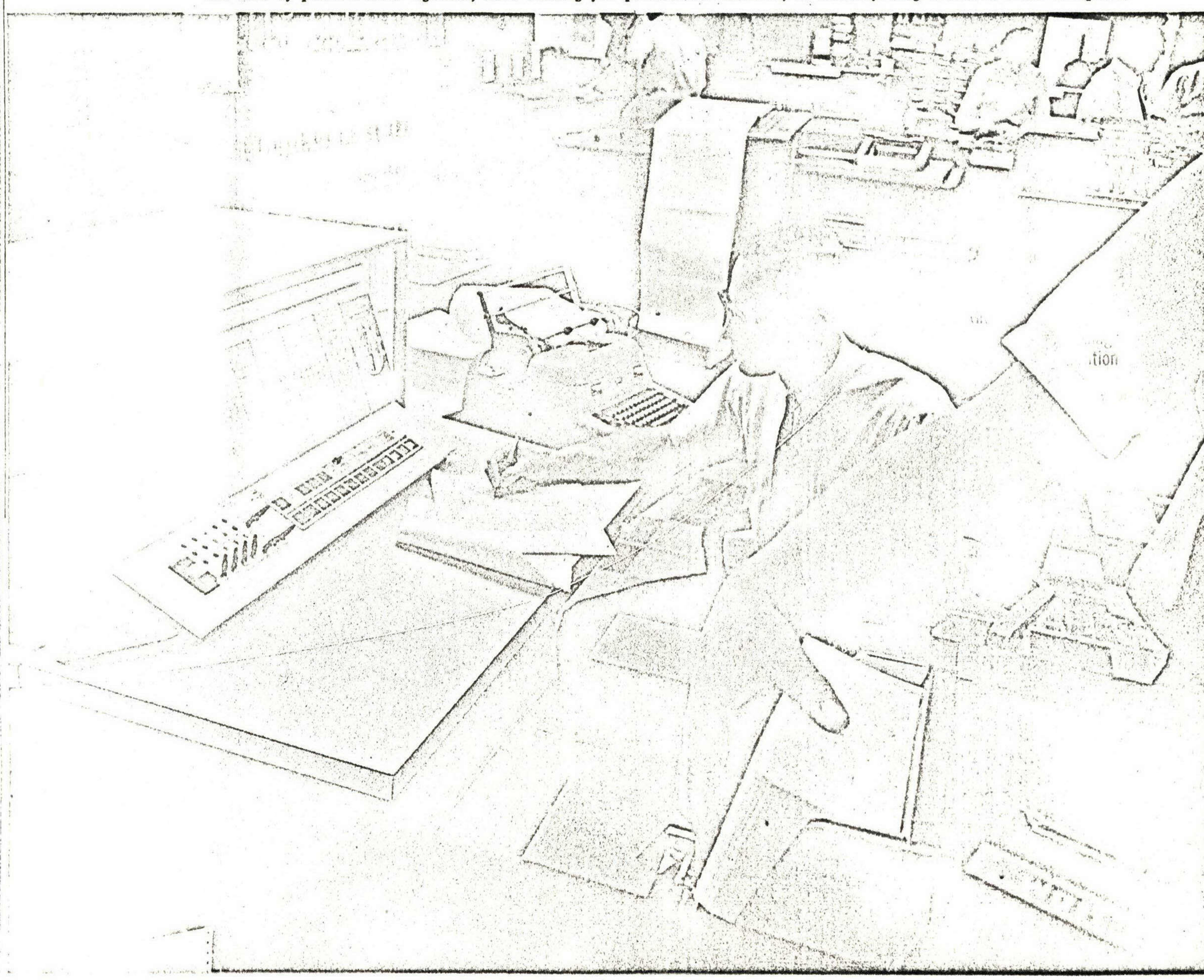
As an example for the development of an international automated manufacturing system, the following reproduction of "small plant computerized production control" might show the capabilities of an advanced, highly diversified small lot manufacturing system, based on EDP. Gl.

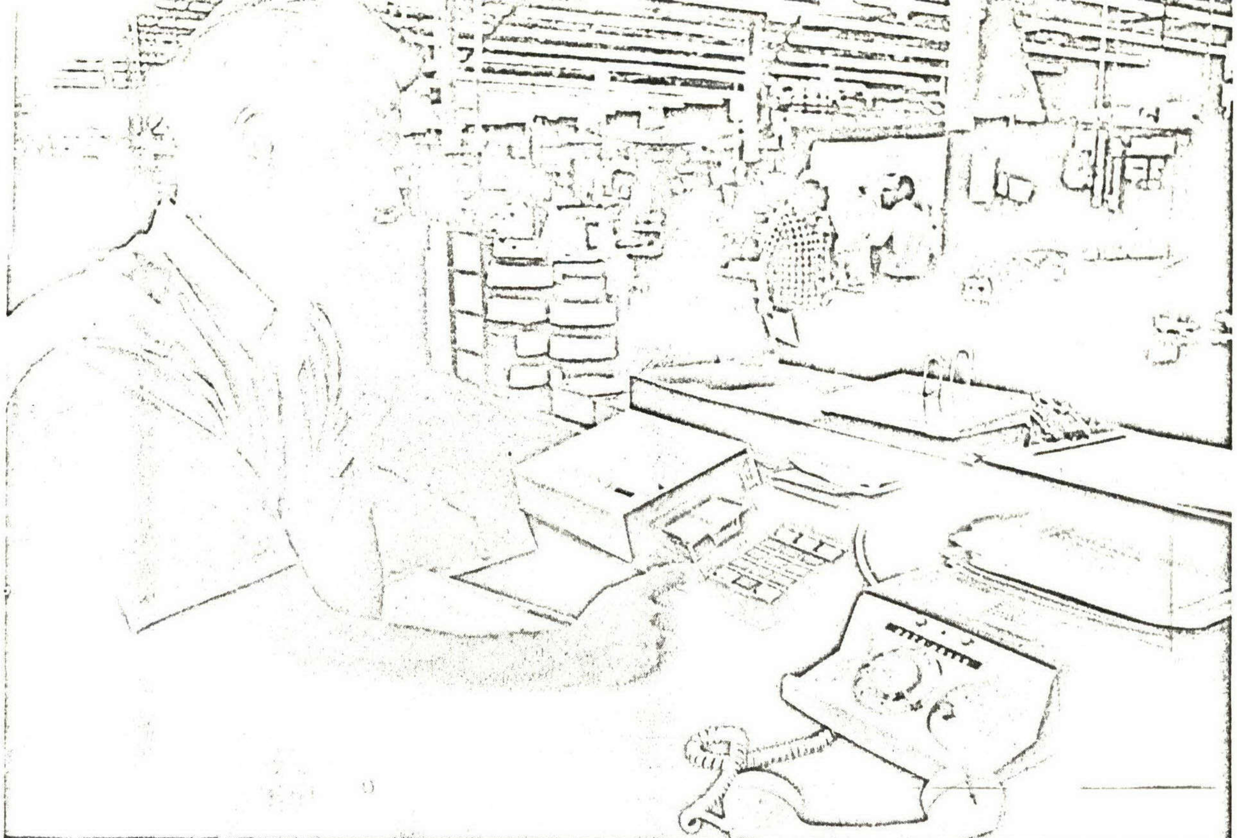
SMALL PLANT COMPUTERIZED PRODUCTION CONTROL

Forty defense contracts involving more than 2,000 active shop orders are running through a branch plant of Marquardt Corp. Control of this work—including scheduling, purchasing, and surveillance—is aided by an IBM 1620 computer. Knowing the status of all jobs on an up-to-the-minute basis gives the plant needed flexibility and high efficiency

R. A. GREY
Production Control Manager
The Marquardt Corporation
Power Systems Division
Ogden, Utah

At core of plant's EDP system, used mainly for production control, is scientifically-oriented IBM computer





Information is transmitted directly from the production floor into the EDP system via a keyboard station

Computerized production control need no longer be considered practical only in large plants operated by giant corporations. A smaller plant, with application of management ingenuity, can obtain big advantages in scheduling and controlling its production and materials. In fact, the smaller plant has an advantage over the larger in that the lines of communication needed for production control are shorter and usually more flexible.

Case In Point

Automated data collection and processing techniques are used for virtually every facet of job fulfillment control at Marquardt Corp.'s Power Systems Division in Ogden, Utah. Total employment in the 275,000-sq ft plant is about 650, of whom 240 are fabrication personnel.

The Ogden plant is a branch production facility. Payroll, accounting, and corporate administrative work are done at the home office in Van Nuys, Calif. The branch, however, is fully responsible for records and control techniques associated with some 40 separate contracts. This requires monitoring more than 2,000 active shop orders, each involving an average of 15 separate manufacturing operations, as well as issuing orders and monitoring fulfillment of purchase of materials and subcontract items needed to fill the contracts. All of these functions are subject to the strict performance surveillance with which all defense contractors live today.

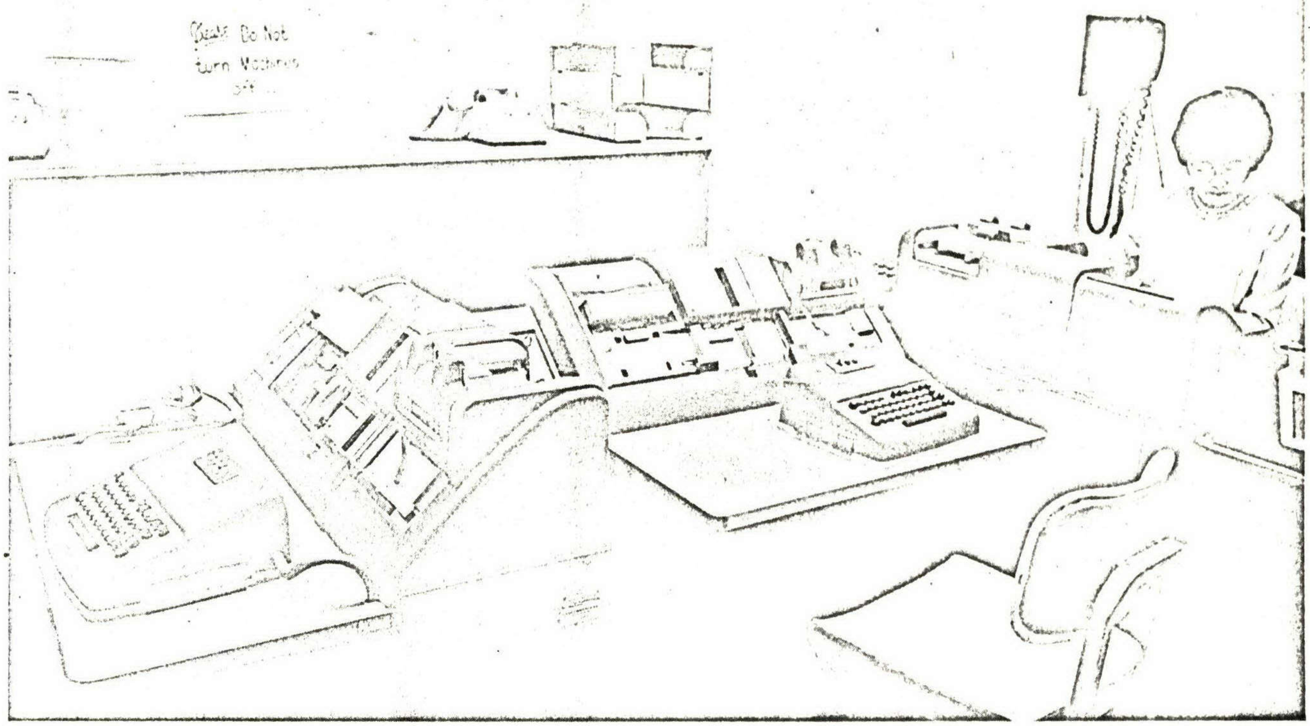
Fit Equipment To The Job

The key in applying computer techniques to production control is the same rule that applies to any other phase of manufacturing management: Fit the machine to the job. When Marquardt began evolving its present system in 1960 the bulk of the work in this field had been done on large scale computers. A thorough study, however, proved that it is practical to adapt existing techniques and applications to smaller, lower-cost computers. Marquardt's approach has been to go as far as possible with the technical capabilities of the system currently available. But, in the selection of data processing equipment, it kept itself flexible enough that the adopted system could be upgraded with technological advances. The plant has been operating a computer oriented production control system since 1962, and both the sophistication of the system and the timeliness of the information it generates have been upgraded on three occasions since then.

Control Starts With Engineering Release

Functionally, all production control emanates from the basic engineering release which puts any contract to work. This document includes a complete explosion of material requirements and full details on manufacturing hours in each of the 18 operating cost centers in the plant. The basic data on work requirements is punched into IBM cards and fed into an IBM 1620 computer which is set up with a linear program developed especially for this application. Scheduling is done under the indenture method: Starting with the final delivery date, individual setbacks are calculated for each manufacturing step. These forecasts include full allowances for lead time, setup time, inspections, and all other scheduling requirements all the way from initiation of the job through final testing and delivery.

As manufacturing or support activities are carried on in the plant the completion of each function is reported to the data processing department via IBM 1001 data transmission units. This is accomplished, in part, by the creation of master job tickets—called "jickets"—for each traveler in work. The basic concept, however, is that the jickets contain traveler serial number data only. Variable data about operations performed and plant location is transmitted via keyboard of the 1001, right from the plant floor. This information is immediately incorporated into cards punched auto-



matically in the data processing department. These cards, in turn, are immediately ready for input into the computer system. There is no hold-up for card punching, verification, or other source data steps. This approach places responsibility for accurate reporting on the lead men and supervisors in the plant, making for tighter, more effective over-all management control.

Approximately 1,000 cards are created in the data processing department each day by keyboard transmissions. The swing shift of the data processing group sorts them according to application, such as work-in-process, purchasing, blueprint, and so on. The cards then are fed into the 1620 system under a program which updates 3,000,000-character disc pack memories of two IBM 1311 disc memory files. These files accumulate and maintain complete data on functions controlled by the system.

Several Types of Reports

Operating and management reports utilizing data from the disc files are created by an on-line 1448 printer linked with the 1620. The printer operates at a rate of 240 lines a minute. Three reports, dealing directly with data required to control production schedules, are issued daily. Several other reports are issued on a weekly or as-needed basis.

Daily WORK-IN-PROCESS STATUS REPORTS are issued for each job in the plant showing location, work accomplished to date, current work being performed, and operations remaining to completion. Each individual operation to be performed has a scheduled completion date specified. Any jobs behind schedule are called out, and the number of days behind schedule is indicated. This report serves both as a trouble shooting and control function. It calls attention to situations which must be expedited.

A daily PARTS ANALYSIS report details the inventory situation in terms of parts needed to sustain current production schedules. For each part, it lists total requirements and details performance in terms of quantities ordered, on hand, already issued, and still needed. Whenever projected parts availability falls behind production requirements, the computer prints an "exception code" which automatically triggers follow-up action.

The third daily report is an ORDERING ANALYSIS, similar to the parts analysis. It monitors parts coverage against scheduled in-work dates and notifies the order release group of the quantities of parts that should be released to maintain schedules. This report provides notification five days in advance of the required shop order issue date and thereby indicates to the order release group those parts which require order activity in sufficient time to assure availability of the material when needed.

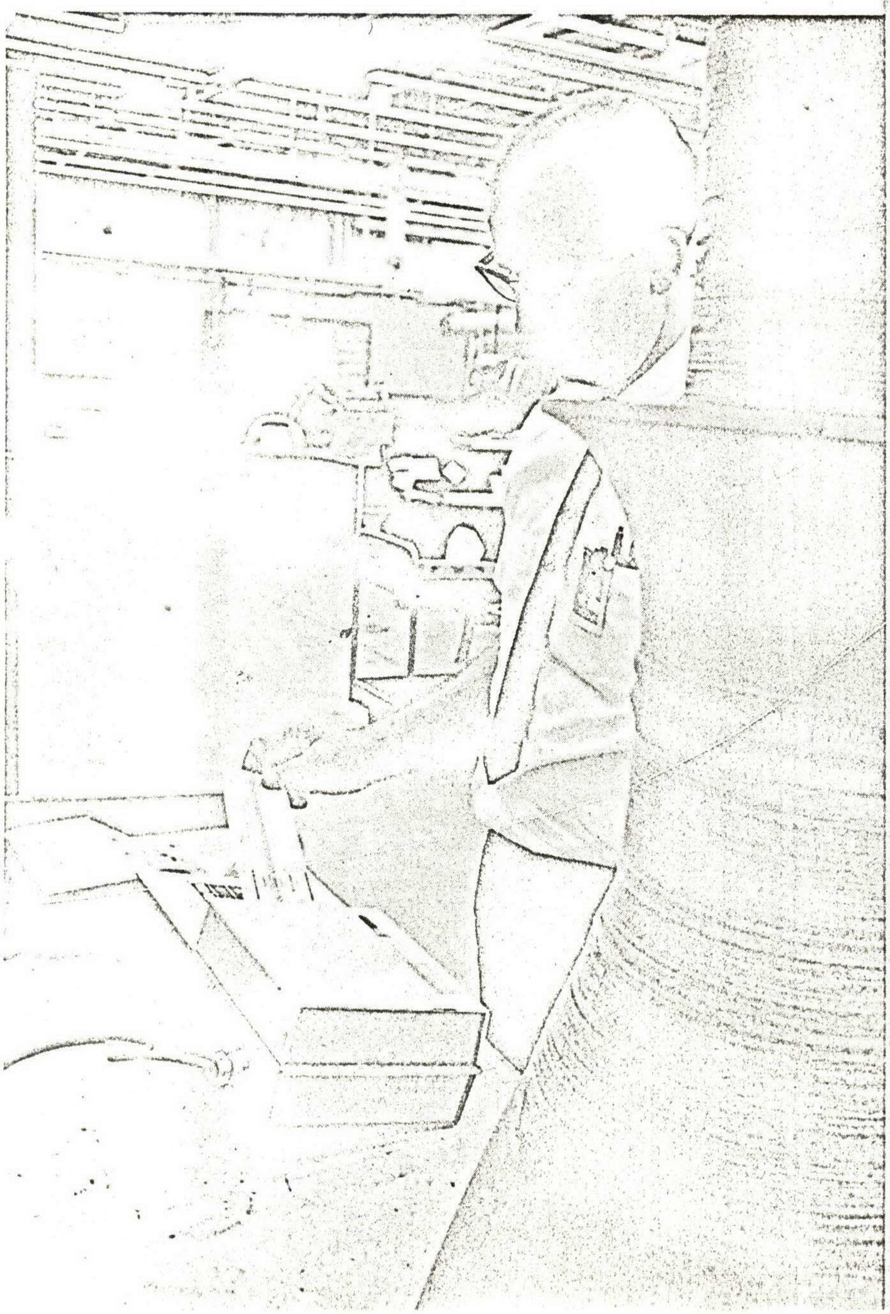
The other-than-daily management reports emanate from the same data files as the daily documents. For example, if needed, the computer will produce a complete shop load analysis. This report is projected over 18 four-week operating periods.

Semiweekly control and activity reports are provided in connection with blueprints. Prints are charged out of the blueprint crib to the shop traveler or on temporary loan to a department. Those charged out on a temporary basis are audited on a five-day follow-up. When a print is returned, notification is sent to the data processing department via a 1001 terminal, and overdue prints are automatically flagged. This assures that everyone learns of engineering change orders immediately, and that the physical changes are incorporated into current manufacturing operations. There is a reduction in the total number of prints required, as well as a reduction in the clerical effort normally associated with blueprint control. Similar controls are applied to issuing, inspection, and calibration of inspection devices.

At Ogden, the computer-oriented services add up to a production control system which is complete and reliable, but it is not automatically successful. Workability is directly related to management objectives and support. It does the job for Marquardt because management people use it as a vital tool in fulfilling management assignments. ■

(Left) *Transmissions from 18 plant-area stations are received on two unattended machines in foreground*

"Jicket" (job ticket) is used to initiate a job completion report from the plant's plastics department



THE SITUATION and the EDP EQUIPMENT

In terms of production control requirements, the Power Systems Division of Marquardt Corp., Ogden, Utah, offers a profile-in-miniature of conditions in the aerospace industry. The facility was opened in 1957 for fulfillment of a single, long-range defense contract—production of ram-jet engines for the Bomarc missile. In 1962, a decision to phase out the Bomarc led to a severe cut-back in work backlog and a need to reorient operations to new conditions in the aerospace industry. A good indication of the degree of change is the fact that where the plant formerly employed 1,700 on one contract it now employs less than 650 on 40 programs. The plant now is a diversified defense contracting facility with capabilities in both metalworking and ablative plastics (rocket engine nozzles).

The increase in the number and variety of production jobs made improved management control mandatory, and led to the developing of a computerized system geared to the size and diversity of the plant. Since production control involves linear programming, there was need for a scientifically-oriented computer with comparatively large calculating and core storage capabilities. Also needed was a computer capable of generating punched tapes to operate four numerically-controlled machine tools in the plant. At the same time, since input and output requirements of a production control system are greater than for conventional scientific applications, flexibility was needed in these areas.

The system is built around an IBM 1620 computer with 20,000 positions of core memory. The 1620 has proved expandable through compatability with data processing techniques and equipment introduced since the system was first installed in 1962. Today the system includes direct data reporting from 18 cost centers into the data processing department via low cost IBM 1001 data transmission units. The system has recently been expanded with addition of two IBM 1311 disc memory files and an on-line 1448 printer. This streamlined the operation from one requiring much off-line printing and card sorting to a self-contained system capable of generating reports from pre-established programs on the basis of minimum production data input.

Dev. - Gen.
X-Ref - alpha - Boesch

Mr. Richard H. Demuth October 7, 1964

N.W. Koenig N.W.K.

Professor Boesch's Letter to Ambassador Nehru

1. I had not previously heard of the proposed "Handbuch der Entwicklungs-politik", ("Handbook of Development Policy").

2. The Handbook is sponsored by Prälat B. Hanssler and Dr. H.H. Walz. Prälat Hanssler is the President of the German Committee for Catholic Adult Education ("Bundesarbeitsgemeinschaft für katholische Erwachsenen-bildung") and Dr. Walz is the Executive Secretary of the Union of German Protestant Churches ("Deutscher Evangelischer Kirchentag"). Both are the official institutions of the churches in their respective fields, and there can be no doubt about their respectability.

3. The actual editing of the Handbook is performed by Professor Boesch and Professor Besters on behalf of Prälat Hanssler and Dr. Walz. Professor Besters is known to me, and I remember him as a serious and qualified teacher. He is at present holding a chair of economics at the University of Freiburg where he also acts as the Director of the "Institute for Monetary and Credit Policy", an institute with a very good reputation in the German academic world.

4. Professor Boesch is not known to me. He is at present the Director of the Research Center for Development Policy of the University of Saarbrücken. The reference book "Who is Who in Germany" gives the following information on Professor Boesch:

Born December 26, 1916 at St. Gallen, Switzerland;

Educated at the Universities of Geneva and Zurich;

1943-55 Teaching at the School of Psychology, St. Gallen;

1955-58 Working for Unesco as Director of the International Institute of Child Study, Bangkok;

1958-60 Research in Thailand;

1960 to date - Director of the Institute of Psychology, University of Saarbrücken.

Professor Boesch is a member of the Swiss-German-French Psychological Association and of the International Psycho-Analytical Association.

(The University of Saarbrücken was founded only after the war, but was able, in a rather short time, to establish a good reputation in Germany and France, its official languages being German and French.)

5. I would conclude from Professor Boesch's letter to Ambassador Nehru that the Handbook is directed mainly to the general public rather than a scientific audience (see his statement that "educationally, we hope to assist the general public to follow academic trends of thought..."). The fact that the edition of the Handbook seems to be an inter-denominational effort also points in that direction. However, this certainly does not mean that the Handbook is not a respectable undertaking.

NWK:mb

Dev. — Gen.

Mr. K. S. Sundara Rajan

October 7, 1964

Richard H. Demuth RHD

Professor Boesch's Letter to Ambassador Nehru

In reply to your note of October 5 enclosing a letter to Ambassador Nehru from Professor E. E. Boesch, I am attaching a note prepared by a member of my staff giving information on the background of Professor Boesch and the others involved in the editing of the "Handbook" referred to in Professor Boesch's letter. I hope this information will be helpful to the Ambassador.

I am also returning Professor Boesch's letter.

Attachments(2)

RHD:tf

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date

NAME	ROOM NO.
Mr. Koenig	

	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

Do you know – or could you find out – something about Dr. Boesch for Ambassador Nelson?

RHD

From Richard H. Demuth

Dec. Gen

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W.
WASHINGTON 25, D.C.

TELEPHONE EXECUTIVE 3-6360

CABLE ADDRESS-INTBAFRAD

Executive Director
for India

October ~~1~~ 5, 1964.

Dear Mr. Demuth,

With reference to our conversation, I am enclosing herewith the letter I spoke to you about. I shall be grateful if you could kindly advise us about the antecedents of Dr. Boesch or the organisation he represents. Kindly return the enclosed letter with your reply.

Yours sincerely,

Sundara Rajan

K.S. Sundara Rajan

Mr. Richard H. Demuth,
845 IBRD,
Washington D.C.

Dev - Gen

October 2, 1964

Mr. Hadley E. Smith
Lecturer in Economic Development
and Administration
Institute of Public Administration
The University College
Dar Es Salaam, Tanganyika

Dear Mr. Smith:

Upon returning from the Annual Meeting in Tokyo, I found your letter of July 30, enclosing a comprehensive international bibliography on Public Enterprise and Economic Development. This is indeed a most interesting work. Could you by any chance spare us two more copies?

Sincerely yours,

WD

William Diamond
Director of Operations
Development Finance Companies

cc: Mr. Adler (with incoming)
Circulation (2)

RS

RFSkillings:anf

Pitt U Mr. Spottswood
Dev. Gen.
Original - admin Files - Pitts U.

Files August 5, 1964

Neil Bass

Seminar on Management of Development Projects, University of Pittsburgh

1. The Graduate School of Public and International Affairs of the University of Pittsburgh requested the Bank to provide assistance this year in connection with its Annual Institute on Management of Development Projects. Specifically, the Bank was asked to make available one or more members of its staff to describe to the participants enrolled in the course the procedures employed by the Bank, and the criteria used, in evaluating projects as a basis for its loans. The program topic which the Bank was asked to describe and comment upon from the viewpoint of an international lending agency, was entitled "Preparation, Review and Authorization of Project Proposals". Lecturers from the U.S. Agency for International Development (US-AID) and from the United Nations Special Fund (UNSF) were also invited to join with the Bank's representatives in discussions of this topic.

2. The time allotted to the topic, which was one of eleven included in the training program, was the 5-day period, July 13-17 inclusive. (The program summary and schedule for the entire course is attached as Annex 1.)1/ Bank representatives included Messrs. Lipkowitz (one day), Lamson-Scribner (three days) and myself (five days). Mr. Miles Wedeman, Director of the Office of Capital Development, Bureau for Africa, represented US-AID, and Mr. A.F. Gagliotti, Director, New York office of UNESCO, represented the UNSF. Dr. L.W. Kephart, a retired former employee of the Bank's Agriculture Division, TOD, had been engaged by the University on the Bank's recommendation to assist in lecturing on this topic.

Participants in the Course

3. The comprehensive course was scheduled over a period of 12 weeks extending from May 4 through July 24 inclusive. There were 45 participants from 17 countries of the Far East, Middle East, Africa and Central America, and in addition, two U.S. employees of AID. The program was financially supported by US-AID who participated with the University in the selection of participants. Requirements were that participants be college graduates, with some years experience in such organizations as planning agencies, institutes of public administration, development banks, public works and agriculture agencies. (A list of the participants and the agencies employing them is attached as Annex 2.) About 50 lecturers had been selected from the staff of the University and from public agencies and private companies to assist in giving the courses. (A list of the lecturers is attached as Annex 3.)

1/ Note: Annexes are included with the original copy only of this memorandum.

Session Schedule

4. Those enrolled in the course were divided into three groups of approximately equal numbers to facilitate discussions. These were: (i) Agricultural Workshop; (ii) Industrial Enterprises Workshop; and (iii) Infrastructure and Public Works Workshop. At the several workshops Bank lecturers described in detail the Bank's operating policies and the criteria used and procedures followed in evaluating individual projects. The students, as an exercise, had prepared draft project reports (e.g, a sheet glass plant, a road project, a port project, and a project for procurement and distribution of fertilizer). These projects, while hypothetical in nature, were useful in bringing out points to be considered in project preparation and evaluation. There were four lecture or discussion periods daily, some of them plenary sessions comprising all three groups. The plenary sessions were used for review forums and for discussion of general subjects. At a plenary session on Tuesday a spokesman for each of the participating agencies (for IBRD it was Mr. Lipkowitz) described the work of his agency, and the guide lines generally followed in its financing operations, without reference to any particular sector (i.e. agriculture, industry, infrastructure). A final plenary session was held on July 17 at which the students were given an opportunity to ask the lecturers to clarify any points not fully understood by them.

5. At the conclusion of the lectures, University officials expressed their appreciation for the assistance of the Bank representatives. They evidently anticipate a repetition of the courses next year and indicated their intention of again requesting the Bank's cooperation and assistance. We informed the University officials that we felt that the Bank's participation would have been much more effective, and much overlapping of subject matter in its presentation avoided, had the Bank been given the opportunity of collaborating in the planning of the courses which included an exposition of the Bank's operations. Dr. Obern, who was in direct charge of the seminar, fully agreed and stated that it was with this point in mind that he would visit the Bank prior to the planning of their next seminar for discussions as to whether and how the Bank could best participate.

NB:ls
IBRD

Cleared with & cc: Mr. Lipkowitz
Mr. Lamson-Scribner

cc: Messrs. Graves
Spottswood
Piccagli
Bass

July 22, 1964

Some Points Made in the United Nations World Economic Survey, 1963

The latest Survey contains nothing that is startling new. Surprisingly, in view of the Geneva Conference, it devotes relatively little space to the problems of developing countries. Some points relating to development appear below:

1. Agricultural output did not expand significantly in 1963. In Brazil it was the same as 1962; in India and Pakistan it was lower. In these and in other countries the rate of growth of agricultural production is barely keeping up with the growth of population. (Vol. 1, p. 6).

2. Small agricultural growth together with credit expansion and structural rigidities in production and monetary institutions led to a large increase in the price level (of one quarter or more) in many countries. (Vol. 1, p. 7).

3. The downward trend of prices of primary products flattened out in the second half of 1962 and the 1963 average was 6 per cent above 1962, restoring it to the 1958 figure. This had a favorable effect on the foreign exchange earnings of developing countries. (Vol. 1, p. 8).

4. Value of world trade rose by 9 per cent 1952-1953 (equivalent to $12 billion). The primary exporting countries increased their value of exports by 8-9 per cent ($2.9 billion). This was largely due to an increase in prices, although the volume also rose. For the developing countries, under one-eighth of their growth of exports was accounted for by trade among themselves. (Vol. 1, pp. 8-17).

5. The large increase in the exports of the developing countries in 1963 caused the average rate of growth in the development decade so far to exceed the 3 per cent per annum realized 1960-1962. But the 1960-1963 rate of 4-5 per cent was considerably below the 6-7 per cent expansion rate of the industrialized countries and the 7-8 per cent of the centrally planned economies. (Vol. 1, pp. 9-10).

6. There has been a slow rate of growth of imports into the developing countries. Between 1960-1963 world exports to the developing countries rose at 2-3 per cent per annum compared with growth rates of 6 per cent per annum in exports to the centrally planned countries and 8 per cent per annum to the industrial countries. (Vol. 1, p. 10).

Distribution:

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Economic Advisers
Director, E.D.I.
Special Representative for UN Organizations
Mr. de Wilde
Personal Assistant to the President

7. Exports from the industrial countries to the developing countries increased by 5 per cent between 1962 and 1963 but, even so, they were $770 million lower in 1963 than in 1960. (Vol. 1, p. 10).

8. There was little increase in 1963 in the trade of the developing countries with the centrally planned economies but compared with 1960 imports from the latter were 75 per cent ($1 billion) greater. Yet imports from the centrally planned economies amounted to only 5 per cent of total imports. (Vol. 1, p. 10).

9. As imports into the developing countries rose less than their exports there was an increase in their liquidity. The combined trade deficit of the developing countries was lower in 1963 than in any year since 1954. (Vol. 1, p. 18).

10. But some countries lost reserves (e.g. Brazil, Indonesia, Uruguay, Korea, Syria, Turkey, Morocco, Ceylon, Nigeria and Sudan). (Vol. 1, p. 18).

11. "For economic growth to continue at a satisfactory rate imports will have to be increased". (Good paragraph: Vol. 1, p. 19).

12. Most of the expansion of world trade was among the industrialized nations. Japan was the only industrial country with a larger increase in exports to primary exporting countries than to industrial countries. But the 1963 increase of 6 per cent in Western Europe's exports to the primary producing regions reversed the downward movement of the preceding two years. (Vol. 2, p. 39).

13. Changes in prices in international trade were not large in 1963. Import prices into the industrialized nations rose "slightly more than export prices, bringing to a halt the improvement in the group's terms of trade that has been under way since 1957". (Vol. 2, p. 39). [The latest issue of the UN Monthly Bulletin of Statistics shows the following:

Price Indices

	Primary Products	Manufactures
	1958 = 100	
19~~5~~62	94	102
19~~5~~63	100	102]

14. The rate of growth of EEC imports from developing countries was the same as in the preceding period. (Vol. 2, p. 43).

15. UK total imports rose throughout 1963 through the expansion of manufacturing output but the volume of basic materials imported was no greater than in 1955. (Vol. 2, p. 43).

16. "Part of the rise in (US) exports can be ascribed to the progressive tying of foreign aid to purchases in the United States". (Vol. 2, p. 41).

17. US imports rose 5 per cent in 1963 over 1962 - considerably less than the rise in exports. The largest proportionate rise was in manufactures. (Vol. 2, p. 41).

18. The Survey indicates (Vol. 2, pp. 52-53) that the prospects for further growth in the industrialized countries in 1964 are good. /In view of the small effect which growth in 1963 had on their imports of primary products, however, one wonders whether 1964 expansion will lead to greatly increased primary imports/.

19. The rate of growth of trade of the centrally planned economies though large, slowed down in 1963. The decline in the trade of Mainland China witnessed during 1960, 1961 and 1962 was reversed in 1963 - due entirely to "a further expansion of trade .... with countries other than the centrally planned economies". (Vol. 3, p. 53).

20. "The trade of most centrally planned economies with one another increased faster than their trade with the rest of the world". (Vol. 3, p. 58). Their trade with the rest of the world increased by 7-9 per cent in 1963, compared with a 6 per cent increase in 1962. (Vol. 3, p. 61).

21. The Survey has a useful paragraph summarizing the Soviet Union's net trading position with the rest of the world. Two of the points made are that the USSR had an "increase of nearly $85 million in the large surplus with Latin America" and that "a surplus of $55 million on trade with Africa in 1962 changed to a slight deficit in 1963". (Vol. 3, p. 63).

22. Imports from Africa by the East European countries, apart from the USSR, rose by 30 per cent in 1963. (Vol. 3, p. 63).

23. Volume 3 of the Survey (pp. 72-83) contains an interesting summary of the recent moves in the centrally planned economies towards the adoption of more decentralized planning techniques.

24. No mention is made of the Bank.

Derek T. Healey
Economic Department
July 22, 1964

Dev. Gen.

June 18, 1964

Professor Hans O. Schmitt
The University of Wisconsin
Department of Economics
Social Science Building
Madison 6, Wisconsin

Dear Professor Schmidt:

Thank you very much for sending me your paper "Nation Building and Economic Progress in Underdeveloped Countries". I am looking forward to reading it with interest.

I very much enjoyed meeting you and I sincerely hope that we will have further contacts.

With best regards,

Sincerely yours,

Barend A. de Vries
Economic Adviser
Department of Operations
Western Hemisphere

BdeVries/CG

Dev. - Gen.

May 19, 1964

Mr. Michael Raffini
International Economist
General Electric
570 Lexington Avenue
Room 705
New York 22, New York

Dear Mr. Raffini:

You probably know that the World Bank is continuously engaged in appraising and forecasting economic growth trends in the world economy, and particularly in the developing countries. In doing so, we rely mostly on the findings of our field missions, but also on reports and analyses prepared by others.

A couple of weeks ago, I was visited by Mr. Edward F. Devaney, from the Minnesota Mining and Manufacturing Company, whom you know. In discussing the issue of forecasting growth trends abroad, he mentioned that you have undertaken the initiative in putting together the forecasts and analyses of major U.S. companies with interests abroad.

We are greatly interested in your work. Forecasting is a difficult and treacherous exercise and the more experience and knowledge is brought to bear on it, the more reliable are the results - and their qualifications - that are obtained.

Would it be possible for you to let me know how far you have advanced with your initiative and what are the results thus far? We could perhaps meet, either in New York or here, to discuss our experiences.

Sincerely yours,

Dragoslav Avramovic

cc: Mr. Edward F. Devaney
Market Analyst
Minnesota Mining and Manufacturing Company

Avr:cf

Dev. gen.
cc Asia - gen
cc - Alpha - Myrdal

May 19, 1964

Professor Karl Gunnar Myrdal
University of Stockholm
Stockholm, Sweden

Dear Professor Myrdal,

We were most interested to hear recently that your new book is being prepared for publication. I am referring to your new monumental work "Asian Drama: Prolegomena to Development Problems in South Asia".

You will, of course, understand our interest in this subject: we have been trying to assist this area for more than a decade and we continue to do so. At the same time, we are conscious of the immensity of the development problem which these countries face. We are most anxious to learn your views on this subject and we are sure that your book will expand the existing knowledge substantially beyond the boundaries of what is presently known.

In this connection, I wonder if you could find it possible to help us out? We understand that your manuscript is already with the publisher, but the book is unlikely to come out before the end of the year and possibly even before mid-1965. On the other hand, we are currently engaged on some urgently required studies which are likely to be well advanced, if not completed, by the time your book is published. In these circumstances, do you think you could make available to us a copy of the manuscript or of parts of it at your convenience? You may rest assured, of course, that your work will be treated with complete confidence and that we would respect any restriction you may wish to place on its use.

I am sending you, under separate cover, some of our recent studies. I should like to draw your attention to Economic Growth and External Debt, Volume I, An Analytical Framework (in particular, Chapters V and VI), Volume II, A Statistical Presentation, and The Commodity Problem. We are mentioning there "the long-haul cases" in economic development and the problems they raise. I gather that the major theme of your forthcoming book is that the growth problem will be most difficult to solve in South Asia, and that the solution will take a long time because the roots of underdevelopment are deep and very old.

EC121b 3/12/64

EC122 3/12/64

I am anxiously awaiting your reply.

EC129 3/12/64

Yours sincerely,

Dragoslav Avramovic

cc: Mr. Knapp, Mr. Wilson, Mr. Reid, Mr. Wishart and Mr. E. P. Wright.

DA:es