Folder Title: Irving S. Friedman Chron files - Correspondence 01

Folder ID: 1784919

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4482S

Series: Presidential chronological files of Economic Advisor Irving Friedman

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 14, 2013

Friedman Presidential Chronfiles Feb. 23 - Apr. 29, 1968

DECLASSIFIED
WBG Archives

FORM NO. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 29 1968

FROM: Irving S. Friedman

SUBJECT: Unit on Population Economics

The memorandum of April 26 deals with the Bank's future role in the field of population. Mr. Kamarck, Mr. Stevenson and myself, together with those economists who are most qualified, have been discussing the personnel implications of having a new program in the field of population economics appropriate to the World Bank Group.

It is clear that our present staff in this field is inadequate by far -- it consists of one full time professional located in the Applied Quantitative Research Division of the Economics Department. I would recommend that we think in terms of a separate unit of at least about five or six professionals if we are to do anything worthwhile. They would do research, help improve the quality of our country economic work and advise countries from their viewpoint, maintain contact with other professionals in this field and help evolve and adapt a Bank policy attitude in this major field.

The real constraint will be to find suitable candidates because of the shortage of well trained population economists and the difficulties of the World Bank in competing successfully for senior specialized economists because of the salary structure.. I would therefore propose that some of these suggested positions initially be filled on a term basis by people on leave from universities, research institutions, or governmental agencies. This would make it possible to gear up the work more rapidly as well as give us time to find and train more permanent staff.

In addition it would be probably desirable to have some part time consultants,say a population economist and a population sociologist. This group might help us to choose an international advisory group on population problems.

The above recommendation does not take into consideration the possibility of the Bank's providing technical assistance analogous to advice on projects, e.g., in setting up family planning programs or providing finance for family planning technicians, etc.

cc: Mr. Kamarck
" Stevenson
" de Vries
" Hawkins
" Zaidan

Form No. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 29, 1968

FROM: Irving S. Friedman

SUBJECT: The Bank's Future Role in the Field of Population

This memo gives the background to the draft reply attached hereto to the letter from General Draper sent to you on a personal basis. General Draper's letter touches on fundamental questions regarding the Bank's position in the field of population; it also raises certain technical points which are pertinent to the draft reply.

The fundamental question which arises in any discussion of the Bank's role in this field concerns the impact on the work of the Bank if we take a more active interest in population and, more specifically, in population control policies. The Bank is on record as taking a general interest in population problems, expressing its concern from time to time with the deleterious effects of high rates of population growth on the economic development of its member countries. This concern has been expressed at the highest level, e.g., statements by successive Presidents. In the last twelve months or so, a beginning has been made to try and incorporate this concern more effectively into our general country economic analyses. The preliminary work in this field seems to indicate that such an effort will result in a more drastic change in our country economic analyses than was first thought necessary. The basic reason for this is an increasing appreciation of the fact that a reduction in the rate of growth of population is not simply one of many desirable economic changes we would like to see in our member countries; it would be a development that would fundamentally alter the prospects for economic growth of many less developed countries.

Thus, as a result of a proper appreciation of the population factor, it will be necessary to look at all aspects of economic development in the light of a two-way relationship between the rate of growth of population, on the one hand, and all other economic policies on the other. It is clear that population may be affected by many aspects of economic policy at the same time as population changes themselves react back upon the policy choices open to governments. The analytical reasons for this argument are contained in the attached draft memorandum entitled, <u>The Treatment of Population in Bank Economic Reports</u>, which is being prepared for discussion by Bank country economists in order to help them in their analysis of the population factor.

Having indicated our own broad approach to the problem of population controls and its relation to the development process, we still cannot accept General Draper's assertion in his letter that "without some reasonable population balance in most of the poorer countries <u>none</u> of these desired results (education, agricultural and industrial investment, etc.) are <u>possible</u>." (Emphasis added.) The fact is that, although population may be retarding economic progress in many countries, such progress is being achieved in some countries where population growth is high.

General Draper states that there already exists proof that countries can reduce their rates of growth of population through national birth control programs. While agreeing with the general policy attitude reflected in this assertion, it is too early to make this statement with full confidence. For example, the claim that "Korea, Taiwan, Hong Kong, Singapore and probably Pakistan have reduced their birth and growth rates by carrying out national birth control programs" is hard to prove as yet. There is no doubt that, with the exception of Pakistan, where the matter is not clear cut,1/ the birth rate has declined in all these countries, but this decline started long before the family planning programs started. It is difficult to establish how much of the decline occurring after the initiation of family planning programs was due to these programs, and how much is a continuation of past trends. Furthermore, since all these countries are at a higher level of per capita income than other Asian countries, and almost all of them are countries with small populations, it is probably premature to generalize from their experience.

Considerable information is already available on the resources of money and manpower presently being allocated to such programs in countries that have adopted them. The supply of qualified personnel and the lack of basic knowledge of the motivation of individuals practicing or not practicing birth control seem to be the present main barriers to progress. Increasing the supply of qualified personnel may be tackled with money and time, but the motivation aspect is little understood, and requires much research into the determinants of family decisions on fertility.

The suggestion for a "systems analysis" approach is difficult to follow in General Draper's presentation. We presume that he means a consistent evaluation for all developing countries of the likely effects of population control programs in achieving certain targeted reductions in the rate of population growth. Sufficient figures exist in some countries to enable calculations to be made of the rather mechanical kind suggested by General Draper. These figures are in fact the basis for the planning that has been done in all countries that have active population control problems. This does not require sophisticated techniques but nothing substantially better can be done at the present time until more basic information can be collected concerning the manner in which these control programs actually work out.

Finally, as regards the statement that there "is a great deal of information available ... (and) most of it needs to be collected, organized, and computerized," this is certainly true. We are keeping in touch with the progress being made by others in this field. Two particular aspects of the data situation are worth emphasizing:

(a) The Demographic Data. These are being computerized by the UN Population Division, and there is not likely to be any problem in getting access to them once the work is complete. In addition AID has just given a grant to the Bureau of Census to look into and improve such data. Although the UN provides technical assistance

---

1/ A more definitive evaluation of Pakistan's Family Planning Program must await the report of the recent joint UN/WHO mission.

in the collection of demographic data, once these are collected, the UN accepts them without change. The idea behind the Bureau of the Census exercise is that the latter should help to refine and improve such data.

(b) Data provided by Family Planning Programs. These have not yet been collected but the Ford Foundation has just given a grant to the Population Council and the Institute of Research on Human Reproduction at Columbia University in order to form a data bank. The project has still not started but it is expected that it will be operational in the fall.

Attachments(2)

Dear General Draper:

Thank you for your thoughtful letter on the population problem, which I received on my arrival at the Bank. May I begin by saying that I have known of the activities of yourself and of the Population Crisis Committee in this field and have been impressed by the contribution that you have been making.

I also know that your work has kept you in contact with the World Bank over the years, so that you will be aware that we share the view that a rapid rate of population growth is a major obstacle to economic development. You may also be aware that the Bank has recently decided to undertake systematic work in this field to provide guidance for its own proper expression of this concern. We follow closely the work of other institutions, both national and international, who have made substantial progress in such areas as research and data collection. Our problem is to define a distinctive role for the World Bank Group to play that will complement and support the work already underway.

As part of our efforts in this critically important field, we are increasingly taking account in our work of the impact of differing rates of population growth on the economic development of our member countries. For this purpose we are ensuring that our regular country economic analysis encompasses the population question as it affects each country on an individual basis.

You make the suggestion in your letter that we should sponsor a worldwide systems analysis to produce an estimate of the total resources required over a period of years to reach some pre-determined population goal. Our preliminary appreciation of the information available -- and we agree with you that a great deal of information is now at hand -- suggests that it may be premature at this time to undertake a systems analysis because our knowledge of certain basic factors, e.g., influence of motivation, etc., is still inadequate. Perhaps more research could be done on these critical areas to give us the necessary basis for doing systems analysis in the future.

General William H. Draper, Jr.
National Chairman
Population Crisis Committee
1730 K Street, N.W.
Washington, D.C. 20006

As far as the collection, organization and analysis of data is concerned we intend to work closely with the United Nations and other institutions who are already engaged upon this task.

I would like to keep in touch with you and be kept informed of the activities of your organization. As soon as I have settled in at the Bank, I will be in touch with you for a possible lunch.

Yours sincerely,

Robert S. McNamara

ISFriedman/EKHawkins/GZaidan:rgw
April 29, 1968

FORM NO. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** April 29, 1968

FROM: Irving S. Friedman

SUBJECT: Status of Report on Economic Five-Year Projections

As at the end of business, Friday, we had received first drafts on Ethiopia, the three East African countries, the U.A.R. and Turkey. These are now in various stages of review, with Ethiopia and the U.A.R. most advanced.

We expect to have the first drafts of the Latin American countries, with the exception of Brazil, this week.

Our draft on Indonesia has run into rather serious statistical problems, which we hope can be overcome.

Mr. Aldewereld has been informed of the above.

ISF

President has seen

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

OFFICE MEMORANDUM

4/18

TO: Mr. Robert S. McNamara **DATE:** April 18, 1968

FROM: Irving S. Friedman

President has seen

SUBJECT: Economic Work in connection with Five-year Program

This is to report briefly on the status of the economic country work in connection with the overall five-year program, and I will try to report frequently, as requested.

Turkey and Yugoslavia continue to be included because they are relatively important as recipients of development finance. Moreover, they are the only two countries being done at this time by the European Department.

I am not particularly pleased with the proposed delay on India until the latter part of May. However, the Asia Department feels strongly that this is best done by our team in Delhi, and the country economist, Mr. Waide, is going out to Delhi very shortly. As it happens the Economic Committee is reviewing this afternoon a paper prepared by our staff in India for the forthcoming consortium meeting on the economic situation, but it is essentially an up-dating paper, emphasizing current developments and the outlook only for the next year. It may help us, however, to make some tentative judgments on the five-year outlook until we have something more appropriate from the field office.

The countries listed in the attached table are[1]:

AFRICA: Ethiopia, Ghana, Kenya, Tanzania, Uganda, Nigeria.

ASIA: Philippines, Pakistan, Korea, Malaysia, India, Indonesia, Thailand.

MIDDLE EAST AND NORTH AFRICA: U.A.R., Tunisia, Sudan, Morocco.

EUROPE: Turkey, Yugoslavia.

WESTERN HEMISPHERE: Brazil, Argentina, Chile, Colombia, Mexico, Peru.

---

[1] As compared with the original table sent to you on April 12, we have dropped Congo(k), and added Ethiopia, the Philippines and Chile.

ISF

cc: Mr. Knapp
Mr. Aldewereld

ECONOMIC WORK IN CONNECTION WITH FIVE-YEAR PROGRAM

	Country	Economist	Timing	Remarks
AFRICA	Ethiopia	Kochav/Khandker	On schedule	Plan under preparation. Detailed analysis available.
	Ghana	Hammel/Hansen	On schedule	Emphasis on reconstruction. No plan.
	Kenya) Tanzania) Uganda)	Bruce/Krishna/Shourie	On schedule	Detailed analyses available.
	Nigeria	Hansen	Late (one week)	Qualitative only, including data recent past.
ASIA	Philippines	Alisbah	April 26 (first draft)	No official plan. Need assumption on Vietnam spending.
	Pakistan	Hablutzel	May 3 (- do -)	Detailed projections available until 1970.
	Korea	Reif	April 26 (- do -)	Consultative Group meeting in April.
	Malaysia	Khan/Niebuhr	April 26 (- do -)	Have projections until 1970.
	India	Waide	May 24 (- do -)	Mainly qualitative, in view of great policy uncertainties.
	Indonesia	Tims	April 19 (- do -)	Mainly qualitative analysis.
	Thailand	Blobel	April 26 (- do -)	Tentative. May have to be dropped from present exercise.
MIDDLE EAST AND NORTH AFRICA	U.A.R.	Karaosmanoglu	On schedule	Projections heavily dependent on political factors.
	Tunisia	Mabouche	On schedule	Economist preparing for Consultative Group meeting.
	Sudan	Hilmy	On schedule	National income accounts poor; investment projections highly tentative.

	Country	Economist	Timing	Remarks
MIDDLE EAST AND NORTH AFRICA (Cont'd)	Morocco	Westebbe/Torelli	Late	Projections to be completed after Economic Report for Consultative Group (deadline May 10). Uncertainty re readiness of agricultural projections.
EUROPE	Turkey	Schaad/Dubey	April 26 (first draft)	1967-72 plan available. Assessment to be firmed up by economic mission scheduled for June.
	Yugoslavia	Simmons	Late	Paper to be prepared upon return of economic mission about April 22.
WESTERN HEMISPHERE	Brazil	Lerdau	May 6	To be prepared upon return (April 22) of economic mission now in Brazil.
	Argentina	Dosik	On schedule	No quantified sectorial detail.
	Chile	Quijano	On schedule	Mainly qualitative, except balance of payments.
	Colombia	Teigeiro	On schedule	No detail on long-term investment projections.
	Mexico	Ross	On schedule	No problems.
	Peru	van der Heijden	On schedule	No detailed plan available.

April 18, 1968

FORM No. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara has seen

DATE: April 17, 1968

FROM: Irving S. Friedman

President has seen

SUBJECT: Study on the Stabilization of Prices of Primary Products

Pursuant to my memorandum of April 16, we understand that Mr. Schweitzer announced today to the Fund Board that the outline of the study will be circulated shortly. Considerable interest in the outline was expressed by the Executive Directors for Canada and for some Latin American countries.

I recommend that you announce at tomorrow's Board meeting the circulation of the outline to our Board.

ISF

FORM No. 57

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

OFFICE MEMORANDUM

4/18

TO: Mr. Robert S. McNamara has seen

DATE: April 16 1968

FROM: Irving S. Friedman

President has seen

SUBJECT: Study on the Stabilization of Prices of Primary Products

Attached hereto is a draft outline of our Study on the Stabilization of Primary Products, which has been prepared by the Bank and the Fund in response to the Rio Resolution of last September. It already incorporates comments received from the Senior Staff and has not been circulated sooner because we were waiting for the Fund staff to have a chance to clear it with Mr. Schweitzer. I recommend its circulation to the Executive Directors.

As you are aware we are trying to do a joint study with the Fund on Part I dealing with the economics of the problem, and Mr. Avramovic is heading up the Bank group on this matter -- he has been in close touch with the Fund staff. They are now clearing this draft outline with Mr. Schweitzer, before sending it to their Executive Directors.

It will be noted that the attached draft outline is quite comprehensive and even ambitious, but only covers Part I. We will probably delete or treat lightly some of the material, as indicated in the head note.

You may wish to announce to the Board at the next meeting that the outline will be circulated. We understand that Mr. Schweitzer may communicate this to the Fund Board on April 17.

In response to a request from Mr. Donner, Mr. Woods promised that there would be a Board discussion of the outline. This is likely to be a difficult discussion, if for no other reason that that it will involve complex technical issues, with sensitive policy implications.

ISF

Attachment

MATERIAL FOR OUTLINE TO BE PRESENTED TO BANK AND FUND BOARD

STUDY ON PROBLEM OF STABILIZATION OF PRICES OF PRIMARY PRODUCTS

NOTE: The attached draft outline has been prepared by the joint Fund-Bank working group as a basis for the organization of its work on this study. The outline is of course subject to such revisions, as regards both addition and deletion, as may appear appropriate in the course of the work.

PART I

The General Setting (Chapter I)

1. The problems of instability and of adverse trends in the exports of less-developed countries have been studied intensively over a long period of time from many points of view with limited progress towards a solution. However, there are some new elements in the present situation, which may lead to a more effective attack on the problem:

(a) A general recognition that the solution of some of the problems of commodity trade is intimately connected with the development efforts of the less-developed countries, concerning both the choice of development strategy and the ability to finance the chosen pattern of development.

(b) An important consequence of recognizing policies relating to commodities as the means of promoting the economic development of the poor countries is that in participating in international commodity negotiations, exporting and importing countries may be urged to take account of the major interests of development, and not only of the interests of the respective producers and consumers of individual commodities.

(c) One important question, which needs careful investigation, is the possibility that certain international policy actions related directly to commodity trade may provide donor countries with a more convenient vehicle for the transfer of development assistance to the less-developed countries, as indicated in some aspects of the proposals for an organization of markets.

2. Foreign exchange receipts of developing countries derived from primary products have varied from year to year. Over the longer run, trends in export receipts of the LDC's, taken as a whole, have shown slow growth: slow relative to the growth of world trade and slow relative to the increase in imports required to sustain a satisfactory rate of growth in these countries. For individual primary products and for individual countries, trends have ranged from a rapid increase to a slow decline. For many products, the demand rises slowly and in a fluctuating manner.

3. The commodity problem is a part of the general problem of development. Fluctuations and adverse trends reflect the excessive dependence of low-income countries on primary products and their limited flexibility of shifting resources to more productive uses. The problem is compounded further by restrictions on market access, which throw the burden of adjustment on the low-income countries whose resource mobility and therefore the capacity to adjust is severely limited.

4. Not all external difficulties of developing countries result from weak commodity trends: a particular country or a group of countries may fail to produce for the existing international demand, whether the latter increases slowly or rapidly, while increases in imports are frequently induced by inappropriate domestic policies. Foreign exchange difficulties which are caused by inadequate supplies of primary products in strong demand in external or domestic markets of the low-income countries or by bursts of their import demand cannot be attributed to the commodity problem.

5. Wide price fluctuations and weak price trends are serious insofar as they cause instability and adverse trends in countries' export earnings and purchasing power and affect the competitive position of primary products. The ultimate solution for excessive dependence by less-developed countries on products with sluggish long-term growth in demand, or with wide price fluctuations or wasteful cobweb-type supply responses, lies in the acceleration of economic growth and of diversification in the low-income countries. The question is whether intermediate solutions can be found: they should reduce fluctuations in earnings and prices, improve long-term earning capacity, and at the same time facilitate (and certainly not make more difficult) the resource shifts necessary to accelerate growth and diversification. The problem is whether and through what means these objectives can be made mutually consistent. Effective action on the earnings of primary producers may, according to differing conditions, demand a combination of approaches, in fields including price stabilization, international fiscal action, improved market access, etc.

6. One of the major consequences of the commodity problem for the LDC's is the impact on their balance-of-payments position in the short run, as an adjunct to the pursuit of long run development policies. As such, it is a factor affecting the role of the IMF in relation to these countries.

7. At the same time, the commodity problem is also a part of the general problem of development. Here, it is a factor affecting the role of the IBRD in relation to these countries.

Trends and Fluctuations in the Commodity Trade of the LDC's (Chapter II)

8. Summary presentation (rates of growth and measures of instability) of prices, quantities and values of exports of major commodities and of individual developing countries. Both short-term and periodic fluctuations should be discussed.

9. Analysis of results. Not all commodities suffer from the commodity problem: there are primary products -- e.g., petroleum, aluminum -- for which demand rises rapidly, price fluctuations are limited, and supply is adjusted with relative speed to demand trends and demand fluctuations. There are also commodities whose price fluctuations are very wide, but the underlying demand

trend is strong (e.g., copper). In many cases, however, a relatively slow growth in demand is combined with price variations; and in the case of agricultural products, cobweb-type supply reactions may cause a continuing sequence of over- and under-production.

Causes of Adverse Trends and of Instability (Chapter III)

10. Relationships of price, volume and value. Condition of demand and supply in world markets for primary commodities. Some illustrative statistical analysis of demand and supply functions for export.

11. Demand factors underlying long-term trend. Supply factors underlying trend -- the long-term tendency of developing countries to over-crowd the markets of primary products due to absence of alternative employment opportunities. The role of synthetic substitutes and of limitations on the access to markets.

12. Factors involved in cyclical and irregular fluctuations. Relationship of price fluctuations to fluctuations in export earnings and producers' incomes. Relative importance of demand-induced and supply-induced instability.

13. Summary examination of factors behind major short-term declines in export earnings experienced in this period.

Consequences of Adverse Trends and of Instability (Chapter IV)

14. Effects of adverse trends on import capacity, income growth and possibly on production and investment patterns. Effects on ability to finance development. Experience of the Bank with member countries.

15. Impact of instability on producers' decisions -- cobweb effects. Impact of instability on the demand for primary materials -- the competitive position of primary products vs. synthetics.

16. Impact of fluctuations in prices and export receipts on payments difficulties and on the maintenance of internal equilibrium -- issues arising for national authorities in domestic financial policies and on balance-of-payments adjustment with unstable commodity markets -- experience of the Fund with member countries.

International Commodity Policies: Past Experience and Proposals (Chapter V)

17. A brief review of general approaches to stabilization -- the Havana Charter -- the UNCTAD approach -- the organization of markets -- other approaches. The case for a commodity-by-commodity approach.

18. Techniques of commodity stabilization -- application of these techniques in the postwar period. Problems of negotiation and problems of effectiveness of the techniques themselves.

Measures for Dealing with Fluctuations Around a Trend (Chapter VI)

19. The concept, distinguished from price leverage. Various techniques available -- buffer stocks -- and other or supplementary techniques to influence

prices, quantities, and earnings, including quotas, levies, buffer funds, multilateral and bilateral contracts and market access. Particular conditions of elasticities, pattern of fluctuations, commodity characteristics, favoring alternative techniques. Effects on export earnings/availabilities, producer earnings and on trend.

20. Buffer stocks: criteria for establishment of buffer stocks (physical and economic). The problems of management, price adjustment (moving average vs. steps), relationship to commercial stocks. Financial aspects of buffer stocks under various alternatives.

Measures for Improving the Level and Trend of Earnings (Chapter VII)

21. Different ways of improving the level and trend of export earnings: improvement of access to markets, improvement of the competitive position of primary products in relation to synthetics, stimulation of exports of manufactured goods from developing countries, management of supply of primary products.

22. The concept of remunerative prices, the concept of adverse trends defined in relation to the possibilities of improving the trends.

23. Conditions under which supply management is feasible and appropriate. Techniques of supply management: export restrictions with or without production controls; export levies; diversification; import levies in developed consuming countries for transfer to developing producing countries. Link with buffer stocks. The efficiency problems. Suitability of particular commodities to supply management and to different techniques of management, depending on the characteristics of commodities. Implications among producing countries and consuming countries.

24. Side effects of supply management -- problems relating to new producers, terms of competition, etc.

25. Financial implications of supply management for the exporting and importing countries.

The Problems and Prospects of Diversification (Chapter VIII)

26. Diversification as part of over-all development policy. Different concepts of diversification -- in the broad sense (development of new activities without displacing factors of production from the existing activities) and in the narrow sense (displacement of factors). Experience with diversification. The most acute cases. The localized cost (nationally) and the widespread benefits (internationally) of diversification. Financial aspects of diversification in the narrow sense. Who should diversify? The need for international decision-making in diversification in order to avoid emergence of surpluses in alternate products. The link with internal price policy within the developing countries.

Summary (Chapter IX)

27. A summary review of the analytical report (Part I) with special reference to the differing financial implications of the various approaches discussed.

PART II - Bank

Implications for possible actions by the World Bank Group.

PART II - Fund

Implications for possible actions by the International Monetary Fund.

Joint Fund-Bank Working Group
March, 1968

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** April 15 1968

FROM: Irving S. Friedman President has seen

ISF

SUBJECT: Five-Year Bank Projection of Development Programs

In connection with the current program of preparing five-year projections of development in selected countries, you may be interested in seeing the attached material dealing with the Bank's economic staffs' efforts to project the external capital requirements of the LDC's. This work was begun in the latter part of 1964 when I first came to the Bank, essentially for three reasons: Firstly, to get a generally acceptable estimate of the over-all external financial "needs" of the LDC's to substitute for the highly controversial and seemingly unrealistic "gap" figures then in circulation; secondly, to provide the basis for judging the size of the then forthcoming IDA replenishment and to have a firmer basis for calculating the desirable size of the World Bank operations; and thirdly, to begin to give more emphasis in the Bank's economic work on countries, to the construction and use of projections.

I found that projections of commodity prices and trends and external debt positions were already being made. In a number of cases individual staff members had made projections of export earnings, thus there was the beginnings of competency in this field, but only the beginnings. Because of this lag I spent a considerable part of my time in the first months in the Bank on this work and, with the assistance of a special task force, prepared instructions for a program of work which has subsequently been incorporated into the regular program of the Area and Economics Departments. The attached material is not a complete file, but it does contain papers which indicate the methods being followed and the results obtained in 1966.

Our estimates have emphasized the ability of the developing countries to use external capital effectively for high priority purposes. Our aim is not to make the "gap" the center of attention or concern. Our central concern has been the economic performance of the country with respect to development -- how to judge it and how to improve it. For this reason our first task was to get the systematic picture of the economies of the LDC's and to keep this up to date. We have finally completed at least one comprehensive economic report on every LDC member of the Bank. But this is only a first step; we are now entering the more difficult stage of trying to help countries improve their stock of economic data essential for decision making, to get a clearer understanding of the policy tools or mechanisms available in the LDC's and how they work or might be improved, to devise ways and means of more accurately measuring performance on an international as well as national basis, to find acceptable criteria for investment decision making and for international allocations of scarce external capital, etc. .

Attachments:
"Estimation of External Capital Requirements" (EC/O/66-39)
"Bank Estimates of Capital Inflow" (EC/O/67-87)
Tables showing "Revisions to Capital Inflow Estimates as of September 1967"

Mr. Robert S. McNamara April 15 1968

Irving S. Friedman

Five-Year Bank Projection of Development Programs

In connection with the current program of preparing five-year projections of development in selected countries, you may be interested in seeing the attached material dealing with the Bank's economic staffs' efforts to project the external capital requirements of the LDC's. This work was begun in the latter part of 1964 when I first came to the Bank, essentially for three reasons: Firstly, to get a generally acceptable estimate of the over-all external financial "needs" of the LDC's to substitute for the highly controversial and seemingly unrealistic "gap" figures then in circulation; secondly, to provide the basis for judging the size of the then forthcoming IDA replenishment and to have a firmer basis for calculating the desirable size of the World Bank operations; and thirdly, to begin to give more emphasis in the Bank's economic work on countries, to the construction and use of projections.

I found that projections of commodity prices and trends and external debt positions were already being made. In a number of cases individual staff members had made projections of export earnings, thus there was the beginnings of competency in this field, but only the beginnings. Because of this lag I spent a considerable part of my time in the first months in the Bank on this work and, with the assistance of a special task force, prepared instructions for a program of work which has subsequently been incorporated into the regular program of the Area and Economics Departments. The attached material is not a complete file, but it does contain papers which indicate the methods being followed and the results obtained in 1966.

Our estimates have emphasized theaability of the developing countries to use external capital effectively for high priority purposes. Our aim is not to make the "gap" the center of attention or concern. Our central concern has been the economic performance of the country with respect to development -- how to judge it and how to improve it. For this reason our first task was to get the systematic picture of the economies of the LDC's and to keep this up to date. We have finally completed at least one comprehensive economic report on every LDC member of the Bank. But this is only a first step; we are now entering the more difficult stage of trying to help countries improve their stock of economic data essential for decision making, to get a clearer understanding of the policy tools or mechanisms available in the LDC's and how they work or might be improved, to devise ways and means of more accurately measuring performance on an international as well as national basis, to find acceptable criteria for investment decision making and for international allocations of scarce external capital, etc. .

Attachments:

"Estimation of External Capital Requirements" (EC/O/66-39)
"Bank Estimates of Capital Inflow" (EC/O/67-87)
Tables showing "Revisions to Capital Inflow Estimates as of September 1967"

Form No. 61.EC
(7.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

ECONOMIC COMMITTEE

EC/O/66 - 39

April 4, 1966

Estimation of External Capital Requirements

1. Attached for your information is a revised draft of the memorandum, "Estimation of External Capital Requirements" (EC/O/66-33), which was distributed on March 14.

2. The revised draft, which reflects the comments received from Economic Advisers, will be discussed at the Economic Committee meeting scheduled for Thursday, April 7.

C. F. Owen
Secretary

D I S T R I B U T I O N

Messrs. Friedman	Bell	Maiss
Kamarck	Edelman	McDiarmid
Adler	Gilmartin	Sadove
Avramovic	King (B.B.)	Thompson
Rist	Larsen	Weiner
de Vries	Lipkowitz	Wright

ESTIMATION OF EXTERNAL CAPITAL REQUIREMENTS

I. Introduction

1. This memorandum describes the methods followed in estimating external capital requirements. This is one aspect of the Bank's continuing analysis of the economies of developing countries and of the problem of development finance. Where relevant, this memorandum refers to other aspects of economic work which are closely related to the estimation of capital requirements.

II. The Main Steps

2. Following is an outline of the main steps and how they tie together. Not all steps can be carried in the same degree of detail in all cases (see para. 3).

   a. For a relevant past period as well as a base period we will normally have estimates of output and income, investment and savings, and principal elements in the balance of payments. In some cases this information will be available in sectorial detail.

   b. For the economy as a whole, projection of output and investment. (See Section IV).

   c. Projection of total domestic savings from past behavior of the main variables (a), supplemented by knowledge of government financial policies (d) and trends in the private sector (including independent analyses of components of savings, e.g. family budget studies, corporate financing, etc.). The domestic investment-savings gap is projected from this savings projection and the projection of investment (b). (Section IV).

d. For the public sector, projection of investment; likely savings (i.e. gross revenue minus current expenditures), use of domestic credit and other resources, and external financing requirements. Information on the import component of public investment should be related to the balance of payments projection (e). (Section V).

e. Projection of the external resource gap; i.e. difference between imports and exports of goods and services (excluding transfers of investment income). (Section VI).

f. The projection of investment (b) and the resource gap (e) implies a level of domestic savings which should be checked against the savings projection under (c). In other words where an investment savings gap is derived independently of the import-export gap (e), the two sets of estimates may need to be reconciled. (Section VIII).

g. Projection of investment income payments, debt amortization, changes in reserves and direct foreign investment. Net and gross external financing requirements.

h. Final checks may be needed to safeguard against biases in the projections, especially of primary commodity export earnings, those segments of investment treated as a residue (e.g. social investment, private investment) and the adequacy of external and domestic credit resources available for the development of the commodity producing sector.

i. Financing plan for investment, showing principal categories of investment and financing sources (domestic and external) in the private and public sectors. Integration of projections with the country's monetary program with the purpose of assuring (or demonstrating) that monetary policies are consistent with the public sector financing plan (d), the external financing plan (f), and <u>vice versa</u>. (Section VII).

3. The concepts referred to must be understood in the national accounts framework in which they are normally used. Definitions should always be made explicit, especially when questions as to "gross" and "net" magnitudes arise, or "national" or "domestic" differences. It is particularly important to indicate the following distinctions, where they can be drawn:-

(i) The breakdown of <u>Gross Capital Formation</u> into <u>fixed capital</u> and <u>inventories</u>.

(ii) The composition of the current account of the balance of payments; it is suggested that to maintain consistency between countries, <u>private transfers</u> (gifts, remittances, etc.) be included in the current account, and <u>official transfers</u> be included in the capital account.

(iii) <u>Public Savings</u> are defined as the difference between current revenues and expenditures of the public sector. If possible, borrowing should be excluded from current revenues to make this calculation and debt amortization should be excluded from current expenditures.

III. Special Aspects

4. Some of the steps outlined require macro-economic analysis, while others involve analysis of individual sectors or even projects. These two approaches normally supplement each other and are merged in the preparation and presentation of the estimates. In most situations macro models are useful to check the consistency of estimates which are derived by other methods. Some economies are sufficiently complex that major reliance needs to be placed on macro-economic analysis. In some other countries, national income and other macro-economic data may not be regarded sufficiently reliable as a tool for making projections. The analysis of the country's development and financial policy and the work on external aid coordination will often require sectorial and project detail which cannot be obtained from macro-economic analysis. (See Section V).

5. The period of projection differs in length with the purpose for which the projection is prepared. Projections of investment and financing in the public sector, external financing and the balance of payments and the monetary program are needed in some detail and usually for a two-year period when they form the basis for an understanding with a government on its policies and on its external financing requests and needs. For the purpose of projecting over-all investment, the period should be about 5 years (which is also the more relevant for project planning and for general planning of aid by donors). For the purpose of determining suitable terms for new loans, the balance of payments (including external capital flow) usually needs to be projected for 10 years, sometimes longer.

6. To the maximum extent feasible, the investment projection is based on an appraisal of the country's capacity to prepare and carry out high priority projects (both public and private). This capacity is not fixed and may change, even over a period of 2 or 3 years, depending *inter alia* on Government policies and external (financial and/or technical) assistance. In all cases the projection of investment is subject to the restraint imposed by the requirement that all the various investments included be an integral part of a development program which provides the best framework and basis for achieving satisfactory growth. This would mean that all investment projects will yield a reasonable return for the country's development, although it may be possible to demonstrate this only for the larger projects and sub-programs. A country's actual investment plans could fall short of the investment projections described here because the plans are based on a realistic estimate of available financing (usually external). Such a situation would prevail more often for the short-term (1-2 years) than for the long term (5 - 10 years). In such a situation the investment levels underlying the external capital projection may be higher than the projection of the likely level of investment over the next 1 - 2 years.

7. The Government's economic and financial policies will affect output (resource utilization), imports and exports, and domestic savings. Assumptions as to what policies are desirable for the country's development will have a bearing on the projections. Where relevant, these assumptions should be explicitly indicated. Policy assumptions should be in line with Bank recommendations on a country's policy and/or the policies specified in a memorandum of understanding with the Government.

IV. Output, Investment, and Savings

8. Projection of total output is the result of analysis of likely growth performance and problems of the various sectors of the economy. Estimates of the over-all growth rate are usually based on several factors, including past growth experience, the income growth target contained in the government plan, the policies being pursued to achieve this target, the estimated output effects of certain major investments to be completed in the projection period, and the assumed external financing. In addition, the estimates make allowance for likely government policies affecting resource utilization.

9. The projection of investment is an essential part of the Bank's appraisal of a country's development program. The program should be the best available set of activities and expenditures for the achievement of satisfactory growth. The individual investments within the overall scheme should not only be suitable as an integral part of the program but, especially the larger projects and sub-programs, should also be reviewed to assure realism in execution and reasonable investment yields. There will necessarily be an interraction between the judgments and analysis of the overall plan and of its components. Developments in the economy and its key sectors during a relevant recent period will normally indicate a trend in total investment. This trend, the country's plans and investment policies, and the estimation of its capacity to carry out investments are principal elements in the projection of investment.

10. In the appraisal of the capacity to execute investment the public sector assumes a central place. (See Section V). The short-term trends in private investment will usually be indicated by investigation of the

agricultural and manufacturing sectors (including direct investigation of major industries or projects). The analysis of private investment is essentially one of major trends, general composition and direction. Since the private sector can usually not be analyzed on a project basis, a residual will need to be estimated, over and above that which was analyzed directly. Only informed guesses and relationships with the part of investment directly studied can furnish estimates on the size of the residual.

11. Expectations and intentions of private entrepreneurs, on which much of the private investment analysis must rely, may well differ from the capacity level. Private expectations may be influenced either by the particular phase in the business cycle, or by expectations regarding the availability of funds. Trends in availability of funds for private investment are usually studied in connection with an analysis of monetary policy, development finance institutions and private foreign investment. Availability of funds for private investment, as indicated in the monetary programs, is of particular relevance for short-term (1 - 2 years) projection. In many cases, help can be obtained from government plans for certain private industries, and from information available in industry associations and in development banks, private and public.

12. Recent trends in income and domestic savings, and the projection of output and income (para.7) will suggest a feasible level of gross domestic savings in the projection period. The level of savings so indicated must be given substance by further analysis of its major components. The public sector component is usually analyzed in detail (Section V). For private savings the analysis is usually spottier and attempts to allow for trends in such components as savings mobilized by

the capital market (bonds, shares, insurance companies and other institutional savers), internal cash generation (i.e. reinvestment of company profits), and personal savings (as indicated by family budget studies).

13. This part of the analysis will conclude with an estimate of the projected gap between investment and domestic savings.

V. The Public Sector

14. Expenditures and revenue, investment and savings of the public sector will usually be analyzed in detail. Public investment (including state enterprises) often accounts for one-half to two-thirds of total investment, and comes in big units. Analysis of public investment is therefore crucial in arriving at a judgment of the country's capacity to execute investment, and *a fortiori* of the capacity to "absorb" external financing since often the proportion of investment financed with external funds is larger for the public sector than the private. Current expenditures also need to be analyzed in detail, to form a judgment both of the adequacy of the level and pattern of development expenditures, and the level of public financial resources available for capital and other development expenditures.

15. The coverage and detail of the public sector analysis will depend on all or some of the following factors:

a. The availability of project and sector studies.

b. Work on a policy understanding with the Government (including taxation policy) as an element in the formulation of plans for lending by the Bank-IDA or by members of a coordinating mechanism (consultative group, consortium), of which the Bank is chairman.

c. The need to prepare a list of projects for purposes of an external financing plan, a Bank lending program, and/or of external aid coordination. The majority of these projects usually fall in the public sector.

d. The need to have an estimate of the total cost of projects suitable for external financing in order to derive a formula for cost-sharing (i.e. the proportion financed with domestic as against external funds).

16. The financing plan for the public sector will show the feasible level of public investment and the major sources available for financing:

a. Current account surplus of Central and other governments.

b. Profits of government-owned corporations available for financing capital expenditures. Surplus of social security schemes etc.

c. Internal borrowing, including borrowing from the Central Bank in amounts consistent with monetary stability.

d. Disbursements of external loans already contracted.

e. Disbursement of new external loans needed to assure a balanced public sector financing plan.

17. The first one or two years of the financing plan may be a key element in working out a policy understanding with the Government (see para. 14 (b)).

VI. Projection of the Balance of Payments Gap

18. Balance of payments projections form the basis of an independent assessment of the external capital requirements and make possible a check on the investment savings gap estimate.

19. Underlying the balance of payments projections are key assumptions about financial and trade policies (e.g. the pursuit of a non-inflationary domestic credit policy, the maintenance of a reasonably realistic rate of exchange and a tolerable level of import restrictions and protection), the utilization of existing production facilities to meet domestic demand and the level and composition of investment (see para. 6).

20. Exports: Exports are analyzed largely independent of other parts of the projections in that exogenous conditions (e.g. external demand, weather) are important in determining volume and price. However, the export projections are related to projections of other items, for example, when they are affected by the completion of certain investments and the growth of manufacturing industry.

21. The export projections will need to be checked for consistency with the Bank's projections of world commodity markets.

22. Imports: The projection of imports is based on several factors, including an estimate of demand arising from the expected pace and pattern of growth, the requirements of industry in meeting effective domestic demand and the import requirements of the investment program. The projections will take into account past trends in relationships between major variables (e.g. between major categories of imports and investment, consumption, industrial production). To the extent possible, a greater degree of precision should be achieved by projecting major components (e.g. imports of consumer goods, raw materials, semi-finished goods and capital goods) and by relating the projections to the functioning and requirements of sectors (especially manufacturing and agriculture) and of the larger investment projects.

23. Investment income payments and private transfers: Profits and dividends are estimated on the basis of past experience and appropriate assumptions regarding the inflow (and yield) of private foreign investment. The projection of interest charges on the debt follows from the trend of disbursements in future years. A similar projection is undertaken for transfers.

24. Gross capital requirement: The total finance required to cover the current account deficit (resource gap plus net investment income payments), plus amortization payments on old and new indebtedness, plus or minus any appropriate change in the level of external reserves, gives the gross capital requirements for the economy in question. A judgment on the level of reserves is generally given by country economists, since it depends on the present level of reserves and the need to finance expected short-term deviations of trade from the projected values in each country. Judgments on individual countries need to be checked for consistency from time to time when all countries are considered together. Projection of amortization on new debt is based on the assumed structure of new capital inflow.

25. The structure of new capital inflow (direct investment, private borrowing, grants, project and program loans, and extent of local currency financing) is projected on the basis of several factors, including trends in recent years, scheduling of projects, the country's policy toward private capital inflows, and the incurrence of short- and medium-term debt. It also takes into account the likely terms of major components of new capital inflow. Estimates derived on a country basis are checked later against estimates for other countries, for purposes of maintaining consistency and realism of assumptions. Once the probable structure of foreign capital inflow is known, it is then possible to estimate interest and amortization payments on the new indebtedness, and to estimate further both elements in the additional indebtedness created by adding to the country's deficit new debt service payments. Interest payments on the new and added indebtedness can now be summed to the projection of interest

on outstanding debt to arrive at total investment income payments and at the current account deficit.

26. A statement of capital flows for 2 years or so, with a breakdown of major categories (including an indication of terms), may be used as an external financing plan for a country's capital requirements (which may be specified in a memorandum of understanding with the Government). A complete external financing plan normally indicates the amount of new loans to be attached to specific projects and approximately what proportion of total project costs will be financed with external loans. (see paras. 15 (e) and 14 (d)). The determination of the desirable amount of project lending will (in addition to a judgment on the availability of external finance not attached to projects) depend on an analysis of the extent to which this form of lending is essential or helpful in improving investment capacity and levels of productivity.

27. The external finance requirements derived are calculated on a disbursement as well as a commitment basis. The relationship between commitments and disbursements is derived, where possible, on the basis of project-by-project review.

VII. Financial Flows

28. Projections of investment, public and private, should be related to likely movements in the corresponding financial flows. Projections of financing of investment should be consistent with likely developments in money, banking and the balance of payments. It should normally be possible to indicate the implications for the growth of the money supply, domestic credit and the balance of payments of any projected investment plan. This will provide a check whether the needs of the private sector for credit

are consistent with the demands that the public sector will make on the banking system, after due allowance has been made for external financing likely to be made available to the private sector, either directly, or through the banking system.

29. For some countries the necessary framework for such financial flow projections exists in the form of the consolidated figures for the banking system. These projections are of special relevance for the short-term, 1 to 2 years. It is unusual for such accounts to be projected beyond twelve months, but in some cases longer-term outline projections may be possible.

30. Where possible, use should also be made of other data on private sources of finance, such as depreciation funds, reinvestment of profits, capital from parent companies and subsidiaries overseas, all of which are normally as important a source of capital as local borrowing and the issue of shares. In more simple economies where the money supply is still predominantly in the form of notes and coin, expected increases in the holdings of money as the economy grows will provide some financing for the public sector, as government obligations are issued as the counterpart of the increase in the currency holdings of the public.

31. Financial flows cannot be considered in isolation from the institutional framework of the economy. When making projections, therefore, reference must be made to particular features which may be of importance in that economy, such as reserve requirements, the role of interest rates, the use of Currency Boards and controls over the use of bank credit.

VIII. Checks on Internal Consistency of Estimates and Possible Biases

32. In cases where the balance of payments gap (Section VI) and the investment-savings gap (Section IV) are derived in an independent manner, the estimates of the gap may be different and will need to be reconciled.1/ This may be done in various ways, depending on availability of data, knowledge of policies and the realism of the assumptions made. For example, if the investment-savings gap is greater than the balance of payments gap, we might have to consider increasing the savings rates assumed in Section IV or increase the import rate assumed under VI. Similarly, if the balance of payments gap is greater than the investment-savings gap, we might consider greater export growth or more rapid import substitution or a higher growth rate in consumption. These adjustments might require corresponding adjustments in policy prescription. Much will, of course, depend on the judgment of the economist concerned on what is most feasible for each particular country.

33. Under the approach in Section VI, certain (usually optimistic) assumptions as to import substitution may lead to capital requirement estimates with a downward bias. If it is to reduce external capital needs, import substitution must be accompanied by an increase in savings in relation to total national output. If additional savings are not being so generated, the country's resources may be put under pressure and, if a certain investment plan is to be realized, it may need to be supplemented by external assistance over and above the level initially indicated. In certain cases, the government may want to follow a policy of full

---

1/ In last year's exercise the two approaches were followed in two cases, viz. Malaysia and UAR (see Appendix Annex B).

utilization of the country's own capital goods industries which, if slower in delivering than their foreign competitors, may, in practice, tend to reduce the level of investment realized. This may, or may not, be consistent with the growth policy targets.

34. As indicated in paragraph 2(i), the various projections may be integrated with a financing plan for the public sector (paragraph 15) and an external financing plan (paragraph 25). Where the country has a monetary program, its major components should be consistent with the public sector and external financing plans.

35. Among the possible general biases from which the estimates may suffer special mention should be made of underestimation of social investment and current development expenditures. Certain types of public investments, especially those in the social sector (e.g. education, housing, health facilities, waterworks) may, in practice, receive less detailed analysis than other sectors (e.g. power, transportation, irrigation works), and are often treated as a residue. It is possible that the focus of the investment program review tends to underestimate the requirements and technical possibilities of executing investment in the social sector. In addition, it is not uncommon for current development expenditures to be underestimated and, consequently, public savings' potentials to be overestimated.

36. Similarly, where private investment is treated in less detail than public investment, the projection may have a downward bias. It is particularly desirable that the amounts for private credit expansion indicated in the monetary program (see para 29), with financing available from other sources, permit an adequate growth of the private sector.

Barend A. de Vries
April 4, 1966

APPENDIX

ESTIMATING EXTERNAL CAPITAL REQUIREMENTS: METHODS USED BY THE WORLD BANK IN THE PAST

1. This note explains the methodology followed during the past by the IBRD's staff in estimating future external capital requirements of less developed countries. Such estimates have been a standard feature of most Bank economic reports during the last few years. Annex A lists a number of countries for which our recent economic reports include such projections for one or more years.

2. Between November 1964 and April 1965, the Bank engaged in an attempt to ascertain a measure of external capital needs of all under-developed member countries for the second half of the 1960's. To a considerable extent this study was based on forecasts which had been made in country economic reports. In cases where recent estimates were not available, additional projections were prepared by the Area Departments. Thus a fairly large sample of countries was covered by the study.

3. The basic conceptual framework within which all those estimates were made, is outlined as follows:

a) calculate investment requirements

b) calculate domestic savings

c) derive internal resource gap (a - b)

d) calculate import requirements

e) calculate export earnings

f) derive external resource gap (d - e)

c must equal f

g) calculate net investment income remitted abroad

h) calculate amortization on external debt

i) estimate desirable changes in reserves

j) estimate private foreign investment

k) derive at total public capital requirements by adding (g + h + i - j) to c or f

4. However, the material on which the forecasts were based varied greatly in quality and depth. Moreover, substantial differences were observed in the methodological approach followed by individual country studies depending on the availability of factual information, the structure and particular problems of the economy, on the country's importance for Bank operations, the size and composition of recent country missions, etc. Some of the major methodological differences are described in more detail, as follows.

5. The focal point for projecting external capital needs is the resource gap. Basically, there are two ways to estimate this gap:

a) by projecting domestic investment and savings (internal gap = I - S);

b) by projecting imports and exports of goods and services (external gap = M - E).

Although *ex post* both gaps must be equal by definition, the projected resource gaps estimated under each methodology are frequently not the same. Depending on where the main constraints appear in a particular economy, the estimated external gap may be larger than the internal gap, and *vice versa*. Ideally, both gaps should be projected independently and reconciled subsequently by adjusting relevant variables. However, from a practical point of view this two pronged approach could be followed in a few cases only. Annex B summarizes the methodology followed in the studies specially prepared for the capital requirement exercise a year ago. The numerical results of this exercise were summarized in EC/M/65 - 12. The Annex shows that in the majority of case studies of the Bank's comprehensive exercise only the external gap was estimated.

6. The Annex also indicates which parameters have been chosen as independent variables, and which ones have subsequently been derived from the independent variables. For example, export receipts were, in practically all cases, estimated as an independent variable although the effects of investments on the volume of export were occasionally taken into consideration. Another independent variable was frequently total output (GDP/GNP) in the sense of an overall target growth rate. But there were other cases which focussed on the projection of a realistic investment program taking the growth of total output as a function of investment and/or other variables.

7. Domestic investment and savings have been treated both ways. Usually investment was considered an independent variable, but occasionally it was estimated as a function of GDP, assuming a certain investment rate. Savings were mostly taken as a function of national income and only exceptionally estimated independently. Likewise, imports were in most cases projected as a function of domestic consumption and investment.

8. Another methodological variation shown in Annex B concerns the difference in the use of macro- and micro-economic techniques. To a certain degree the method which had actually to be chosen was determined by the time period under consideration: as a rule, for the short and medium run micro-economic techniques were applicable whereas for longer run projections macro-economic methods had to be taken. Frequently, both techniques were applied simultaneously with a view to check the consistency of the analysis.

9. In order to render possible the aggregation of individual country results, certain assumptions were introduced which tended as far as possible to harmonize the methodological and statistical differences of individual country estimates. Thus, it was assumed that in all countries economic performance would be satisfactory within the limitations and peculiarities of each country. It was also assumed that the need for internal and external capital in each country was to depend - as far as this could be ascertained - on the technical, administrative and skill capacity to invest in economically justifiable projects assuming no limitation on the availability of finance. This made the overall results an estimate of the likely needs of foreign assistance rather than a projection of the likely flow of foreign funds.

10. Moreover, a series of checks was undertaken by aggregating the individual country results. These were intended to show whether, for the group of countries studied in detail, the assumptions continued to appear reasonable after aggregation. The main difficulty which arose from this control procedure concerned the growth of exports, which were forecasted to grow at a faster rate than could be reasonably expected from a review of world market prospects for the major export commodities involved. Alternative assumptions were then made on the bahavior of exports to see what their influence was on the estimated current account deficit of the group of countries analyzed.

11. In order to increase the comprehensiveness of the study, a further step was undertaken. An estimate of the current account deficit of the whole developing world (excluding Eastern Bloc countries) was arrived at by applying the past ratio of the share of countries directly investigated in the current account deficit for all LDCs to their projected current account deficit. By difference, the current account deficit of countries outside the sample was obtained.

12. The validity of any study of external capital requirements hinges both on the quality of the data taken as a basis for projections and on the reliability of estimates concerning the crucial parameters of both methodologies. In the Bank's study, the reliance on country economic expertise should have reduced the data problem to its realistic minimum; it should also have insured against major mis-estimation of parameters.

13. Once the resource gap for each country was estimated, net investment income payments were also projected. This was undertaken for each country by separating profits and dividends from interest payments, relating the former to the likely inflow of private foreign capital and the latter to past indebtedness and its future growth. The future growth of indebtedness is determined by adding to the resource gap (after a suitable hypothesis regarding the grant element in future financing), net private transfer outflow, amortization payments on past indebtedness and desirable increases in external reserves, and subtracting expected disbursements from already committed finance and net private capital inflow. Thus, both net and gross financing requirements were estimated.

ANNEX A

PROJECTION OF FOREIGN CAPITAL INFLOW
IN IBRD COUNTRY ECONOMIC REPORTS 1/

Country	No. of Bank Report	Period of Projection
Afghanistan	AS-95a	1965-1970
Argentina	WH-144a	1965-1969
Basutoland	EA-149a	1965
Bechuanaland	EA-145b	1965-1968
Brazil	WH-146a	1965-1970
Cameroon	AF-15a	1965
Ceylon	FE-46	1965-1966
China	FE-36a	1968-1970
Costa Rica	WH-156	1966-1967
Dominican Republic	WH-150a	1965, 1968, 1970
East Africa	AF-35	1965-1969
Ecuador	WH-133a	1965-1970
El Salvador	WH-140a	1965
Ethiopia	AF-38	1965-1970
Gabon	AF-24a	1965-1966
Guatemala	WH-148	1965-1967
Guinea	AF-41	1964-1970
Honduras	WH-132a	1965
Iran	AS-110	1965/66-1967/68
Israel	AS-108a	1965-1970
Japan	FE-47a	1966-70
Korea	FE-38a	1965-1970
Malaysia	FE-51	1966-1970
Mauritania	AF-28a	1965-1966
Mexico	WH-147	1965, 1966, 1970
Morocco	AF-36	1966-1970
Nepal	AS-101a	1966-1970
Nicaragua	WH-135a	1965
Pakistan	AS-109	1965-1969
Panama	WH-149a	1965-1970
Paraguay	WH-153a	1965-1968
Peru	WH-155a	1965-1970
Philippines	FE-34a	1965-1970
Singapore	FE-52	1966-1970
Sudan	AF-40a	1965/66-1970/71
Thailand	FE-50	1968-1970
Tunisia	AF-39	1965-1968
Uruguay	WH-139a	1970
Venezuela	WH-152	1965-1968

1/ The following country economic reports do not include projections of foreign capital inflow: Greece (EA-151), Haiti (WH-151), Iraq (EA-155), Portugal (EA-154a) and Turkey (EA-153a).

ANNEX B

Methodology Followed in Individual Country Studies

Country	Method of Estimating Resource Gap		Techniques of estimating independent variables								Techniques of estimating dependent variables										
			GNP/GDP		Investments		Savings		Exports	Consumption	Consumption (f) 5/	Investment (f)	Savings (f)		Imports (f)						Exports (f)
	M-E 1/	I-S 2/	Ma 3/	Mi 4/	Ma	Mi	Ma	Mi	Mi	Ma	GNP/GDP	GNP/GDP	GNP/GDP	Investment	GNP/GDP	Investment	Exports	Population	Consumption	E,I&S 6/	Investment
Argentina	x			x	x				x						x	x					
Cameroon	x								x						x						
Chile	x					(x) 7/			x						x	x		x			
Colombia	x		x						x						x						
East Africa		x		x		x		x					x								
India		x	x						x 8/			x	x							x 8/	
Indonesia	x		x			x			x							x					
Iran		x	x					x	x 8/			x		x 9/						x 8/	
Israel		x		x			x 10/		x			x								x 8/	
Jordan	x		x		x				x						x	x					
Korea	x		x						x			x			x	x	x	x			
Malaysia	x	x	x		x 11/	x 12/					x					x			x		x
Mexico	x		x		x				x						x	x					
Pakistan		x	x			x							x								
Philippines		x		x						x		x									
Senegal	x								x						x						
Spain	x		x						x			x			x						
Thailand	x			x					x	x					x	x	x		x		
Turkey	x			x	x				x						x	x					
UAR	x	x	x						x			x	x		x	x			x		
Yugoslavia		x	x 10/		x 10/					x 10/											

1/ Imports minus exports (external gap).
2/ Investment minus saving (internal gap).
3/ Macro-economic.
4/ Micro-economic.

5/ As a function of.
6/ Balance equation: M=E+(I-S)
7/ No estimations for the economy as a whole.
8/ M&E figures calculated in order to proof consistency.

9/ It is assumed that private savings will finance entirely private investment.
10/ Policy target.
11/ For the private sector.
12/ For the public sector.

FORM No. 61.EC
(7.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

ECONOMIC COMMITTEE

EC/O/67-87

July 3, 1967

Bank Estimates of Capital Inflow

1. In September, 1966, a draft paper on what was then known as the Bank's estimates of the capital requirements of developing countries was circulated to the Economic Committee (EC/O/66-149). Extensive comments were received from many economists, and the Economic Committee directed that the draft be revised in a substantial manner. Attached is the revised version, "The World Bank's Estimates of Capital Inflow into the Developing Countries", which was prepared in the Economics Department.

2. As compared with the earlier draft, the paper has been reduced in scope so that it now amounts to an extended commentary on the figures which can be derived from the Bank's country economic reports. One of the changes made has been to drop the phrase "capital requirements" in favor of the present title, which is considered to be a more accurate reflection of the nature of the Bank's figures.

3. The paper has been written primarily to explain, for the benefit of the Bank and other international institutions, the estimates of past and future capital flows to developing countries on which various public statements by the Bank have been based. There is also some discussion of the methodological problems which arise in attempting to aggregate figures from the Bank's country economic reports. The figures in this version will be revised to take account of economic reports that have become available since it was completed.

4. Written comments (two copies) on the draft should be sent to me, with an additional copy to Mr. Hawkins, by the close of business on Thursday, July 13. If necessary, a meeting of the Economic Committee will be held subsequently.

Donald T. Brash
Acting Secretary

Attachment

Secretary's Department

DISTRIBUTION: Members of the Economic Committee

DRAFT

CONFIDENTIAL

THE WORLD BANK'S ESTIMATES OF CAPITAL INFLOW INTO THE DEVELOPING COUNTRIES

This paper has been written by E. K. Hawkins on the basis of figures prepared by S. N. Kao and P. Leon. Mr. Leon also wrote Annex III.

Economics Department
July, 1967

THE WORLD BANK'S ESTIMATES OF CAPITAL INFLOW INTO THE DEVELOPING COUNTRIES

Introduction

1. The Bank has been engaged in studies aimed at producing estimates of the capital inflow into the developing countries. The first such estimates were made in 1964/65 and the present paper gives the results of the most recent calculations made in 1966. The Bank is not the only institution engaged in producing estimates of this kind and one aim of this paper is to set forth the nature of the Bank's figures so that they may be clearly distinguished from those produced elsewhere. It has become customary to describe estimates of this kind as "capital requirements figures". This title implies a further question, "requirements for what?", which is usually answered in terms of the amount of capital needed to enable the developing countries to achieve certain targets; these targets may be defined in terms of rates of growth of income, consumption, etc. In the case of the Bank, however, no such concept lies at the back of the figures presented here. It would be wrong, therefore, to describe these as capital requirements estimates, since they are essentially figures of the amount of capital that countries could use in an effective way. The figures have been produced as a by-product of the continuing economic work of the Bank. They are, therefore, operational in origin, a part of the process by which the economic work provides the necessary background to the lending activities which are the function of the World Bank group.

2. The figures given in this paper are obtained from the country economic reports prepared in the Bank. These reports form the framework for the overall economic appraisal of a country's situation against which loan operations are carried out. This feature in itself is sufficient to distinguish the Bank's estimates from the capital requirements estimates

produced by other agencies.[1/] The fact that the figures are derived as secondary data rather than collected primarily for this purpose increases the difficulties that must be faced in handling and interpreting results given here, although it does not necessarily detract from the value of these results. In fact it can be argued that one of the virtues of these estimates lies in the manner in which it is possible to bring together in a statistical form something of the collective judgments on the member countries performance and prospects that forms the major part of the Bank's country economic work. This work is extremely diversified because of the diversified nature of the Bank's member countries. Behind this economic work, however, lies a common approach built up over the years on the basis of common procedures, policies and operational experience.

3. This paper first discusses the results that have been obtained by aggregating the data from a large sample of Bank member countries. With one or two exceptions these are all less developed countries, referred to within the Bank as "Part II" countries on the basis of the distinction drawn for the purpose of the International Development Association. Secondly, there is a discussion of the problems that arise in preparing these estimates and finally reference is made to other estimates produced elsewhere, in order to clarify the differences that exist between them and the Bank's estimates. As further background to the discussion, Annex I provides a series of notes on the approach taken towards particular countries in the original reports which are the primary source for these figures.

1/ The more important of these other estimates are reviewed later in this paper and the sources are listed in Annex II.

The Results

4. The figures obtained from the economic reports, which are given in summary form in the accompanying table, are given in detail in Tables 1 to 6. The basic sample consists of forty-three countries[1/] for which reports were prepared during a period beginning March, 1965, and ending in February, 1967. The estimates prepared cover a five-year base period, 1960-64, and a further five-year period, 1966-70, for which projections had been or could be made. In each case figures are shown for the countries in the sample, with sub-totals on an area basis.

5. An estimate is also shown for countries not in the sample (designated as "unspecified" in the tables) in order to obtain aggregate figures for areas and for the less developed countries as a whole. There are considerable difficulties in making such an estimate and the figures given are intended only as an order of magnitude. The methods used to obtain estimates for the unspecified countries are described in Annex III, which also gives an estimate of the size of the "universe" from which the Bank's "sample" of forty-three countries has been drawn.[2/]

6. The results are given in detail in Tables 1-6. (Particular attention is drawn to the footnotes to the tables, which set out the qualifications which have to be made for some of the figures.) Table 1 is a basic reference table showing the rates of growth for the period 1960-64, together with those projected for 1966-70 for the key aggregates of the economy: GDP,

---

1/ Eleven countries in Africa, seven in Asia, ten in Europe and the Middle East and fifteen in the Western Hemisphere. No country was selected for this particular purpose; the choice was determined solely by the availability of a report during the period which had been cleared through the Economic Committee review procedure.

2/ Apart from the IMF data, which is used in Annex III, the other main source of past figures for capital flows is the DAC. Unfortunately its definitions and concepts are very different from those used in Bank country economic reports. See Annex IV.

THE NET FLOW OF OFFICIAL AND PRIVATE CAPITAL TO DEVELOPING COUNTRIES*
(US$ Billion)

Years	Official Capital*	Private Capital	Total
	A) Sample Countries		
1960	2.8	0.9	3.7
1961	3.2	1.0	4.2
1962	3.5	0.7	4.2
1963	4.1	1.0	5.1
1964	4.4	1.4	5.8
1966	5.4	1.7	7.1
1967	5.7	1.9	7.6
1968	5.8	2.3	8.1
1969	6.0	2.4	8.4
1970	6.1	2.5	8.6
Increase of 1970 over 1960	+3.3	+1.6	+4.9
Annual Average			
1960/64	3.6	1.0	4.6
1966/70	5.8	2.2	8.0
Increase of 1966/70 over 1960/64	+2.2	+1.2	+3.4
	B) All Developing Countries		
Annual Average			
1960/64	4.7	1.3	6.0
1966/70	7.7	2.9	10.6
Increase of 1966/70 over 1960/64	+3.0	+1.6	+4.6

*See footnote to Table 3 for qualification of "official".

Source: Tables 2-6.

Exports and Imports of goods and services, Consumption (per capita) and Investment. Also shown are three calculated parameters relevant to the growth of the economy, the Domestic Savings rate, the Marginal Savings rate and the Incremental Capital/Output ratio .1/ While these parameters have some bearing on economic performance they cannot be regarded as policy variables. In particular it should be noted that they are defined on a "domestic" basis, so that they refer to aggregates defined with respect to a particular geographical area. Domestic savings, for example, refers to savings generated within a given geographical area and a proportion of the total will be at the disposal of foreign owners of factors of production. Such aggregates are not necessarily directly amenable to national policy measures.

7. Table 2 provides the main results of the study in the form of a comparison between the period 1960-64 and projections for 1966-70. They are presented in the form of a simplified balance of payments statement. The deficit on current account measures, in principle, the extent to which a country draws on external resources (including the use of its own foreign assets). A convenient way to present the data, therefore, is to show the deficit on current account, together with the way in which it is financed either by a capital inflow (short and long term) or by changes in reserves. This is shown in Table 2, where columns 1 and 2 show the deficit and columns 7-12 show the way in which it is financed. It is useful to recall that this form of statement, as with all accounting statements of this kind, deals with identities and the two sides are equal by definition. They show the end results of the economic processes that have taken place in the past and are forecast to take place in the future (including the processes that ensure equality between the effective demand and supply of foreign exchange).

1/ These parameters have been calculated from the data to indicate what is implied in the figures; they should not be regarded in the same light as estimated parameters that would be obtained from a properly specified econometric model.

8. For some purposes it is important to focus on the deficit on current account. In Table 2, however, this is further divided into two parts, the Resource Gap (cols. 3 and 4) and net Factor Income Payments (cols. 5 and 6). While both must be covered by the net capital inflow and reserve use, they have different implications for development. The former measures the real transfer of goods and services from abroad achieved by a foreign capital inflow and the latter represents a payment for the services of foreign owned factors of production, including the services of capital made available in the past. It is the capital contributing to the Resource Gap which has a direct impact upon development, although it can hardly be considered apart from the factor income payments which reflect the cost of covering the Resource Gap of the economy by the use of overseas capital. The connection may not be a direct one in the short run, however, because the factor income payments made in any current period are largely determined by past borrowing and private investment.

9. The relationships between the various items in the balance of payments concerned are as follows:-

Exports of goods and services
\- Imports of goods and services
= Balance of goods and services
+(or -) Current Transfers, net
= Resource Gap (or Surplus)
\+ Factor Income payments and Interest, net
= Current Account Deficit (or Surplus)

The figures given in Table 2 have been cast, as far as possible, within this framework.[1/]

1/ In some countries it is difficult to make the distinction between the value of exports of goods and services and the factor income payments associated with them. In these cases only the net receipts to the country are recorded in the balance of payments, often amounting to royalties or license fees. While this should not affect the measure of the Resource Gap, it will cause estimates of Factor Income Payments to be understated. There may also be cases where there is a Resource Surplus, but a deficit on current account; such cases need special handling to ensure that the accounting relationships are not mistaken for descriptions of the economic processes which bring about such results.

10. The importance of making these distinctions is illustrated by the results shown in Table 2, where it can be seen that estimated changes in net factor income payments can cause a substantial difference between the expected Resource Gap and the deficit on current account. In the period 1960-64 the current account deficit for <u>All Countries</u> has been estimated as an annual average of \$5.2 billion, made up of a Resource Gap of \$2.1 billion and factor income payments of \$3.1 billion. For the period 1966-70 the deficit is projected to increase to \$9.6 billion, an increase of 85%, made up of a 75% increase in the Resource Gap (from \$2.1 billion to \$3.7) and a 90% increase in net factor income payments (from \$3.1 billion to \$5.9). In other words, the collective judgments of the country economic reports, when put into a standard quantitative form, imply that a \$1 increase in the real transfer of resources to the developing countries will be accompanied by an increase in net factor income payments by those countries of \$1.20.

11. The right hand side of Table 2 shows first the Net Capital Inflow, defined as long term capital from official and private sources, then short term capital movements (including "errors and omissions") and changes in reserves. For the past period the Net Capital Inflow, at \$6.0 billion, exceeded the Current Account deficit to the extent that there was a net outflow from the developing countries on short term of \$0.5 billion, whilst reserves increased \$0.4 billion. For the projection the net capital inflow is estimated to increase to \$10.6 billion, still in excess of the projected current account deficit, because the anticipated movements in short term flows and reserves will be in the same direction; a short term net outflow of \$400 million is projected, while reserves are projected to increase by \$550 million. The former would be slightly smaller in absolute terms than for the past, but much smaller relatively to total capital flows (equivalent to 3% of the net

capital inflow, as compared with 8% in 1960-64). The net increase in exchange reserves projected should be viewed as one of the uses made of available foreign exchange, including the net capital inflow, and it reflects policy prescriptions made in country reports.

12. The picture shown in Table 2 can best be summed up in terms of the changes forecast between the two periods:

(All Countries)

	Increase in $ billions	% Increase
Net Capital Inflow	+ 4.5	75
Current Account deficit	+ 4.4	85
Resource Gap	+ 1.6	77

It is not the intention of this paper to discuss the country results in detail, but it should be noted that the totals (especially the totals for the specified countries) are heavily influenced by the relatively large inflows projected for certain countries where more than $100 million per annum is involved. Two countries, in particular, India and Pakistan, accounted for $1.4 billion of the $4.6 billion net capital inflow for the specified countries in 1960-64. In the projections this would increase to $2.5 billion,[1/] out of a total of $8.0 billion.

13. The remaining Tables 3-6 provide more detail on the item shown in Table 2 as Net Capital Inflow. They show the breakdown between public (or "official") and private flows and also give information on gross and net official flows. Given the focus of the Bank's interests and operations, Tables 3 and 4 are possibly of greatest interest and make the most use of its special expertise. Table 5, covering the net inflow of private capital into the developing countries, is possibly less firmly based statistically,

1/ These figures are very conservative estimates, particularly the figure for India. See Annex I and the discussion below of the "financial constraint" bias.

but it does reflect the collective judgment of the country economic reports as to the likely order of magnitude of a large item that is often less predictable than official capital flows and very sensitive to questions of confidence.

14. Since it is presumed that official capital flows are, to some extent, under the policy guidance and control of international organizations and the governments of both developed and developing countries, it is better to look at private capital flows first. The official capital flows have often then been considered partly as a residual requirement to supplement the flow of capital available to the country from private sources. It is recognized that this is only part of the story, however, for official capital may still be desirable as a supplement for domestic financing in cases where, on overall balance of payments grounds, there is apparently no need for it. This arises in countries where there may be a Resource Surplus, whether or not accompanied by a surplus on current account.

15. Table 5 shows that the net inflow of foreign private capital has been estimated at $1.3 billion per year for 1960-64, for all countries, or slightly more than 20% of the total net annual average capital inflow for the period. It is projected to double that amount in 1966-70, which would represent a major change in world capital flows, rising in relative importance to 27% of the total. Most of this increase would be concentrated in the specified countries and, within that group, four countries - Greece, Spain, Mexico and Venezuela - would account for $730 million, 60% of the total for the specified countries and 47% of the total for All Countries. This high degree of concentration illustrates the fact that such private capital flows are most important in countries with a tradition of absorbing such capital and with a well-developed absorptive capacity. The future inflow, however,

is necessarily a function of the continuance of a favorable investment climate, or of prospects of improvement in the recipient country's performance. When projections are made of this order of magnitude, therefore, it implies that an optimistic, but realistic, view is being taken both of absorptive capacity and of the future performance of the economy, in all its aspects.

16. Tables 3 and 4 cover the figures for the net inflow of foreign official capital, with some detail as to amortization, where it is available. The information shown in Table 3 can be summarized in the following way:

Projected Official Net Capital Inflow, Specified Countries, Annual Averages, 1966-70

Area	U.S.$ billions	% of Total	% Increase over 1960-64
Africa	1.0	18	+110
Asia	3.0	51	+ 78
Europe & Middle East	0.8	14	+ 5
Western Hemisphere	1.0	17	+ 50
Total	5.8	100	+ 62

The total figure shown here is for the specified countries; with an estimated adjustment to include others not in the sample group the total for all countries comes to $7.7 billion, as compared with $4.7 billion in 1960-64.

17. With the exception of developing countries in Europe and the Middle East, where the future inflow may not be very different from that of the recent past, the future capital inflows are expected to be shared between the regions in roughly the same proportions in the future. Asian countries, which received an average of $1.7 billion, are projected to absorb roughly $3.0 billion over the next few years. India looms large within this total, with a projected net official inflow of $1.6 billion p.a., as compared with an average of $0.9 billion p.a. in the earlier period.[1/] Other major recipients

1/ If India were to receive the same per capita aid as Pakistan, the total net capital inflow would be as high as $3.2 billion p.a.

in Asia would be Pakistan ($0.8 billion p.a.), Malaysia ($0.1 billion p.a.) and Iran ($0.2 billion p.a.). It has been assumed that some countries may not be able to absorb much more capital in the near future. Indonesia is one such case (although this may change radically) and others are Vietnam and Laos. The net inflow into Taiwan is expected to taper off.

18. In Africa the three biggest possible recipients listed are Algeria ($0.4 billion p.a.), Nigeria, subject to the solution of the constitutional problems ($0.2 billion p.a.), and Morocco ($0.1 billion p.a.). In addition, there are a number of smaller countries who may each absorb a relatively small amount of capital, which will add up to in total $1.0 billion p.a., a figure appreciably higher than past flows.

19. For Latin America six countries account for three quarters of the total projected for the area: Brazil ($0.1 billion), Chile ($0.1 billion), Colombia, Venezuela and Mexico ($0.2 billion each) and Peru ($0.1 billion). However, for Argentina, Brazil and Mexico the flows projected are lower than they have been in the past.

20. Table 4 shows figures for the payment of amortization on official loans. (It should be noted that the figures cover only the sample countries.) Figures for the past can be based firmly upon actual records and show that such payments were already a substantial sum, in relation to the flows of trade and capital. Projections for the future must be based on assumptions about disbursements, terms and grace periods, etc; those given here are based on different assumptions for individual countries, depending upon the amount and structure of present debt obligations and the sustainable repayment schedule for future credits, as suggested in Bank reports. The latter vary from about 20 years' duration, with 2 to 3 years of grace to 50 years'

duration and up to 10 years' grace period. For the sample countries the actual figure of amortization on official loans is put at $1.6 billion average p.a. for 1960-64 and projected to increase to $2.7 billion - an increase of 91% - for the period 1966-70. Most of this increase would be the result of debt incurred prior to 1966, since loans made within the period, given an average grace period of 2 to 3 years, have little effect upon amortization payments until after 1970.

The Source of the Estimates

21. The figures given above are derived from reports prepared in the course of normal Bank operations, when a review of economic developments in member countries is normally carried out every 12 to 18 months. Some fifty countries are covered each year and three types of economic reports are undertaken for this purpose. The first is a detailed study described as a "study in depth". This is characterized by an investigation of the main sectors and aims to give a comprehensive picture of the structure of the economy and its historical pattern of development. The second type is focused on a country's development program or plan, including an appraisal of the policies which are being followed. It is less comprehensive than the first kind of report because it does not normally include detailed sectorial studies. Finally, there are briefer reports which aim to up-date the information available in the Bank on the economy of a member country in between the times when it is felt necessary to mount a more elaborate mission. All these reports have in common an analysis of the actual situation of the country as far as the public sector, fiscal situation and external economic relations are concerned; they differ mainly in their functions and the amount of detail covered.

22. Over the years there has been a steady development in the scope of country economic reports. Formerly they were designed mainly to give the

basis for decisions as to a country's creditworthiness for Bank lending. This creditworthiness was a relatively narrow concept related mainly to the likely ability of the country to be able to service the loans made to it. The scope of a country report has now widened considerably so that the question of Bank operations in a member country is considered within a context which will include not only the possible direct role of Bank lending but also the place of all such assistance in the overall development prospects. Considerable attention, for example, is paid to an assessment of economic performance and official policies. This broadening of the scope has led, almost imperceptibly, to a situation in which a typical economic report will discuss a country's requirements for overseas capital, on both short and long term, and the role that such capital can play in domestic development. A general pattern has also emerged which places great stress on an analysis of the public sector and its financial and fiscal position, a similar analysis of the balance of payments and, to a lesser extent, the complementary developments in the monetary sector.

23. Although the topics covered recur in different reports, the analytical methods employed can vary. Some reports, for example, will quantify their conclusions and their projections in the form of detailed forecasts. In other cases no such quantitative projections are made or, at the least, are not made for all sectors. Some missions make quantitative projections by sectors and great care is taken to insure that such projections are consistent with each other. It has not been the general practice for Bank economic reports to employ econometric models, although a number of reports have made use of model frameworks in order to achieve the above mentioned consistency. On the whole, however, reports are more literary than quantitative documents whose greatest strength lies in the judgment that missions can bring to bear

on a country's development problem. Such judgments encompass attempts to measure the absorptive capacity of a country; although no formal attempt has been made to define this concept, its many facets, political, social and economic, are normally taken into account.

24. The typical Bank report focuses mainly on possible developments during a period of up to five years ahead. Those developments will often be determined largely by events that have already taken place and increases in income will be largely the result of past investment decisions. Investment expenditures made during the period, therefore, may have little impact upon output during that period. It follows that an analysis which relies heavily upon a link between investment and increases in output may be of limited value for the short run appraisals which form the bulk of the country economic work. When the perspective shifts beyond a period four to five years ahead there is a much greater expectation that structural changes will take place in developing countries. This provides a further source of uncertainty for any form of analysis and there is a clear need to incorporate the possible effects of those structural changes that can be foreseen.

25. It can be argued that the relatively short viewpoint taken in the average report is one of the reasons why it is possible to make reasonable projections at all. Since, as stated above, the pattern of main developments in the economy is largely determined for some years ahead by decisions already taken, or known, the implications of those developments can be analyzed with some confidence. The basic structure of the economy is not likely to change sharply over such a period and the availability and quality of the factors of production will also be relatively stable. Where significant structural changes are likely, such as the coming into operation of a major steel plant, or the completion of a large dam, it will usually be possible to estimate the effects on the economy.

26. In the course of the country reviews forecasts and projections are often made of the trends expected in the main sectors of the economy, in public revenues and expenditures and in imports, exports and the balance of payments. These projections form the basic material from which the capital inflow estimates in this paper have been assembled; they will normally include some direct estimates of investment possibilities and plans, often on a project by project, or a sector by sector basis. They take into account not only "needs" in the narrow sense of the word, but also the way in which the possibilities are dependent upon a constellation of policies bearing on the efficiency with which the economy is managed and resources employed.

27. In these circumstances the estimates that emerge from such appraisals take into account what can actually be invested in an effective way. Such estimates must rest on the past ability of the country to prepare and bring forward economically justifiable projects; they must also take into account the financial resources available to the country for that part of the costs which will not be covered by a capital inflow from abroad. That capital inflow is then regarded as the missing element required to permit a higher level of investment than would be possible, given all the domestic factor availabilities, the local infrastructure and the possibilities opened up by the policies and level of performance of the government and the economy. This level of investment is necessarily more effective and will usually be larger than can be achieved by the country on the basis of its own resources, otherwise there is no case for a capital inflow from abroad at all.

28. Although Bank economic reports are perforce not homogeneous they have, of necessity, one element in common, which is that they are all concerned with countries which need additional real resources from abroad to be able to develop faster than is possible solely on the basis of their own

resources. The limitations which such economies face are basically of three kinds. The first is that imposed by the absorptive capacity of the economy; this covers all the ways in which the ability to plan and execute development projects, to change the structure of the economy and to reallocate resources is circumscribed by the supply of crucial factors, by institutional problems, or by unsuitable organization. The second kind of constraint is that imposed by the inability to generate sufficient domestic savings. The third is set by the supply of foreign exchange available to the country from exports and donations; this supply may be insufficient to cover current import needs, repayment of debt, etc., and the goods and services required for development purposes.

29. In any particular case elements of all three may be present. In order to illustrate the constraints that were regarded as significant in different countries by the country missions, notes have been prepared for twenty-nine countries and these are summarized in Annex I. It will be seen that a wide variety of considerations are taken into account, which are not always explicitly resolved into the basic limitations on development listed above. In addition there are some cases where an a priori condition is imposed on the analysis which may render one or more of the constraints redundant. It may often be assumed that the amount of external capital available to a country is limited by factors not connected with any of the internal characteristics of the economy. This condition imposes a financial constraint and choices have to be made within this limitation as to what projects should be carried out. The results are often put in the form of an "agreed financing plan" which adjusts priorities to both the external and internal resources likely to be available.

30. The aim has usually been to work towards a financing plan which will be acceptable to the country and to the major suppliers of foreign funds. In terms of international financial diplomacy this approach offers considerable advantages because countries and institutions are more willing to discuss aid within the context of such a financing plan. Hence the Bank has used this type of analysis where it has organized a Consultative Group or a Consortium for a country. It can also be argued in its favor that such an agreed financing program may make it easier to obtain finance for a particular project, or set of projects, compared with a situation in which such investments are put forward as simply undifferentiated claimants amongst a whole spectrum of possible demands for foreign capital.

31. The primary focus of a Bank report is normally on the public sector and the most detailed information available is usually for the public investment program. However, this cannot be considered in isolation from the situation in the private sector. In some cases an equally full appraisal will be made of the possibilities and needs in that sector, usually where a mission undertaking a study in depth has the resources to investigate the industrial or financial sectors in detail. It will also be done in cases where the Bank has been, or is likely to be involved in the financing of development banks or where IFC is engaged in financing operations in private industry. Generally speaking, however, Bank reports limit themselves to considerations of the interrelationships between public and private sector plans, an assessment of the possible private inflow from abroad (in aggregate terms) and judgments on the level of ability and confidence of the private sector. These latter have a considerable bearing on the overall judgments made as to the general outlook for the economy and its absorptive capacity.

The Methodology

32. The methodology employed to obtain the estimates from the country economic reports makes use of the logic of National Income Accounting and uses the following concepts.

Investment and Savings

1. Gross Investment
2. Gross Domestic Savings
3. Savings Gap = (1.-2.)
4. Gross Domestic Product

A similar table is prepared for the Balance of Payments items:

Balance of Payments

1. Exports of Goods and Services
2. Imports of Goods and Services
3. Balance of Goods and Services (1.-2.)
4. Current Transfers, net
5. Resource Gap, (or Surplus) (3.+4.)
6. Factor Income Payments, net
7. Current Account Deficit, or Surplus (5.+6.)
8. Private long term capital inflow, net
9. Public long term capital inflow, net
10. Use of Reserves
11. Residual Items, net (mainly short term capital movements, including IMF drawings, errors and omissions).

These concepts are those that have been found to be most convenient for the purpose of producing figures in a standard form. (The choice of a particular concept is not intended to imply that it is necessarily superior for analytical purposes to other alternative concepts.) The items are completed for the period 1960-66 using actual figures, or the latest estimates. In addition, projections are made for the years 1966-70 on the basis of the most recent Bank assessment of the economy. For the past it is usually possible to complete both the savings and investment and the balance of payments statement in a consistent manner. Such consistency, within the framework of the National Accounting system, requires that the Resource Gap be equal to the Savings Gap. In the case of projections, however, it is rarely possible to complete both approaches in a way that gives complete consistency between the internal savings/investment relationship and the external balance of payments. Without underestimating the difficulties of either kind of projection, it has been found easier to project the main balance of payments entries. The basic difficulty of the savings approach is the paucity of data on savings and its constituents in developing countries. Such estimates are rare and often unreliable; the historical data reflects this difficulty, in that the savings estimate is frequently calculated as the residual item. The danger with such indirect estimates is that they necessarily become the repository of all the errors of measurement that enter into the other items in the National Accounts that are estimated directly.

33. The principal aim of the capital inflow estimates is to concentrate attention on the contribution to be made by capital from abroad in supplementing the development expenditures that can be carried out with domestic resources. This contribution is measured by the Resource Gap. The figures are required on a net basis, although the contribution to be made from abroad cannot be isolated unless the gross figures are also taken into account, so that it is necessary to consider all items of the current and capital account of the balance of payments and make projections within which the net inflow can be assessed. Before such projections can be made, however, a number of problems of measurement and methodology must be handled, not all of which have yet been disposed of in a satisfactory way. These are the problems of projecting exports and imports of goods and services, current transfers, factor income payments, short and long term private capital movements and reserve requirements.

Exports of goods and services

34. Present practice within the Bank permits this item to be estimated and projected in two separate ways; for each country estimates and projections

form part of the economic report. To the extent to which such estimates can be aggregated it is possible to sum up the individual country estimates and obtain a total for the sample countries. In addition, figures are prepared in the Bank for the developing countries as a group, summing the past statistics for the historical series and making projections for the future on the basis of world market conditions for particular commodities.

35. In the process of preparing economic reports there is an interaction between the various missions and the work concerned with studies and projections for particular commodities. The result is that the country reports take into account all possible developments in the markets concerned which will affect the relative position of that country. This means that both the world market for the products concerned and the market share of that particular country will be reviewed. In addition, it is also necessary to make assumptions about the policies that will be followed by the exporting country, since they will have an influence on the value of exports additional to those influences originating in world market conditions. However, a country mission has to work within the limits of its own terms of reference and of its own possible sources of knowledge; in the last resort it has to make certain ceteris paribus assumptions. In particular, when making assumptions about world market conditions, shares of the market and national policies, a mission must either assume that the policies of all the other countries concerned (producers and consumers) are given, or that those policies will change in certain predictable ways in response to the actions of the country under study. The possibility still exists, however, that the sum of the projections made by aggregating the results of country reports will differ from the results obtained by making projections on a world basis. Tests made to compare the figures obtained by the two different routes show that such differences exist, although

they are within the order of magnitude that could be expected from errors of measurement and estimation. It would be possible to impose a reconciliation on the two estimates by an iterative procedure which would bring together the projections of the estimated world market for a particular commodity and an allocation of market shares between exporting countries.[1/] Such a procedure has not been followed within the Bank; if it were to be adopted it would require the continuous readjustment of the results of a large number of economic missions as conditions changed and as economic reports are completed. Since reports for all countries are not prepared or reviewed at the same time such a procedure would not be consistent with the present methods for carrying out country economic work. In fact, a reconciliation imposed in this way would be alien to the basic philosophy which lies behind the present country economic work.

36. The reason for this is to be found in the assumption that has to be made in order to produce a consistent solution in the form of an agreed projection of world trade and an agreed allocation of market shares; the assumption is that each country will set its own policies so as to achieve precisely the right market share, regardless of the actions of other exporters.[2/] The principle (and practice) of country economic analysis in the Bank is based on the premise that policies cannot be taken for granted,

1/ Such a reconciliation would have to take into account all the countries contributing exports to world markets and not simply those for which economic reports were being prepared.

2/ When stated in this way it is obvious that such reconciliations can never be unique solutions, but are dependent upon such assumptions about policy behavior.

since countries are free to vary them and are frequently recommended to do so. To the extent, therefore, that exports are amenable to policy manipulation it is not realistic to make reconciliations between projections in country reports and projections for the world market by imposing iterative changes. To do so would involve a change in the whole concept of country economic analysis as presently practiced; essentially this is based on a "partial" country-by-country approach, not a "general" level of analysis.

37. The upshot of this discussion is that it may not be possible, even in principle, at the present stage of the country economic work, to reconcile fully estimates prepared on a country-by-country basis with figures for exports of the lesser developed countries as a whole prepared on an aggregate basis. This would be true even if fully comparable economic reports were available for all countries (and not merely for a sample, as in the case of the present estimates). The basic reason is that any individual country estimate must make assumptions, explicit or implicit, about the policies to be followed by the country and by all other countries concerned. The reactions of these other countries, however, to the policies followed in the country concerned cannot be forecast with any certainty. Since the actual outcome will depend partly on these unknown reactions the problem becomes one to which there is no determinate solution.

Imports of Goods and Services

38. At the present time projections of imports are prepared within the Bank only on a country-by-country basis. The problem here is that the total imports of a commodity implied in the aggregation of country-by-country estimates may exceed the supplies likely to be available at the prices assumed in the projections. (In this case assumptions have to be made not only about national policies impinging on the supply of imports, but also about the

actions of individual suppliers in particular markets.) With a few exceptions, however, the total imports of most products into the developing countries forms a relatively small part of total world trade in those items, so the above is not likely to be a practical problem. In addition, it has not been customary to consider imports in the same degree of disaggregation that has been applied to exports. Instead of a commodity-by-commodity approach imports are grouped into broad categories, where possible, or, in some cases it may be possible to consider only total imports.

39. When projecting imports some concept of "requirements" is usually employed, linked either to a level of output, or to a rate of growth of output. Such projections are built up from an analysis of trends and likely developments in investment, consumption and exports, often with particular emphasis on the import content of specific projects for which independent information may be available. In a few cases imports have been projected as the residual item of a balance of payments projection, usually with some check as to the consistency of the result with past trends and with what is known of possible developments in the main sectors of the economy.

Invisible Items

40. The methodology used in the Bank for capital inflow estimates does not distinguish between exports of goods and services. Some mention of invisible exports and imports is required, however, in view of its importance to developing countries. The question of the treatment of these items is not one that can be generalized about easily. The methods of projection used in country economic reports vary as between countries, and for most countries invisible trade is not large, on a net basis, compared with the more important visible items. Only in those cases where tourism is important is it likely to be a significant factor in the balance of trade. Freight

and insurance charges are also important in that the balance of such expenditures tends to be passive for the developing countries because such services are supplied largely by the developed countries.

Current Transfers and Factor Income Payments

41. Both these items present difficulties of measurement in the past and of projection into the future. The first is of major importance in only a few countries which have a large number of people working overseas and making remittances to the home country. Such remittances are notoriously difficult to measure with any accuracy; where transfers go to and from the public sector, as with government-to-government transfers and grants, the problem is often easier. The question of factor income payments to and from abroad is of much greater importance and is probably a major source of weakness in most balance of payments estimates. There are two elements to this item; the first is the payment of interest on official debt incurred either by official entities, or guaranteed officially so as to become a de facto part of official obligations. Historical information on this item is normally reasonably satisfactory and the Bank is the major source of comprehensive information on such debt. For projection purposes established techniques can also give good forecasts of interest payments to be paid on existing debt, while for new loans assumptions have to be made as to new commitments, terms, and grace periods. For short run projections over the next three to five years, however, such payments are not likely to be significant compared with interest on past borrowing. Standard assumptions as to terms, interest rates, etc. applicable to all countries would not be appropriate here. The country missions are in the best position to know the kind of terms likely to be available for that particular country. The important thing is that the assumptions as to terms must be made explicit.

42. It is the second element in factor income payments that is the more difficult to handle. This is interest payments on private debt and payments to the foreign owners of factors of production situated in the country, i.e., the payments overseas of profits and dividends earned in domestic production activities, less any incoming payments earned by the nationals of the country. Statistics on such remittances are generally not good, although the size of the item may well be relatively large in many lesser developed countries. Furthermore, the net total may change sharply from one year to the next and be difficult to predict.[1/] The extent to which country missions master this problem varies with the nature and size of the mission and the Bank's general background knowledge of the economy and of the plans and intentions of the private sector. To the extent that the latter depend upon a confidence factor the projection of such payments into the future does involve taking a position as to what the climate of confidence is likely to be as a result of the whole range of possible public policies, developments elsewhere in the economy and the relative position of the country in the world economy. It is clear that such projections can never be easy to make.

Private Capital Movements

43. Much the same considerations apply when dealing with private long and short term capital movements. The latter are particularly difficult to deal with because of their heterogeneity; they include many monetary items,

---

1/ A related problem is that of the reinvestment of profits; obviously such profits are not actually remitted overseas; for statistical purposes, however, it should be assumed that they flow out through the current account of the balance of payments as current payments, and flow in through the capital account as a new inflow of foreign private capital. There is also the practice, already referred to, of netting out factor income payments from export receipts so that both the value of exports and factor income payments are understated in the balance of payments.

movements of "hot money" and short term working capital requirements of national and foreign-owned firms.

44. Most Bank missions concentrate, of necessity, on the public sector and are able to appraise public investment and its possible sources of financing with some confidence. It is not always possible to enter into the possibilities for the private sector in the same way and, generally speaking, country economic reports do not contain material from which firm projections of investment in the private sector can be made. Similar uncertainty attaches to the projection of private capital inflows. Long term inflows can often be made with some confidence, especially where information is available about major developments in the private sector involving capital from abroad, or where past trends are sufficiently well based as to provide a guide as to the future. Short term movements, however, are often erratic in the past and unpredictable in the future, owing to their dependence upon questions of confidence, the performance of the economy and the whole constellation of economic and monetary policy. Short term flows recorded in the past (as well as the movements in the "errors and omissions" item) will also reflect capital flight that has taken place. Although it is known that such erratic movements of short term capital will take place in the future it is difficult to project them; indeed, it would be undesirable to project such movements, if it would imply an expectation, on the part of the Bank, that a country's policies and performance will be such as to lead to capital flight. It may also be necessary to take account of a more normal "reverse flow" of capital from developing to more developed countries which is quite distinct from capital flight and less likely to vary from year to year. The projection of such flows will depend upon knowledge by the missions concerned of the likely reasons, sources and destinations of such capital movements.

Official Capital Movements

45. This item is open to two different definitions and some difficulties have been encountered in dealing with it in a consistent fashion. Such capital movements may be from official sources, such as other governments or international agencies, and be destined for the use of either official or private borrowers. Alternatively, they can be defined on the basis of the recipient, in which case even funds provided by private sources abroad may be classified as "official capital" according to destination. The figures given in this paper generally represent the inflow of capital from official sources, most of which is destined for the public sector. In some instances, however, finance from private sources to the public sector has been included because it is not yet possible to separate out the flows by source and destination. The historical data for official capital flows is available in some detail. For projection purposes assumptions have to be made as to the stage of preparation of projects, likely lenders, patterns of disbursement and terms of amortization. Where non-project aid is concerned, it will be necessary to have some idea of the intentions and plans of possible donors.

Movements in Reserves

46. The use of exchange reserves (including the facilities of the IMF) provides, in the short term, a source of foreign exchange; similarly, such reserves may be accumulated over a period either as the involuntary result of all the other changes in balance of payments items, or as a planned policy objective. Historical data on actual movements in reserves can usually be assembled by country missions, who may also be in a position to project some part of the movement of reserves in the future on the basis of information known to the country and to the IMF. There are clear and obvious limitations, however, to the projection of changes in reserves. Given fixed

such changes are the end result of all other external transactions, the final residual movements in the balance of payments. Some contractual items, such as the repurchases of IMF drawings, can be foreseen, but they are always on the repayment, or debit side. It is not possible to project the extent to which such drawings will be made in the future, especially as this would involve assumptions about the activities of another independent international agency. Frequently these difficulties are faced by making a projected change in reserves a policy recommendation or requirement; the missions'judgment is that reserves should change in the direction indicated.

47. Underlying any consideration of balance of payments items is the question of a country's exchange rate. The projection of such items necessarily implies a view as to the exchange rate that will obtain in the future. A country's exchange rate system is the primary responsibility of the IMF and Bank missions pay close attention to its views on the subject. Where it is known that changes are contemplated or likely they are incorporated into the projections; in other cases it is clearly impossible to do more than assume that the exchange rate will remain unchanged during the period under review.

The Possibility of Biases

48. The above discussion is aimed at highlighting the problems that arise when attempting to derive estimates of capital inflow from country economic reports. It will be seen that the difficulties are of two kinds; there are those inherent in the methods used to produce country economic reports, and, secondly, there are those of a statistical nature arising out of the problems of estimation and projection for certain key aggregates whose values are large enough to make a significant difference to the net and gross inflows that are the object of the exercise.

49. The heterogeneity of the country economic reports raises some problems, but the underlying unity of approach behind such reports is such as to make these problems less serious than might appear at first sight. It is the absence of a standardization of method which gives rise to statistical difficulties; these differences of method are inevitable because of the very big differences that exist between countries in the quantity and quality of the statistics available; in other cases the differences can be traced to operational requirements. At least some of the variety of treatment, however, derives from differences of style and approach between area departments, rather than from basic differences between the countries under study.

50. The effects of these differences of approach on the total assembled in this paper cannot be assessed easily. Something can be said, in general, about three possible "biases" which originate from the second source of difficulties, which are statistical in origin. Almost all Bank missions spend less time and are less able to appraise likely developments in the private sector, than in the public sector. Since what cannot, or has not been measured is likely to be treated as less important and hence underestimated in the total, this suggests that the capital requirements of the private sector may be rated on the conservative side in the totals. Secondly, within the public sector the attention given to social investments - housing, public health and education - is generally much less than that given to the sectors such as transportation and power with which the Bank is more familiar. It is likely, therefore, that the investment needs of these sectors have also been underestimated.

51. A third possible downward bias arises from the financial constraint implied when a mission follows the technique of working out an "agreed financing plan" which considers only those projects which can be financed with

domestic and foreign resources thought to be obtainable, rather than the whole range of worthwhile expenditures which could be considered if that restriction did not apply. This will also impart a downward, conservative bias to the figures given here.

52. The probable net effect of the "biases" listed above is almost certainly that the capital inflow estimates are underestimated, rather than overestimated. This is a bias towards realism that is probably more acceptable in country economic analysis than any other. It probably contributes to the greater acceptability of Bank estimates of capital inflows, compared with those produced by other organizations. It should be stressed, however, that there is no such thing as a "correct" projection of future capital inflows. The projections given in this paper are conditional forecasts based on assumptions made by country missions as to the policies that countries will, or should follow. Given the importance of these policy assumptions, the question of biases in the figures becomes a less important problem. In addition, it is an unfortunate truth at the present time that even the Bank's conservative estimates of the amount of capital that the developing countries could usefully employ in the near future is much larger than the amount of such capital likely to be available to them.

Other Estimates of Capital Requirements

53. A number of authors and institutions have been engaged in the preparation of capital requirements estimates and it is useful to compare the approaches used with that described in this paper as now being followed within the Bank.[1/] Before reviewing these studies briefly it should be stressed

1/ For ease of reference the various studies referred to are listed by title in Annex II, where they are numbered and the numbers used as references in the text. The study by Adams (1) provides a comparative analysis of the theoretical backgrounds to the estimates.

that the principal difference between them and the approach used within the Bank is that they are all concerned with the "requirements" aspect of capital inflows. A target is specified and the capital needed to reach that target is then estimated. As has been stated above, no such target is used to arrive at the Bank's figures; they represent, instead the amount of capital which might be used in an effective way in the future, provided that a certain level of economic performance is achieved and suitable policies are followed by the governments concerned.

54. One of the first of these estimates was made in a report prepared by a group of experts for the U.N. (2), meeting under the Chairmanship of Arthur Lewis, in 1949. The figure produced in this Report was $12 billion, defined as the net additional foreign resources required to permit the developing countries to reach a target growth rate of 2.5% p.a. The figure was reached by way of an analysis of the capital that would be needed to bring about a continuous transfer of labor from the agricultural sectors of the economy to industrial employment; since the investment per capita required in the industrial sector was considered to be a very high figure per head, a relatively large capital requirement estimate was obtained.

55. The latest U.N. estimate, however, emanated from work carried out by the Secretariat and first presented in 1962; this was subsequently published in 1964 (3). It was these estimates which were submitted to UNCTAD in 1963 and which form the basis for the detailed work which has been done by the UNCTAD Secretariat since that date and which is still continuing. The essence of this approach is a "trade gap" model making use of derived relationships between rates of growth of GDP, exports, imports and investment. The model is used to project the import requirements considered necessary to achieve certain target rates of growth; these are then compared with other

projections for exports and the difference emerges as a "trade gap" which measures the capital inflow required. An alternative approach, discussed in (3) is to project independently savings and investment. The investment required to obtain the target rate of growth of income is then compared with the savings projections and the difference is seen as a "savings gap" which will have to be filled by capital from abroad.1/ The results obtained are summarized in the following table:

Developing Countries - Trade Gap and Savings Gap Estimates
(U.S.$ billions, 1960 prices and exchange rates)

	1960 (Actual)	1970*	1975*
Savings Gap	5	16	20
Trade Gap	5	20	30

* Assumed rates of growth of 5% for 1960-70 and 5.5% for 1970-75.

Source: (3) pages 67 and 68, as revised in (9), page 21.

The fact that the Trade Gap is larger than the Savings Gap is taken as prima facie evidence that a shortage of foreign exchange is more likely to be the main constraint on the growth of the developing countries than a shortage of savings. The $20 billion shown as the Trade Gap for 1970 is the long term capital inflow required; this has to be compared with the figure of $5 billion for 1960 to give an additional requirement of $15 billion. In a more recent paper (9) the U.N. has reworked these estimates and made substantial changes

1/ The independent derivation of these two "gaps" has become known as "the two gap approach"; the logic of national accounting states that these two gaps are always equal, since they are alternative ways of measuring the same thing. This logic shows up in the historical data, but there is nothing in the models employed by the U.N. to require that independent projections of the two gaps be equal. Where they diverge, as in the U.N. and other estimates, this signifies either that the past relationships on which the projections are based cannot all be continued into the future, or that the target rate of growth specified for GDP is not consistent with the other relationships of the model.

in the gap estimates as a result. The concern of this study, however, was not to produce new figures for the gaps, but to focus attention on the sensitivity of all such estimates to changes and revisions in the data used. This was done by bringing the earlier 1964 study up to date by the addition of figures for later years that have become available and also, where possible, the use of revised data. The gap estimates on this new basis are as follows:

(U.S.$ billions, 1960 prices and exchange rates)

	1970*	1975*
Savings Gap	12	13
Trade Gap	10	13

* Assumed rate of growth of 5% for 1960-70 and 5.5% for 1970-75.

Source: (9), page 21.

56. The second major source of capital requirements estimates in recent years has come from the work of Messrs. H.B. Chenery and A. M. Strout, carried out for the U.S. Agency for International Development (4). /Reference should also be made to (5) and (6)/. The importance of these studies lies as much in the considerable influence they have had on the thinking in this field as in the figures that were derived from the exercise. The innovation was to move from the "two gap approach" to incorporate a third constraint. This third constraint, or "gap", is viewed as some way of approximating to a measure of absorptive capacity, a measure that is also seen as being closely linked to the performance of the economy. The availability of foreign assistance is then regarded as a means of overcoming the particular constraint that is applicable at any stage of a country's development; the value of such assistance will vary with the country's own ability to use it effectively. The aim of the AID analysis is to show how much foreign assistance would be required to assist countries to attain certain target rates of growth,

given varying assumptions about economic performance (which would be reflected quantitatively in savings behavior and absorptive capacity) and the factors determining exports.

57. The other interesting feature of the study is its extensive coverage on a country basis, since the model was applied to fifty developing countries and totals were then obtained for a wide spectrum of different assumptions. This makes it difficult to summarize the results, and this is best done in the authors' own words:

> "To compare our results to other estimates, we can state them in terms of the net capital inflow in 1970 and the implied increase in external assistance between 1962 and 1970. Omitting the less likely combinations of assumptions, the indicated range of capital requirements in 1970 is from $10-17 billion, corresponding to the rate of growth of external capital of 3 per cent to 10 per cent from its $7.4 billion value in 1962. This range compares to the U.N. estimate for 1970 of $20 billion and to Balassa's range of $9-12 billion.1/ Our estimates have the advantage of making explicit assumptions as to country performance and of showing how the total depends upon them."
> (American Economic Review, September 1966, pages 721-722)

58. Apart from estimates originating in institutions there are a number of studies made by individuals; two of these are mentioned here because they have both had some influence on international discussions of capital requirements. In 1961 Professor Rosenstein-Rodan made projections of "capital inflow requirements of underdeveloped countries" /pages 117,8 (8)7 given rates of growth which he judged to be possible on the basis of each country's absorptive capacity. His approach incorporated several original features which make it difficult to compare the results obtained with those from other sources. The definition of "aid", in particular and hence of capital inflow is such as to make it difficult to compare the results obtained with those

---

1/ This refers to (7), which is discussed below.

of other studies and of the Bank. The importance of the work is that it was one of the first comprehensive exercises to make use of a "savings gap" model and apply it consistently to all underdeveloped countries.

59. The other important study made by an individual is that published in 1964 by Professor Bela Balassa (7). This work follows a different approach from the other studies reviewed above. The estimates are based on a detailed balance of payments projection. This was not obtained within the framework of a model but came from an examination of "prospective trends in the exports and imports of developing countries, as well as future changes in the so-called invisibles.." /(7), page 11_7. The capital requirements, measured as a current account deficit for the developing countries as a whole, are given as $9.4 billion in 1970 and $11.3 billion in 1975 (at current prices). The deficit for 1960 is put at $4.6 billion, so that the <u>additional</u> inflow projected for 1970 is $4.8 billion.

These estimates, and others which are less authoritative, do not come to the same conclusions as those produced by the Bank, nor is there any reason why they should do so, given the differences in approach and methodology. The Bank is constantly involved in discussions concerning aid flows at which estimates of this kind are employed; it is important that the Bank be in a position to appraise the value of estimates prepared elsewhere and be in a position to justify its own figures. The object of the present paper is to provide the necessary background to an understanding of the Bank's estimates and permit a comparison with figures from other sources.

Economics Department

Table 1: BASIC ECONOMIC PARAMETERS FOR SAMPLE COUNTRIES

Area/Country	Annual Rate of Growth (percent): GDP 1/ 1960/64	GDP 1/ 1966/70	GDP 1/ Difference	Exports 2/ 1960/64	Exports 2/ 1966/70	Exports 2/ Difference	Imports 2/ 1960/64	Imports 2/ 1966/70	Imports 2/ Difference	Consumption 3/ 1964/70	Investment 1964/70	Domestic 4/ Saving Rate (percent) 1964	Domestic 4/ Saving Rate (percent) 1970	Marginal 5/ Saving Rate (percent) 1964/70	Incremental 6/ Capital/Output Ratio 1964/70
AFRICA:															
Algeria	-3.2	8.0	+11.2	1.7	10.8	+9.1	2.7	7.4	+4.7	4.8	10.4	20	18	14	2.3
Cameroon	5.0	5.2	+0.2	9.0	3.6	-5.4	13.6	6.4	-7.2	3.2	9.4	11	9	5	2.3
East Africa	4.0	4.5	+0.5	8.1	2.4	-5.7	4.7	5.2	+0.5	2.4	8.4	15	13	5	2.9
Ethiopia	3.9	4.2	+0.3	11.3	4.4	-6.9	11.5	3.9	-7.6	2.8	6.2	9	7	4	2.2
Liberia	10.9	6.6	-4.3	9.9	6.6	-3.3	13.6	2.6	-11.0	5.1	0.8	27	30	32	2.8
Malagasy Republic	3.3	4.5	+1.2	10.2	1.9	-8.3	10.3	3.6	-6.7	1.8	8.5	12	13	14	2.9
Morocco	3.5	5.0	+1.5	4.4	6.0	+1.6	4.0	7.2	+3.2	1.0	8.9	9	13	23	2.6
Nigeria	4.6	6.2	+1.6	7.4	6.2	-1.2	4.3	4.3	0.0	3.3	8.5	12	16	28	2.5
Senegal	2.9	4.5	+1.6	-3.2	3.7	+6.9	-0.1	3.8	+3.9	1.8	7.7	6	7	11	2.4
Sudan	3.9	5.6	+1.7	1.5	4.2	+2.7	-1.4	7.2	+8.6	2.1	9.9	6	9	16	2.1
Tunisia	7.0	5.1	-1.9	0.5	12.1	+11.6	5.3	5.1	-0.2	0.6	5.2	10	20	49	5.0
Sub-total 7/8/	2.9	5.8	+2.9	4.7	6.3	+1.6	4.3	5.7	+1.4	2.8	8.5	12	14	19	2.6
ASIA:															
Ceylon	3.4	4.5	+1.1	-0.9	2.1	+3.0	-1.4	-1.1	+0.3	1.0	7.6	11	13	23	3.4
India	5.3	8.7	+3.4	5.6	. 14/	. 14/	5.9	. 14/	. 14/	2.5	9.1	13	16	26	2.6
Iran	5.1	7.0	+1.9	5.9	10.0	+4.1	3.9	10.0	+6.1	4.0	9.9	22	26	29	2.2
Korea	5.4	6.0	+0.6	17.8	11.4	-6.4	2.9	7.8	+4.9	2.9	7.6	8	10	15	2.1
Malaysia	5.4	4.7	-0.7	-1.1	1.3	+2.4	4.8	2.9	-1.9	2.1	7.7	18	17	17	4.0
Pakistan	5.6	6.5	+0.9	7.3	8.8	+1.5	14.3	4.7	-9.6	2.4	8.9	12	16	26	2.9
Thailand	7.5	6.8	-0.7	10.8	3.1	-7.7	10.9	6.4	-4.5	3.3	8.3	21	22	22	3.4
Sub-total 7/9/	5.6	6.3	+0.7	4.2	6.3	+2.1	6.7	5.5	-1.2	2.8	8.7	15	18	24	2.8
EUROPE & MIDDLE EAST:															
Cyprus	1.3	7.0	+5.7	1.2	. 14/	. 14/	0.9	. 14/	. 14/	. 14/	. 14/	12	. 14/	. 14/	. 14/
Finland	6.2	5.0	-1.2	7.6	6.2	-1.4	9.2	. 14/	. 14/	. 14/	. 14/	28	. 14/	. 14/	. 14/
Greece	7.0	8.0	+1.0	12.3 11/	. 14/	. 14/	14.1 11/	. 14/	. 14/	6.4	10.2	19	21	26	3.0
Ireland	4.4	5.1	+0.7	10.4	12.2	+1.8	11.8	11.0	-0.8	3.8	7.0	16	20	32	4.8
Israel	10.0	5.4	-4.6	14.3	15.7	+1.4	14.1	10.8	-3.3	3.7	-0.4	25	20	7	4.5
Jordan	10.1	6.0	-4.1	21.5	16.2	-5.3	5.6	3.6	-2.0	1.2	4.9	-5	5	29	2.8
Spain	12.1	5.5	-6.6	12.2	11.0	-1.2	25.3	8.9	-16.4	5.0	6.7	24	24	25	4.1
Turkey	4.1	7.0	+2.9	6.5	0.6	-5.9	3.9	4.9	+1.0	3.2	10.8	12	16	23	2.2
UAR	6.5	7.2	+0.7	0.6	6.7	+6.1	6.1	4.5	-1.6	4.2	4.4	14	16	27	2.5
Yugoslavia	8.2	8.0	-0.2	14.9	10.5	-4.4	12.6	11.1	-1.5	7.7	2.6	41	35	23	4.7
Sub-total 7/10/	8.5	6.3	-2.2	10.0	10.3	+0.3	13.2	8.9	-4.3	4.4	5.5	22	22	24	3.6

Please see footnotes on page 2.

Area/Country	1960	1961	1962	1963	1964	total 1960/64	1965	1966
EUROPE & MIDDLE EAST								
Cyprus		-	-	-	+1.95	+1.95	-	+0.94
Finland	-	-	-	-	-	-	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-1.77	-0.96	-2.73	-	+21.19
Israel	-	-	-	-	+0.01	+0.01	-	-
Jordan	-	-	-	-	-0.30	-0.30	-	-
Spain	-	-50.00	-	-	-	-50.00	-	-
Turkey	-3.00	+10.50	+5.50	+4.00	+3.00	+20.00	-15.00	-
UAR	+25.22	-2.71	+57.40	+18.50	+13.00	+111.41	-13.50	-20.50
Yugoslavia	-	+67.50	-7.50	+22.10	-30.00	+52.10	+35.00	-2.50
Sub-total: Europe & Middle East	+22.22	+25.29	+55.40	+42.83	-13.30	+132.44	+6.50	-0.87
WESTERN HEMISPHERE								
Argentina	+48.50	+47.00	-9.00	+14.00	-42.00	+58.50	-44.00	-28.50
Brazil	+47.70	+40.00	-17.50	+4.50	-28.00	+46.70	+20.00	-39.48
Chile	-12.38	+59.35	-12.70	+40.00	+10.00	+84.27	-1.00	-14.80
Colombia	-14.98	+65.00	+7.50	+48.50	-12.50	+93.52	-24.00	+4.25
Ecuador	-	+14.00	-2.15	-3.27	-6.58	+2.00	+9.00	+6.20
El Salvador	+5.75	-3.25	-8.00	-	-	-5.50	-	+20.00
Guatemala	-	-	+5.00	-1.09	-3.90	+0.01	+5.00	+6.60
Honduras	+1.26	+1.25	+1.25	-	+2.50	+6.26	-2.50	-
Jamaica				-	-1.44	-1.44	-	-
Mexico	-	+45.00	-45.00	-	-	-	-	-
Panama	-	-	-	-	-	-	+2.69	-
Paraguay	+0.12	-1.64	-1.75	-0.49	-0.48	-4.24	-0.47	-
Peru	-	-	-	-	-	-	-	-
Trinidad & Tobago				-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-
Sub-total: Western Hemisphere	+75.97	+266.71	-82.35	+102.15	-82.40	+280.08	-35.28	-45.73
GRAND TOTAL	+82.77	+403.33	-31.56	+107.90	-101.10	+461.34	+188.26	+106.78

Table 2: **CURRENT ACCOUNT BALANCE AND EXTERNAL CAPITAL INFLOWS**
(US$ Million)

Annual Averages

Area/Country	Current Account Deficit=Resource Gap+Factor Income Payments(net)						Current Account Deficit Financed By:							
	Current Account Deficit 1/		Resources Gap 2/		Factor Income Payments (net) 3/		Net Capital Inflow 4/		Short-Term Capital Movements and Errors&Omissions 5/		Changes in Reserves 6/		Total (Cols.7, 9 & 11 and Cols.8, 10 & 12)	
	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
AFRICA:														
Algeria	72 9/	412	+8 9/	-174 10/	-80 9/	-238 10/	159 9/	442 10/	-92 9/	- 10/	+5 9/	-30 10/	72	412
Cameroon	5	44	+3	-33	-8	-11	7	37	+1	+8	-3	-1	5	44
East Africa	38	96	+1	-30	-39	-66	33	96	-	-	+5	-	38	96
Ethiopia	13	33	-7	-23	-6	-10	22	33	-3	-	-6	-	13	33
Liberia	59	12	-24	+32	-35	-44	42	28	+15	-16	+2 11/	-	59	12
Malagasy Republic	29	60	+8	-17	-37	-43	29	60	+2	-	-2	-	29	60
Morocco	57	64	-75	-39	+18	-25	58	106	-23	-22	+22	-20	57	64
Nigeria	172	269	-147	-60	-25	-209	115	269	+9	-	+48	-	172	269
Senegal	18	52	-10	-41	-8	-11	15	49	-	+8	+3	-5	18	52
Sudan	60	86	-56	-69	-4	-17	36	86	+10	-	+14	-	60	86
Tunisia	96	102	-89	-64	-7	-38	80	86	+4	+19	+12	-3	96	102
Sub-total 7/	620	1,230	-390	-520	-230	-710	590	1,290	-70	-	+100	-60	620	1,230
ASIA:														
Ceylon	43	88	-34	-75	-9	-13	19	87	+9	+3	+15	-2	43	88
India	935	1,702	-769	-1,332	-166	-370	931	1,702	-50	-	+54	-	935	1,702
Iran	+11	239	+331	+437	-320	-676	55	281	-30	-52	-36	+10	-11	239
Korea	238	245	-242	-224	+4	-21	223	255	+4	-	+11	-10	238	245
Malaysia	32	197	+38	-119	-70	-78	111	196	-54	+51	-25	+52	32	197
Pakistan	469	793	-454	-711	-15	-82	473	793	-4	-	-	-	469	793
Thailand	52	115	-48	-115	-4	-	92	119	+19	+8	-59	-12	52	115
Sub-total 7/	1,760	3,380	-1,180	-2,140	-580	-1,240	1,900	3,440	-100	-100	-40	+40	1,760	3,380
EUROPE & MIDDLE EAST:														
Cyprus	11	-	-4	+10 8/	-7	-10 8/	-5	-	+2	- 8/	+14	- 8/	11	-
Finland	77	100	-61	-80 8/	-16	-20 8/	74	100	+26	- 8/	-23	- 8/	77	100
Greece	115	321	-85	-271 8/	-30 8/	-50 8/	123	321	+6	- 8/	-14	- 8/	115	321
Ireland	37	99	-74	-121	+37	+22	56	99	-	-	-19	-	37	99
Israel	112	125	-65	-53	-47	-72	201	189	-12	-26	-77	-38	112	125
Jordan	75	56	-96	-90	+21	+34	79	79	+9	-	-13	-23	75	56
Spain	+102	350	+115	-266 8/	-13	-84 8/	186	400	-48	-	-240	-50	-102	350
Turkey	191	81	-155	-20	-36	-61	174	99	+30	-18	-13	-	191	81
UAR	186	174	-168	-131	-18	-43	131	174	+18	-	+37	-	186	174
Yugoslavia	158	+32	-135	+83	-23	-51	179	48	-12	-	-9	-80	158	-32
Sub-total 7/	860	1,280	-730	-940	-130	-340	1,200	1,510	+20	-40	-360	-190	860	1,280
WESTERN HEMISPHERE:														
Argentina	159	+30	-79	+179	-80	-149	214	3	-104	+5	+49	-38	159	-30
Brazil	204	110	-73	+66	-131	-176	217	275	-9	-14	-4	-151	204	110
Chile	192	135	-105	+53	-87	-188	140	177	10	-14	+42	-28	192	135
Colombia	119	212	-53	-105	-66	-107	83	217	12	-	+24	-5	119	212
Ecuador	9	55	+11	-26	-20	-29	13	43	-2	+2	-2	+10	9	55
El Salvador	12	52	-7	-43 12/	-5	-9	10	44	+3	-	-1	+8	12	52
Guatemala	27	24	-21	-23	-6	-1	18	23	+8	+1	+1	-	27	24
Honduras	3	11	-1	-9 13/	-2	-2 13/	4	15	-1	+2 13/	-	-6 14/	3	11
Jamaica	13	53	+23	-1	-36	-52	19	39	-	+13	-6	+1	13	53
Mexico	260	430	-44	+16	-216	-446	296	468	-10	-2	-26	-36	260	430
Panama	32	36	-19	-23	-13	-13	26	36	+4 15/	-	+2 15/	-	32	36
Paraguay	10	21	-8	-16	-2	-5	9	21	+1	+3	-	-3	10	21
Peru	24	169	+47	-62	-71	-107	37	157	+11	+5	-24	+7	24	169
Trinidad & Tobago	54	64	+13	+6 16/	-67	-70 16/	49 17/	64 16/	-2	- 16/	+7	- 16/	54	64
Venezuela	+417	39	+1,050	+815	-633	-854	-255	171	-137	-159	-25	+27	417	39
Sub-total 7/	700	1,380	+730	+830	-1,430	-2,210	880	1,760	-220	-170	+40	-210	700	1,380
ALL COUNTRIES														
Specified 7/	3,940	7,270	-1,570	-2,770	-2,370	-4,500	4,570	8,000	-370	-310	-260	-420	3,940	7,270
Unspecified 7/ 8/	1,260	2,330	-500	-930	-760	-1,400	1,460	2,550	-110	-90	-90	-130	1,260	2,330
TOTAL 7/	5,200	9,600	-2,070	-3,700	-3,130	-5,900	6,030	10,550	-480	-400	-350	-550	5,200	9,600

1/ Plus=current account surplus.
2/ Plus=resources surplus.
3/ Plus=net receipts.
4/ Net long-term capital inflow from official and private sources.
5/ [illegible] also accounts for residual capital transactions [illegible] and for adjustments due to rounding.
6/ Plus=decrease in reserves.
7/ Rounded figures.
8/ Estimate.

9/ 1963/65.
10/ 1967/70.
11/ 1961/65.
12/ 1966, 1968 and 1970.
13/ 1967/69.
14/ 1966/69.
15/ 1960/63.
16/ 1968.
17/ Net public capital inflow 1962/65.

Table 3: NET INFLOW OF FOREIGN OFFICIAL CAPITAL**
(US$ Million)

Area/Country	Annual Average Actual 1960/64	Annual Average Projected 1966/70	Change
AFRICA:			
Algeria	172 1/	381 2/	+209
Cameroon	7	37	+30
East Africa	74	78	+4
Ethiopia	12	21	+9
Liberia	7	2	-5
Malagasy Republic	24	43	+19
Morocco	60	102	+42
Nigeria	43	194	+151
Senegal	15	49	+34
Sudan	28	80	+52
Tunisia	60	64	+ 4
Sub-total*	500	1,050	(+550 (- 5
ASIA:			
Ceylon	19	87	+68
India	915	1,602	+687
Iran	11	171	+160
Korea	215	225	+10
Malaysia	33	118	+85
Pakistan	454	759	+305
Thailand	64	75	+11
Sub-total*	1,710	3,040	+1,330
EUROPE AND MIDDLE EAST:			
Cyprus	-5	0	+5
Finland	37	53	+16
Greece	56	121	+65
Ireland	1	22	+21
Israel	106	106	-
Jordan	76	74	-2
Spain	+9	100	+91
Turkey	145	78	-67
UAR	131	174	+43
Yugoslavia	179	48	-131
Sub-total*	740	780	(+240 (-200

1/ 1963/65.
2/ 1967/70
* Rounded figures.

Table 3: NET INFLOW OF FOREIGN OFFICIAL CAPITAL** (Cont.)
(US$ Million)

Area/Country	Annual Average: Actual 1960/64	Annual Average: Projected 1966/70	Change
WESTERN HEMISPHERE:			
Argentina	18	-59	-77
Brazil	171	130	-41
Chile	94	125	+31
Colombia	61	150	+89
Ecuador	6	32	+26
El Salvador	4	27	+23
Guatemala	9	15	+6
Honduras	5	14	+9
Jamaica	5	14	+9
Mexico	199	178	-21
Panama	8	10	+2
Paraguay	6	17	+11
Peru	23	126	+103
Trinidad & Tobago	11 3/	17 4/	+6
Venezuela	18	162	+144
Sub-total *	640	960	(+460 (-140
ALL COUNTRIES:			
Specified	3,590	5,830	(+2,580 (- 340
Unspecified	1,150	1,870	+720
Total	4,740	7,700	+2,960

3/ 1962/65.
4/ 1968

* Rounded figures.

** Note: Figures in this statement generally represent the inflow of official capital for financing the public sector, but in certain instances they also include financing from private sources; this is particularly true for past figures.

Table 4: AMORTIZATION OF FOREIGN OFFICIAL LOANS*
(US$ Million)

Area/Country	Annual Average Actual 1960/64	Annual Average Projected 1966/70	Change
AFRICA:			
Algeria	9 1/	39 2/	+ 30
Cameroon	2	2	0
East Africa	13 3/	32	+ 19
Ethiopia	3	8	+ 5
Liberia	3	7	+ 4
Malagasy Republic	1	7	+ 6
Morocco	5	25	+ 20
Nigeria	10	53	+ 43
Senegal	4	5	+ 1
Sudan	11	11	0
Tunisia	2	33	+ 31
Sub-total	63	222	+159
ASIA:			
Ceylon	2	9	+ 7
India	106	340	+234
Iran	40	67	+ 27
Korea	30	38	+ 8
Malaysia	3	22	+ 19
Pakistan	27	49	+ 22
Thailand	12	26	+ 14
Sub-total	220	551	+331
EUROPE AND MIDDLE EAST:			
Cyprus	24	2	-22
Finland	.	.	.
Greece	8	19	+ 11
Ireland	2	4	+ 2
Israel	133	144	+ 11
Jordan	2 4/	5	+ 3
Spain	33	63	+ 30
Turkey	48	83	+ 35
U.A.R.	73	127	+ 54
Yugoslavia	89	202	+113
Sub-total	412	649	+237

1/ 1963/65
2/ 1967/70
3/ 1961/64
4/ 1963/64

* Including private debt guaranteed by the national government concerned.

Table 5: NET INFLOW OF FOREIGN PRIVATE CAPITAL
(US$ Million)

Area/Country	Annual Average Actual 1960/64	Annual Average Estimated 1966/70	Change
AFRICA:			
Algeria	-13 1/	61 2/	+74
Cameroon	.	.	.
East Africa	-41	18	+59
Ethiopia	10	12	+ 2
Liberia	35	26	- 9
Malagasy Republic	5	17	+12
Morocco	-2	+4	+ 6
Nigeria	72	75	+ 3
Senegal	.	.	.
Sudan	8	6	-2
Tunisia	20	22	+ 2
Sub-total*	90	240	(+160 (- 10
ASIA:			
Ceylon	0	0	0
India	16	100	+84
Iran	44	110	66
Korea	8	30	+22
Malaysia	78	78	0
Pakistan	19	34	+15
Thailand	28	44	+16
Sub-total *	190	400	+210
EUROPE AND MIDDLE EAST:			
Cyprus	.	.	.
Finland	37	47	+10
Greece	67	200	+133
Ireland	55	77	+22
Israel	95	83	-12
Jordan	3	5	+2
Spain	177	300	+123
Turkey	29	21	-8
UAR	.	.	.
Yugoslavia	.	.	.
Sub-total *	460	730	(+290 (- 20

1/ 1963/65.
2/ 1967/70.
* Rounded figures.

Table 5: NET INFLOW OF FOREIGN PRIVATE CAPITAL (Cont.)
(US$ Million)

Area/Country	Annual Average Actual 1960/64	Annual Average Estimated 1966/70	Change
WESTERN HEMISPHERE:			
Argentina	196	62	-134
Brazil	46	145	+ 99
Chile	46	52	+ 6
Colombia	22	67	+ 45
Ecuador	7	11	+ 4
El Salvador	6	17	+ 11
Guatemala	9	8	- 1
Honduras	-1	1 3/	+ 2
Jamaica	14	25	+ 11
Mexico	97	290	+193
Panama	18	26	+ 8
Paraguay	3	4	+ 1
Peru	14	31	+ 17
Trinidad & Tobago	38	47 4/	+ 9
Venezuela	-273	9	+282
Sub-total*	240	800	(+690 (-130
ALL COUNTRIES:			
Specified	980	2,170	(+350 (-160
Unspecified	310	680	+370
Total	1,290	2,850	+1,560

3/ 1967.
4/ 1968.

* Rounded figures.

Table 6: NET DRAWINGS FROM THE IMF*
(US$ Million)

Area/Country	1960	1961	1962	1963	1964	total 1960/64	1965	1966
AFRICA								
Algeria				-	-	-	-	-
Cameroon				-	-	-	-	-
East Africa 1/			-	-	-	-	-	-
Ethiopia	-	-	-	-	-	-	-	-
Liberia			-	+3.60	+3.80	+7.40	+3.00	+1.59
Malagasy Republic				-	-	-	-	-
Morocco	-	-7.52	-	-	+13.12	+5.60	-5.91	-
Nigeria		-	-	-	-	-	-	-
Senegal			-	-	-	-	-	-
Sudan	-0.42	-2.92	-2.92	-	+5.12	-1.14	+18.75	+15.00
Tunisia	-	-	-	-	+5.25	+5.25	+11.80	+8.29
Sub-total: Africa	-0.42	-10.44	-2.92	+3.60	+27.29	+17.11	+27.64	+24.88
ASIA								
Ceylon	-	+11.24	+11.25	-	-	+22.49	+15.50	+19.00
India	-72.50	+122.50	+25.00	-25.00	-50.00	-	+125.00	+100.00
Iran	+45.00	-11.97	-37.94	-	+17.50	+12.59	-3.46	-
Korea	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-3.18	-0.19	-3.37	-1.14	-
Pakistan	+12.50	-	-	-12.50	-	-	+53.50	+9.50
Thailand	-	-	-	-	-	-	-	-
Sub-total: Asia	-15.00	+121.77	-1.69	-40.68	-32.69	+31.71	+189.40	+128.50

1/ Covers Kenya, Tanzania and Uganda.

* Note: If a country shows neither 'transactions' nor a dash for certain years, this indicates that the country was not yet a member of the IMF.

Source: IMF.

Area/Country	Annual Rate of Growth (percent): GDP 1/ 1960/64	GDP 1/ 1966/70	GDP 1/ Difference	Exports 2/ 1960/64	Exports 2/ 1966/70	Exports 2/ Difference	Imports 2/ 1960/64	Imports 2/ 1966/70	Imports 2/ Difference	Consumption 3/ 1964/70	Investment 1964/70	Domestic 4/ Saving Rate (percent) 1964	Domestic 4/ Saving Rate (percent) 1970	Marginal 5/ Saving Rate (percent) 1964/70	Incremental 6/ Capital/Output Ratio 1964/70
WESTERN HEMISPHERE:															
Argentina	2.4	5.0	+2.6	6.4 11/	7.0 11/	+0.6	0.5 11/	8.0 11/	+7.5	3.5	5.4	21	21	21	3.6
Brazil	4.8	5.8	+1.0	1.9	6.2	+4.3	-7.1	9.2	+16.3	2.6	6.7	18	18	17	3.0
Chile	4.0	5.5	+1.5	6.4 11/	0.7 11/	-5.7	2.4 11/	5.7 11/	+3.3	2.0	7.8	12	15	25	2.8
Colombia	5.9	6.0	+0.1	6.2	5.0	-1.2	5.7	7.5	+1.8	1.3	11.0	16	21	33	3.5
Ecuador	4.4	5.5	+1.1	3.8	1.5	-2.3	5.7	7.2	+1.5	2.4	8.5	15	14	13	3.2
El Salvador	6.8	5.0	-1.8	14.3 11/	3.5 11/	-10.8	12.1 11/	3.2 11/	-8.9	. 14/	. 14/	12	. 14/	. 14/	. 14/
Guatemala	5.6	5.0	-0.6	9.5 11/	4.6 11/	-4.9	9.4 11/	5.2 11/	-4.2	1.6	7.9	11	13	21	2.6
Honduras	4.0	3.5	-0.5	10.4 11/	4.3 11/	-6.1	9.0 11/	3.8 11/	-5.2	1.1	6.2	13	15	15	3.1
Jamaica	4.3	5.0	+0.7	6.5 11/	5.0 11/	-1.5	6.5 11/	6.0 11/	-0.5	2.9	6.7	21	21	21	4.1
Mexico	6.6	6.0	-0.6	7.9	5.4	-2.5	6.6	6.1	-0.5	2.2	4.9	18	18	17	3.2
Panama	8.7	9.5	+0.8	19.3 11/	9.3 11/	-10.0	16.3 11/	9.1 11/	-7.2	. 14/	. 14/	17	. 14/	. 14/	. 14/
Paraguay	3.2	5.2	+2.0	5.0 11/	7.0 11/	+2.0	3.0 11/	0.0 11/	-3.0	1.7	8.2	12	17	29	3.5
Peru	7.5	6.5	-1.0	11.6	1.7	-9.9	12.0	2.6	-9.4	3.1	9.7	20	21	21	3.4
Trinidad & Tobago	7.3	2.5	-4.8	2.9	2.4	-0.5	1.9	2.5	+0.6	. 14/	. 14/	25	. 14/	. 14/	. 14/
Venezuela	4.4	5.8	+1.4	1.2	2.7	+1.5	0.0	5.0	+5.0	2.3	10.5	34	33	32	4.1
Sub-total 7/12/	4.9	5.7	+0.8	4.8	4.4	-0.4	1.9	6.3	+4.4	2.5	7.0	20	20	21	3.3
GRAND TOTAL 7/13/	5.7	6.0	+0.3	5.8	6.6	+0.8	6.1	6.9	+0.8	3.2	6.9	19	20	22	3.3

1/ In real terms (five-year periods).
2/ Goods and services
3/ Per capita.
4/ Gross savings as a percentage of G.D.P.
5/ Increase in savings between 1964 and 1970 as a percentage of increase in G.D.P. between the two years.
6/ Total investments during 1964/69 as a ratio of the increase in GDP in 1970 as compared to 1964; the ratios assume a constant annual growth rate in investments between 1965 and 1969.

7/ Weighted averages.
8/ Covers all sample countries in Africa.
9/ Excluding India.
10/ Excluding Cyprus, Finland and Greece.
11/ Goods and net services.
12/ Excluding El Salvador, Panama, Trinidad & Tobago.
13/ Excluding countries not accounted for in "sub-totals".
14/ Not available.

ANNEX 1

THE BACKGROUND TO THE COUNTRY ESTIMATES

1. The country estimates from which the capital requirements figures are derived are each based on the work of missions which regarded certain limitations on development as of peculiar importance in the country with which they were concerned. To illustrate the approaches used each mission was asked to prepare an account of the constraints that were considered important, grouped under four headings:- (a) absorptive capacity, (b) export possibilities, (c) domestic savings, and (d) expected availabilities of foreign exchange. An edited version of these country notes is given below, covering twenty-nine of the countries in the Bank sample.

AFRICA

Ethiopia

2. The projections of capital requirements were estimated mainly on the basis of past performance in public and private investments in Ethiopia. The projected capital requirement figures were arrived at after a close scrutiny of sector programs. Therefore, "low absorption capacity" was the main constraint used in these estimates. Projections of export earnings were derived on the basis of the quantity of exportable surplus as well as world markets. For coffee, which is the principal export, projections were based on production, international quota restrictions and movements in international prices. For the less important exports, the projections were derived mainly on the basis of domestic production and consumption.

Liberia

3. The major constraint is public savings, and within this area, rates of increase of recurrent expenditures, revenues and the existing external debt are particularly important. The external debt burden feeds back in terms of

a second constraint; the amount of external capital available on soft terms determines the gross and net inflows that determine the size of feasible public investment, given the public savings potential. Absorptive capacity is a lesser constraint.

Nigeria

4. Foreign Exchange has not been a crucial constraint upon growth, compared with the availability of domestic savings, particularly public savings and absorptive capacity in the public sector. Public savings is a central problem limited as it is by the need to operate an open mixed economy with a convertible currency and a significant private sector. This puts finite limits on the scope for taxation and deficit financing. Secondly, the external debt burden and the rate of increase of recurrent expenditures reduce the ability to increase public savings.

The Sudan

5. The projections of capital requirements were estimated assuming "low absorptive capacity" as the main constraint. The public investment proposals which were being seriously considered by the Government were examined to see if the proposed level of public investment was feasible on technical and administrative grounds, as well as financially. In arriving at the capital requirement projections due regard was paid to the feasible level of foreign financing, although "low absorption capacity" remained the main constraint.

6. The export projections were estimated on the basis of the future production and internal consumption of export commodities, taking into account future world markets and expected international price movements as foreseen by the commodity section of the Bank. For example, it was assumed that the average price of cotton (the main export) was expected to decline during the next few years. A similar approach was taken in estimating the export earning

projections for most other commodities, the most important of which were oil seeds and gum arabic.

ASIA

Ceylon

7. The principal constraint is the availability of foreign financial assistance. The potential of markets abroad for Ceylon's major export products, particularly tea, severely limits the scope for increasing export earnings. There is considerable scope for import substitution in both domestic manufacturing and agriculture, but the pace at which these potential exchange savings can be realized is limited by the capacity of both the private and public sectors to undertake and manage the investments required. To the extent that exchange savings through import substitution are expected to be realized in the next five years, they have been taken into account in projecting imports.

8. Projections also imply that a considerable part of the foreign financial assistance, within the overall limitations assumed, will be available in the form of non-project aid. If this assumption turned out to be incorrect and if donors insisted on linking all assistance to projects, less aid than assumed would probably be absorbed because it is difficult to see how, for administrative reasons, a sufficient amount of projects could be prepared to form the basis for project assistance in the amount assumed. Export projections take into account prospective markets abroad for the major products as well as expected prices in the future.

India

9. In drawing up the projections of growth for the Indian economy, the principal limiting factor taken into consideration was the economy's ability, in both the private and public sectors, to move ahead without, at the same

time, creating serious bottlenecks in certain sections of the economy. In a sense, therefore, absorptive capacity is the main constraint underlying the projections. Export projections take into consideration prospective world market and expected future prices.

Iran

10. The main constraint is absorptive capacity with emphasis on the public sector after taking account of oil revenues likely to be available for development.

Korea

11. The main constraint on the volume of investment was assumed to be the lack of domestic savings. Korea has a high capacity to implement investment projects and the supply of foreign finance is also large. The domestic savings rate is quite low, however.

Malaysia

12. The projections represent judgments of the best possible, realistic outcome for the next few years and also were prepared, deliberately, to provide a basis for policy decisions on a wide variety of issues. The capital requirements estimate is not determined by "absorptive capacity" (since more could be absorbed) nor by "export possibilities". It was derived by balancing:

a. Levels of capital expenditures,
b. Likely availability of external capital,
c. Domestic savings.

A solution emerged (one of many possible solutions) implying a level of expenditures slightly above the tolerable minimum, yet implying capital requirements rather higher than the expected maximum availability, after maximizing savings by certain fiscal measures.

Pakistan

13. The estimates were based on both external and internal gap computations. The principal constraint in the balance of payments has been the export possibilities for traditional exports and the import substitution inherent in the Third Plan investments. Since a limiting constraint in preparing the Plan was the assumption regarding the availability of foreign aid, there is a certain circularity in using the Plan magnitudes and parameters as the basis for projecting foreign aid requirements.

Thailand

14. As regards public investment, the principal constraint lies in absorptive capacity. This takes two forms:

a. Ability of agencies in the public sector to carry out investment projects in general, particularly to provide the follow-up services necessary to make the best use of projects upon their completion.

b. The ability of the public sector to prepare projects for foreign financing.

As regards private investment, the principal constraint is domestic savings related to the slower growth of export earnings that is expected. Export projections take into account prospective world markets and expected future prices.

EUROPE AND THE MIDDLE EAST

Finland

15. The main constraint has been the availability of foreign capital to supplement the high level of domestic savings. This foreign exchange constraint arises from the relationships between the rates of growth of GDP, exports and imports. Given that less foreign capital has been available than can be used on the basis of the economy's absorptive capacity, it has been necessary to cut down the rate of growth of output and imports.

Ireland

16. The constraint on growth is a mixture of absorptive capacity and savings limitations. Exports have grown rapidly, but not sufficiently to cover the need for imports. The absorptive capacity problem shows up in the ability to change the structure of the economy quickly to make better use of the presently underutilized resources. These structural changes require capital from abroad to supplement domestic savings.

Israel

17. This economy can obtain more capital from abroad than it desires to use and the Government desires, as a policy objective, to reduce the capital inflow. The critical constraint is the extent to which domestic savings can be raised in relation to the rate of growth of exports, which is not likely to be a major constraint.

Jordan

18. Absorptive capacity is expected to be the principal constraint on investment. A high level of foreign inflow has been available in the past to the point where exchange reserves have grown; this inflow is likely to be reduced in the future to be more in line with absorptive capacity.

Spain

19. This economy suffers from the lack of a sound statistical base from which to judge and estimate the nature of the constraints upon growth. It is known that domestic savings have been high and neither export possibilities nor the availability of external capital have been factors limiting growth. Although absorptive capacity is high the ultimate constraint could probably be identified in terms of the need for structural reforms in both public and private sectors, before the contribution of domestic and foreign capital can be optimal.

Turkey

20. The rate of growth cannot be maintained on the basis of domestic savings alone and there are political and economic obstacles in the way of raising savings. At the same time a structural need for a minimum level of imports has arisen as a result of industrialization, aimed primarily at import substitution, rather than export promotion. For this reason the foreign exchange constraint may be considered more basic than the availability of domestic savings.

United Arab Republic

21. The basic constraint is the shortage of foreign exchange although both domestic savings and exports might be increased, given the right policies by the government. This shortage takes the form of a gap between the absorptive capacity of the economy to carry out projects and the amount of foreign financing that the government wished to contemplate, as a proportion of total investment.

WESTERN HEMISPHERE

Argentina

22. The primary constraint was the inadequacy of proper project preparation which limited the country's capacity to absorb foreign capital. In the past this capital had been absorbed, however, in the form of short term borrowing to cover inadequate public sector savings, giving rise to a heavy debt service burden which limited the scope for further borrowing. Export possibilities were regarded as limited by future world market prospects and the curbing of domestic consumption of agricultural products.

Brazil

23. Absorptive capacity was considered a constraint in the sense that all projects with good prospects that could meet the standards of financing

agencies were included in the program and no case was made for a new program loan. External capital availabilities were not considered a bottleneck by the Bank mission; however, the Brazilians who formulated the program reviewed by the mission might well have made up a larger program if they had seen prospects of getting the money on reasonable terms (medium term supplier credits were forbidden under the Standby Agreement with the IMF). Export projections were made on the basis of the most likely market developments.

Chile

24. A detailed projection of the balance of payments gap was used as a measure of the basic constraint to which the possible rate of growth of the economy and the required rate of domestic saving was linked. (The debt service burden formed a major component of this balance of payments gap.) The extent to which foreign lending could fill the gap depended partly on absorptive capacity (in the form of the speed at which projects could be prepared) and the continued possibility of program lending. The final element considered was the ability to raise the public savings required through a program of economies in current expenditures.

Ecuador

25. The dominant constraint assumed was that of export possibilities, imposed by world market conditions in the case of traditional exports. For the non-traditional exports local supply conditions were the limiting factor, arising out of the difficulties of internal organization within the economy. Overall savings were not seen as a constraint at the aggregate level, but the maldistribution of public savings within the public sector was a limitation. However, this latter effect was another aspect of an absorptive capacity constraint arising from technical limitations as well as from the diffused nature of public administration.

El Salvador

26. For exports, the quota limitations on coffee were accepted; on cotton deteriorating market conditions were superimposed on supply difficulties; on the whole, limits to the amount of arable land available were thought to place the major constraint on long term growth. Absorptive capacity was limited by project availability, but the supply of domestic saving was thought inadequate for even a feasible program; however, new tax measures were anticipated to eliminate this constraint. No external rationing of foreign aid was expected.

Guatemala

27. On exports, quota limits were held to in the projections for coffee; supply conditions and political uncertainty were thought to restrict expansion in alternative lines. Absorptive capacity was thought to be limited by a low rate of project preparation and a shortage of skills. Domestic saving was thought too low to help finance even a feasible investment program without new tax measures whose implementation, however, was not thought to pose insuperable problems. There was nevertheless some restriction on the flow of foreign aid due to problems created by default on the so-called Sterling debt. (This problem has now been solved.)

Honduras

28. For exports, coffee was limited to prospective quota increases; bananas to the allocations made between sources of supply by the banana companies; for the rest, supply conditions imposed the major constraint. Absorptive capacity was the chief constraint on the prospective amounts of foreign aid available, determined partly by lags in project preparation and partly by political and administrative delays. Domestic savings were considered only barely adequate to match foreign lending on the assumption of

comparatively high burden sharing ratios for the latter. No outside limitations on the flow of foreign aid were anticipated.

Mexico

29. The main constraint foreseen was a limitation on foreign exchange availability, which would become operative before absorptive capacity constraint becomes significant. The foreign exchange constraint is composed of two parts - (a) the limited rate at which foreign markets can absorb exports, and (b) a limitation imposed on long term lending by the policy requirement of the government that the level of debt service payments be frozen at the 1965 level.

Panama

30. Exports to the canal zone were thought to be limited by demand rather than supply factors; banana exports depended on the deployment by the banana companies of their operations betwean countries; coffee exports were limited by supply factors, not by quota. Absorptive capacity, as reflected in the pace of project preparation, was considered the primary limiting factor for foreign aid operations. An inadequate domestic savings effort would, however, have limited them in any case, at least until new tax measures were implemented, a task whose feasibility was also stressed. No problems of externally imposed limits on the amount of foreign aid were anticipated.

Paraguay

31. The investment program, while based on absorptive capacity, was subject to the overriding constraint of a shortage of public sector savings. The availability of foreign aid was also taken into account in drawing up the investment program.

Venezuela

32. This economy has been characterized by high foreign exchange receipts

from exports and a high level of domestic savings. The constraints that operated were first a limitation on absorptive capacity because of a general lack of skilled manpower, and the organizational weaknesses of important government agencies. Secondly, the continuing capital outlow, composed of dis-investment in the petroleum sector and a general "reverse flow" of capital detracted from foreign exchange availability. Thirdly, it was felt that there was a maldistribution of domestic savings, with too small a proportion available to the public sector.

ANNEX II

Estimates of Capital Requirements prepared by other Institutions and Authors

(The numbered references are used in the text for identification.)

(1.) F. Gerard Adams - Alternative Projections of the Foreign Exchange "Gap"; A Reconciliation.
UNCTAD, Trade and Development Board, November, 1966.

(2.) U.N. - Measures for the Economic Development of Underdeveloped Countries. Report of a group of experts under the Chairmanship of Professor Arthur Lewis, (1949)

(3.) U.N. - Studies in Long-Term Economic Projections for the World Economy. (New York), 1964.

(4.) H.B. Chenery & A.M. Strout - Foreign Assistance and Economic Development A.I.D. Discussion Paper No. 7 (Revised), 1965. Also published in the American Economic Review, September, 1966.

(5.) H.B. Chenery & M. Bruno - "Development alternatives in an open economy: the case of Israel." Economic Journal, March, 1962.

(6.) I. Adelman & H.B. Chenery - "Foreign Aid and Economic Development: the case of Greece." Review of Economics & Statistics, February, 1966.

(7.) B. Balassa - Trade Prospects for Developing Countries. (1964)

(8.) P.N. Rosenstein-Rodan - "International Aid for Underdeveloped Countries." Review of Economics & Statistics, May, 1961.

(9) U.N.(Centre for Development Planning, Projections and Policies)- Methodology of World-Wide Projections. A methodological note on some gap projections for developing countries.
(Paper submitted to the 2nd.session of the Committee for Development Planning, April, 1967. E/AC.54/L.21)

ANNEX III

ESTIMATES FOR UNSPECIFIED COUNTRIES

The Current Account Deficit of Developing Countries

1. There are no official data of the balance of payments of the whole developing world. Individual scholars have attempted to construct such a balance for spot years (1960, 1963), but a series covering the 1960-64 period - the period used in this report as a base - is not available. The sample of countries specified in this report is known to represent a large proportion of the whole, in terms of either net capital inflow or current account deficit. However, unless the "universe" is known, there is no way of proving that the sample is indeed large. Furthermore, if the results offered by the sample are to be generalized and applied to the developing world as a whole, it is necessary to know the whole for the base period. Any calculation of a current account deficit for all LDCs cannot but be very rough. For this report, the following procedure was used.

2. The current account deficit as estimated in IBRD country economic reports has been taken, in preference over IMF statistics, since the former constituted the basis of the projection. Close inspection, however, shows that the conceptual framework followed in IBRD reports is almost universally the IMF balance of payments framework.[1/] For this reason, the annual average 1960-64 current account deficit for countries which are not included in the IBRD sample, was taken from IMF data.[2/] Even the IMF data, however, do not cover all developing countries. In particular, data are lacking on a number

1/ See attached table which compares IMF and IBRD reports data for the sample countries.

2/ Not all the countries surveyed by the IMF show data for the 1960-64 period. Shorter averages have been used in a few cases.

of African countries in the French Franc Zone. For these, estimates were made, on the basis of OECD aid and capital flow statistics, of the average annual net capital inflow which was then taken as representing the current account deficit. For a number of countries within this group, this procedure is certainly incorrect. However, the amounts involved are not as large as to seriously affect the total.

3. The following table summarizes the results. It refers to 88 developing countries, or to the whole developing world exclusive of centrally planned economies (inclusive, however, of Yugoslavia), Afghanistan, South and East Arabia Sheikdoms, Buthan, Yemen, and Indonesia.

Current Account Deficit of Developing Countries, Annual Average 1960 - 1964

A - $ Millions

	IBRD Sample	IMF	OECD	TOTAL
Africa	619	92	553	1,264
Asia	1,758	282	54	2,094
Europe and Middle East	860	-136	15	739
Western Hemisphere	701	121	-	822
Dependent Territories a/	-	220	80	300
Total	3,938	579	702	5,219

B - Number of Countries

	IBRD Sample	IMF	OECD	TOTAL
Africa	13	8	15	36
Asia	7	5	2	14
Europe and Middle East	10	6	1	17
Western Hemisphere	15	6	-	21
Total	45	25	18	88

a/ of France, the Netherlands and the U.K.

4. The 1960-1964 total current account deficit of $5.2 billion (annual average) compares with $4.6 billion for 1960 as compiled by Mr. Balassa 1/

1/ Trade Prospects for Developing Countries, (Illinois) 1964.

and with $5.1 billion for 1963 as compiled by Mr. Madison.[1/]

5. The "universe", so estimated, has been used to project the unspecified countries in this report. It has been assumed that the current account deficit in 1966-70 for the unspecified countries will be proportional to that of the specified countries. Other breakdowns in the projections presented in this report are based on the same assumption.

Net Aid Flows as Reported by DAC and the Current Account Deficit of Developing Countries

6. The base period and the projections included in this report are set, conceptually, in the balance of payments framework. Thus, it is not possible to compare the net capital inflow as shown in this report, with the figures on the net flow of assistance to developing countries as compiled by DAC. According to the latter, developing countries received each year, on average, $8.9 billion in 1960-64 as net inflow of capital from all sources.[2/] There are a number of conceptual differences between the OECD datum and the net inflow used in this report. *Inter alia*, the former does not take into account reverse capital flows of both long and short run nature from developing to developed countries, which may well have been a substantial amount.

7. That the major discrepancies are to be found in private capital movements is also shown by the comparison between DAC's and this report's data separately on net official capital inflow and private capital inflow. The average 1960-64 net official bilateral and multilateral flow as reported by DAC is $6.2 billion against $4.7 billion in this report. The latter estimate does not include technical assistance to the "specified" countries - something of the order of $0.7 - $1.0 billion - which is part of the current

---

1/ "The Balance of Payments of Developing Countries", Banca Nazionale del Lavoro Quarterly Review, June 1966.

2/ Development Assistance Efforts and Policies, 1966 Review, Report by the Chairman of the Development Assistance Committee, account. The difference between the two estimates is, then, of the order of \$0.5 - \$0.8 billion, resulting mainly from the fact that the definition of "official" in this report differs in many cases from the definition adopted by DAC. For private capital flows, this report gives an estimate of \$1.3 billion, while DAC gives \$2.7 billion. The difference - \$1.4 billion - is very significant and illustrates well the nature of the discrepancy.

8. In conclusion, the present report's data for 1960-64 cannot be reconciled with DAC's data. It is not possible, therefore, to use the 1960-64 relationship between the two sets of data and apply it to this report's net capital inflow projection for 1966-70 so as to obtain the corresponding figure in terms of the DAC concepts. In fact, to the extent that the two estimates for 1960-64 differ on account of reverse capital flows from developing to developed countries, the present report's projection would converge towards the DAC concept, since the projection implies a reduction of reverse flows as a result of the "good performance" assumption made throughout country projections.

Current Account Deficit, Annual Average
1960-1964: Comparison Between
IMF and IBRD Reports
($ Millions)

	IBRD Reports	IMF 1/
Africa		
Algeria	72	n.a.
Cameroon	5	n.a.
East Africa	38	n.a.
Ethiopia	13	21
Liberia	59	n.a.
Malagasy	29	n.a.
Morocco	57	68
Nigeria	172	192
Senegal	18	n.a.
Sudan	60	60
Tunisia	96	95
Asia		
Ceylon	43	43
India	935	869 2/
Iran	-11	46
Korea	238	238 3/
Malaysia	32	42
Pakistan	469	364
Thailand	52	56
Europe and Middle East		
Cyprus	11	9
Finland	77	79
Greece	115	118
Ireland	37	55
Israel	112	156
Jordan	75	75
Spain	-102	-71
Turkey	191	158
UAR	186	228
Yugoslavia	158	151
Western Hemisphere		
Argentina	159	160
Brazil	204	277
Chile	192	205
Colombia	119	133
Ecuador	9	18
El Salvador	12	14
Guatemala	27	29
Honduras	3	6
Jamaica	13	15
Mexico	260	271
Panama	32	32
Paraguay	10	10
Peru	24	25
Trinidad	54	53
Venezuela	-417	-363

Note: - equals current account surplus

1/ Balance of Payments Yearbook, Vol 17, 1960-1964 - Current Account deficit defined as net merchandise, freight and merchandise insurance, investment income, other services and private transfer payments.

2/ Fiscal years.
3/ 1961-1964 average.

ANNEX IV

THE NON-COMPARABILITY OF BANK DATA ON AVERAGE ANNUAL FLOWS OF CAPITAL (NET) TO THE SAMPLE COUNTRIES DURING 1960/64 WITH DAC DATA ON OFFICIAL BILATERAL FLOWS (INCLUDING TOTAL MULTILATERAL FLOWS)
(Annual Averages during 1960/64)

DAC country figures in the last column are not comparable to the Bank's figures because the former do not include "reverse flows", "capital flows (net) from non-DAC members" and net flow of private capital. The average annual flow of capital during 1960-64 from non-DAC members to the less developed countries as a whole has been reckoned by OECD at $554 million. On the assumption that of this average, the sample countries accounted for about $366 million (estimated on the basis of the ratio of sample countries to the total bilateral official flows), the DAC figure for the sample countries would amount to $4,139 million (3773+366). This figure is also not comparable to the total of $3,590 million under Col. 1. because in addition to other factors, the former also accounts for private capital from non-DAC members.

Area/Country	BANK: Official Capital (net)	BANK: Private Capital (net)	BANK: Total	DAC: Bilateral Official Flows from DAC Countries to Less Developed Countries Plus Flow from Multilateral Agencies (net)
	(In US$ Million)			
AFRICA				
Algeria	172	-13	159 1/	350
Cameroon	7	.	7	n.a.
East Africa	74	-41	33	109
Ethiopia	12	10	22	24
Liberia	7	35	42	33
Malagasy Republic	24	5	29	n.a.
Morocco	60	-2	58	90
Nigeria	43	72	115	35
Senegal	15	.	15	n.a.
Sudan	28	8	36	24
Tunisia	60	20	80	74
Sub-total	500	90	590	740

1/ Average for 1963-65.

Area/Country	BANK Official Capital (net)	BANK Private Capital (net)	BANK Total	DAC Bilateral Official flows from DAC Countries to Less Developed Countries Plus Flow from Multi-lateral agencies (net)
ASIA				
Ceylon	19	0	19	15
India	915	16	931	869
Iran	11	44	55	53
Korea	215	8	223	230
Malaysia	33	78	111	19
Pakistan	454	19	473	389
Thailand	64	28	92	44
Sub-total	1,710	190	1,900	1,618
EUROPE & MIDDLE EAST				
Cyprus	-5	.	-5	16
Finland	37	37	74	n.a.
Greece	56	67	123	46
Ireland	1	55	56	n.a.
Israel	106	95	201	112
Jordan	76	3	79	84
Spain	9	177	186	31
Turkey	145	29	174	183
UAR	131	.	131	195
Yugoslavia	179	.	179	143
Sub-total	740	460	1,200	810

	BANK			DAC
Area/Country	Official Capital (net)	Private Capital (net)	Total	Bilateral Official Flows from DAC Countries to Less Developed Countries Plus Flow from Multilateral Agencies (net)
WESTERN HEMISPHERE				
Argentina	18	196	214	49
Brazil	171	46	217	186
Chile	94	46	140	112
Colombia	61	22	83	68
Ecuador	6	7	13	17
El Salvador	4	6	10	9
Guatemala	9	9	18	11
Honduras	5	-1	4	10
Jamaica	5	14	19	7
Mexico	199	97	296	52
Panama	8	18	26	14
Paraguay	6	3	9	8
Peru	23	14	37	11
Trinidad & Tobago	11 2/	38	49	10
Venezuela	18	-273	-255	41
Sub-total	640	240	880	605
GRAND TOTAL	3,590 3/	980	4,570	3,773 3/

2/ Average for 1962-65.
3/ See note at the head of the table

Revisions to Capital Inflow Estimates as of September, 1967.

Table 1: BASIC ECONOMIC PARAMETERS FOR SAMPLE COUNTRIES

Area/Country	Annual Rate of Growth (percent)											Domestic Saving Rate[4/] (percent)		Marginal Saving Rate[5/] (percent)	Incremental Capital/Output Ratio[6/]
	GDP[1/]			Exports[2/]			Imports[2/]			Consumption[3/]	Investment				
	1960/64	1966/70	Difference	1960/64	1966/70	Difference	1960/64	1966/70	Difference	1964/70	1964/70	1964	1970	1964/70	1964/70
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
AFRICA:															
Cameroon	5.0	5.2	+0.2	9.0	3.6	-5.4	13.6	6.4	-7.2	3.1	9.9	11	10	7	2.5
East Africa	3.8[7/]	6.0	+2.2	7.0	3.4	-3.6	7.8	4.9	-2.9	3.5	11.6	17	15	8	2.3
Ethiopia	4.2[7/]	4.3	+0.1	10.6	7.3	-3.3	10.7	6.0	-4.7	2.3	7.6	10	11	14	2.6
Liberia	10.9	6.6	-4.3	9.9	6.6	-3.3	13.6	2.6	-11.0	3.3	-0.4	27	32	43	3.2
Malagasy Republic	3.1	4.0	+0.9	10.1	2.9	-7.2	10.3	4.3	-6.0	0.4	5.1	11	12	17	3.3
Nigeria	4.8	6.2	+1.4	7.4	6.2	-1.2	4.3	4.3	0	3.1	8.9	11	17	29	2.6
Senegal	2.9	4.5	+1.6	-3.2	3.7	+6.9	-0.1	3.8	+3.9	2.2	7.7	6	7	12	2.4
Sub-total	4.4	5.6	+1.2	7.6	4.7	-2.9	7.6	4.4	-3.2	2.9	8.8	13	15	20	2.5
ASIA:															
Ceylon	3.9	4.0	+0.1	-0.9	3.5	+4.4	-1.2	2.2	+3.4	0.9	7.4	10	13	23	3.8
India	5.3	8.7[8/]	+3.4	5.6	9.2[9/]	+3.6	5.9	3.2[9/]	-2.7	2.5	9.1	13	17	26	2.8
Korea	5.5	6.0	+0.5	17.8	11.4	-6.4	2.9	7.8	+4.9	3.0	8.0	7	10	17	2.3
Malaysia	5.6	4.5	-1.1	-1.1	1.3	+2.4	4.8	2.5	-2.3	2.2	5.3	18	16	13	3.9
Pakistan	5.8	5.5[10/]	-0.3	6.4[11/]	10.7[10/][11/]	+4.3	12.9[11/]	13.3[10/][11/]	+0.4	2.9	7.1	14	16	21	4.0
Thailand	7.2	8.0	+0.8	10.8	5.1	-5.7	10.9	10.6	-0.3	4.3	10.8	22	23	26	3.1
Sub-total	5.5	7.8	+2.3	4.2	6.4	+2.2	6.3	4.8	-1.5	2.6	8.7	13	17	25	3.0
EUROPE:															
Cyprus	1.3	6.9	+5.6	1.2	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	15	n.a.	n.a.	n.a.
Finland	6.3	5.0	-1.3	7.6	6.2	-1.4	9.2	n.a.	n.a.	n.a.	n.a.	28	n.a.	n.a.	n.a.
Greece	7.0	8.0	+1.0	12.3[12/]	n.a.	n.a.	14.1[11/]	n.a.	n.a.	6.1	10.2	24	28	34	3.9
Ireland	4.5	5.1	+0.6	10.4	12.2	+1.8	11.8	11.0	-0.8	3.4	7.3	16	20	33	4.7
Spain	7.7	5.5	-2.2	16.4	10.8	-5.6	29.8	8.1	-21.7	5.2	6.2	25	31	22	4.1
Turkey	6.0[7/]	7.0	+1.0	6.4[11/]	5.0[11/]	-1.4	3.5[11/]	8.6[11/]	+5.1	3.6	14.0	13	18	26	2.1
Yugoslavia	8.2	8.0	-0.2	14.9	10.5	-4.4	12.6	11.1	-1.5	7.4	2.8	40	35	26	5.5
Sub-total[13/]	7.1	6.5	-0.6	13.7	10.5	-3.2	17.1	9.4	-7.7	4.6	6.7	23	24	24	3.8
MIDDLE EAST AND NORTH AFRICA:															
Algeria	-3.2	8.0	+11.2	1.7	10.8	+9.1	2.7	7.4	+4.7	5.2	10.2	20	18	14	2.4
Iran	5.1	7.0	+1.9	5.9	10.0	+4.1	3.9	10.0	+6.1	3.7	10.3	20	23	29	2.1
Israel	10.2[7/]	6.0	-4.2	14.3	16.1	+1.8	15.6	10.2	-5.4	4.2	-1.0	26	20	6	4.3
Jordan	10.1	6.0	-4.1	21.5	16.2	-5.3	5.6	3.6	-2.0	1.3	5.4	-6	5	30	2.7
Morocco	3.8	3.5	-0.3	4.6	6.0	+1.4	4.0	7.3	+3.3	-0.1	8.0	9	13	30	3.7
Sudan	3.9	5.6	+1.7	1.5	4.2	+2.7	-1.4	7.2	+8.6	3.0	3.4	11	9	3	2.7
Tunisia	5.5[7/]	6.0	+0.5	2.4	11.5	+9.1	7.7	4.5	-2.2	3.4	3.9	13	18	28	3.7
U.A.R.	6.5	7.2	+0.7	0.6	6.7	+6.1	6.1	4.5	-1.6	3.8	4.5	13	16	20	2.6
Sub-total	4.9	6.5	+1.6	5.4	10.0	+4.6	6.6	7.8	+1.2	3.5	5.7	17	18	21	2.7
WESTERN HEMISPHERE:															
Argentina	2.2	5.2	+3.0	5.9	6.7[9/]	+0.8	0.7	6.7[9/]	+6.0	4.0	5.4	20	20	20	3.5
Brazil	4.8	5.8	+1.0	1.9	6.2	+4.3	-7.1	9.2	+16.3	2.7	6.7	18	18	17	3.0
Central America	6.9[7/]	2.5	-4.4	9.1[11/]	2.7[11/]	-6.4	8.3[11/]	3.7[11/]	-4.6	-0.5	6.8	9	10	13	4.2
Chile	4.3	5.5	+1.2	6.4[11/]	0.7[11/]	-5.7	2.4[12/]	5.6[12/]	+3.2	2.5	8.1	12	15	23	2.5
Colombia	4.7	5.7	+1.0	6.9	8.9	+2.0	7.6	7.9	+0.3	1.3	8.5	15	19	28	3.4
Ecuador	4.8	5.5	+0.7	3.8	1.5	-2.3	5.7	7.2	+1.5	2.4	8.5	20	20	20	3.9
Jamaica	4.3	5.0	+0.7	6.5[12/]	5.0[12/]	-1.5	6.5[11/]	6.0[11/]	-0.5	2.6	6.7	21	21	21	4.1
Mexico	6.6	6.0	-0.6	7.9	5.4	-2.5	6.6	6.1	-0.5	2.4	4.2	19	17	15	3.2
Panama	7.5	9.5	+2.0	19.3[12/]	9.3[12/]	-10.0	16.3[11/]	9.1[11/]	-7.2	n.a.	n.a.	17	n.a.	n.a.	n.a.
Paraguay	3.2	5.2	+2.0	5.0[11/]	7.0[11/]	+2.0	3.0[12/]	0[12/]	-3.0	0.8	8.2	14	17	28	3.3
Peru	7.6	4.8	-2.8	11.6	0.2	-11.4	12.0	1.6	-10.4	2.1	6.3	21	18	10	4.1
Trinidad and Tobago	7.3	2.5	-4.8	2.9	2.4	-0.5	1.9	2.5	+0.6	n.a.	n.a.	27	n.a.	n.a.	n.a.
Venezuela	4.4	5.8	+1.4	1.2	2.7	+1.5	0	5.0	+5.0	2.3	10.5	34	33	32	3.9
Sub-total[14/]	4.8	5.5	+0.7	4.9	4.3	-0.6	2.3	6.4	+4.1	2.4	6.5	19	19	19	3.3
GRAND TOTAL[15/]	5.4	6.5	+1.1	6.4	6.9	+0.5	6.2	6.8	+0.6	3.0	7.2	17	19	22	3.2

1/ In real terms (five-year periods).
2/ Goods and services.
3/ Per capita.
4/ Gross saving as a percentage of GDP.
5/ Increase in saving between 1964 and 1970 as a percentage of the increase in GDP between these two years.
6/ Total investment during 1964/69 as a ratio of the increase in GDP between 1964 and 1970. The ratios assume a constant annual growth of investment between 1964 and 1969.
7/ 1961/65.
8/ High growth rate is due to exceptionally low GDP figure in base year; 1965/70 rate is 5.8 percent.
9/ Estimate.
10/ 1965/69 = Third Five-Year Plan period.
11/ Excluding services.
12/ Goods and net services.
13/ Excluding Cyprus, Finland and Greece.
14/ Excluding Panama and Trinidad and Tobago.
15/ Excluding countries not accounted for in sub-totals.

Table 2: Current Account Balance and External Capital Inflow

(US$ Million)

Annual Averages

Area/Country	Current Account Deficit = Resource Gap + Factor Income Payments (Net): Current Account Deficit 1/		Resource Gap 2/		Factor Income Payments (Net) 3/		Current Account Deficit Financed By: Net Capital Inflow 4/		Short-Term Capital Movements & Errors and Omissions 5/		Changes in Reserves 6/		Total Capital Account (Cols. 7, 9 and 11 & Cols. 8, 10 and 12)	
	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70	1960/64	1966/70	1960/64	1965/70	1960/64	1966/70
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
AFRICA:														
Cameroon	5	44	+3	-33	-8	-11	7	37	+1	+8	-3	-1	5	44
East Africa	+33 7/	62	+75 7/	+12	-42 7/	-74	-6 7/	100	-35 7/	-27	+8 7/	-11	-33 7/	62
Ethiopia	13	32	-7	-25	-6	-7	20	33	-2	-1	-5	-	13	32
Liberia	59	12	-24	+32	-35	-44	42	28	+15	-16	+2 7/	-	59	12
Malagasy Republic	29	34	+8	+5	-37	-39	29	34	+2	-	-2	-	29	34
Nigeria	173	269	-147	-60	-26	-209	116	269	+9	-	+48	-	173	269
Senegal	18	52	-10	-41	-8	-11	15	49	-	+8	+3	-5	18	52
Sub-total:	264	505	-102	-110	-162	-395	223	550	-10	-28	+51	-17	264	505
ASIA:														
Ceylon	43	100	-34	-83	-9	-17	17	103	+9	-10	+17	+7	43	100
India	934	1,702	-769	-1,341	-165	-361	931	1,702	-51	-	+54	-	934	1,702
Korea	238	245	-242	-224	+4	-21	223	255	+4	-	+11	-10	238	245
Malaysia	32	157	+38	-79	-70	-78	111	157	-54	-52	-25	+52	32	157
Pakistan	463	775 8/	-447	-779 8/	-16	+4 8/	472	789 8/	-15	+6 8/	+6	-20 8/	463	775 8/
Thailand	52	132	-48	-132	-4	-	91	148	+20	+11	-59	-27	52	132
Sub-total:	1,762	3,111	-1,502	-2,638	-260	-473	1,845	3,154	-87	-45	+4	+2	1,762	3,111
EUROPE:														
Cyprus	11	-	-4	+10 9/	-7	-10 9/	-5	-	+2	- 9/	+14	- 9/	11	-
Finland	77	100	-61	-80 9/	-16	-20 9/	74	100	+26	- 9/	-23	- 9/	77	100
Greece	115	321	-85	-271 9/	-30 9/	-50 9/	123	321	+6	- 9/	-14	- 9/	115	321
Ireland	37	99	-74	-121	+37	+22	56	99	-	-	-19	-	37	99
Spain	+71	438	+93	-312	-22	-126	202	400	-4	+30	-269	+8	-71	438
Turkey	192	200	-157	-149	-35	-51	191	227	+14	-37	-13	+10	192	200
Yugoslavia	158	+32	-135	+83	-23	-51	179	48	-12	-	-9	-80	158	-32
Sub-total:	519	1,126	-423	-840	-96	-286	820	1,195	+32	-7	-333	-62	519	1,126
MIDDLE EAST & NORTH AFRICA:														
Algeria	72 10/	412 11/	+8 10/	-174 11/	-80 10/	-238 11/	159 10/	442 11/	-92 10/	- 11/	+5 10/	-30 11/	72 10/	412 11/
Iran	+11	239	+331	+437	-320	-676	55	281	-30	-52	-36	+10	-11	239
Israel	138	143 12/	-83	-73 12/	-55	-70 12/	206	156 12/	+20	- 12/	-88	-13 12/	138	143 12/
Jordan	75	56	-96	-90	+21	+34	79	79	+9	-	-13	-23	75	56
Morocco	59	64	-77	-39	+18	-25	60	106	-23	-22	+22	-20	59	64
Sudan	60	86	-56	-69	-4	-17	36	86	+10	-	+14	-	60	86
Tunisia	95	109	-86	-72	-9	-37	80	105	+3	+4	+12	-	95	109
U.A.R.	186	174	-168	-131	-18	-43	131	174	+18	-	+37	-	186	174
Sub-total:	674	1,283	-227	-211	-447	-1,072	806	1,429	-85	-70	-47	-76	674	1,283
WESTERN HEMISPHERE:														
Argentina	159	+30	-79	+179	-80	-149	214	3	-104	+5	+49	-38	159	-30
Brazil	204	110	-73	+66	-131	-176	217	275	-9	-14	-4	-151	204	110
Central America	74	208	-45	-154	-29	-54	90	208	-14	-	-2	-	74	208
Chile	192	135	-105	+53	-87	-188	140	177	+10	-14	+42	-28	192	135
Colombia	136	272 11/	-75	-155 11/	-61	-117 11/	124	275 11/	-22	- 11/	+34	- 3 11/	136	272 11/
Ecuador	9	55	+11	-26	-20	-29	13	43	-2	+2	-2	+10	9	55
Jamaica	13	53	+23	-1	-36	-52	19	39	-	+13	-6	+1	13	59
Mexico	260	430	-44	+16	-216	-446	296	468	-10	-2	-26	-36	260	430
Panama	32	36	-19	-23	-13	-13	26	36	+4 13/	-	+2 13/	-	32	36
Paraguay	10	21	-8	-16	-2	-5	9	21	+1	+3	-	-3	10	21
Peru	34	237	+35	-99	-69	-138	49	228	+13	+1	-28	+8	34	237
Trinidad & Tobago	54	64	+13	+6 14/	-67	-70 14/	49 15/	64 14/	-2	- 14/	+7	- 14/	54	64
Venezuela	+417	39	+1,050	+815	-633	-854	-255	171	-137	-159	-25	+27	-417	39
Sub-total:	760	1,630	+684	+661	-1,444	-2,291	991	2,008	-272	-165	+41	-213	760	1,630
ALL COUNTRIES:														
Specified 16/	3,980	7,660	-1,570	-3,140	-2,410	-4,520	4,680	8,340	-420	-310	-280	-370	3,980	7,660
Unspecified 9/ 16/	1,260	2,330	-500	-930	-760	-1,400	1,460	2,550	-110	-90	-90	-130	1,260	2,330
Total: 16/	5,240	9,990	-2,070	-4,070	-3,170	-5,920	6,140	10,890	-530	-400	-370	-500	5,240	9,990

1/ Plus = current account surplus.
2/ Plus = resource surplus.
3/ Plus = net receipts.
4/ Net long-term capital inflow from official and private sources.
5/ Plus = net inflow of funds; also accounts for residual capital transactions, if any, and for adjustments due to rounding.
6/ Plus = decrease of reserves.
7/ 1961/65.
8/ 1965/69 = Third Five-Year Plan period.

9/ Estimate.
10/ 1963/65.
11/ 1967/70.
12/ Average of three years (1966, 1967, 1970).
13/ 1960/63.
14/ 1968.
15/ Net public capital inflow 1962/65.
16/ Rounded figures.

Table 3: Net Inflow of Foreign Official Capital 1/
($ million)

Area/Country	Annual Average Actual 1960/64	Annual Average Projected 1966/70	Change
AFRICA:			
Cameroon	7	37	+30
East Africa	42 2/	86	+44
Ethiopia	11	20	+9
Liberia	7	2	-5
Malagasy Republic	24	26	+2
Nigeria	43	194	+151
Senegal	15	49	+34
Sub-total:	149	414	+265
ASIA:			
Ceylon	17	101	+84
India	915	1,602	+687
Korea	215	225	+10
Malaysia	33	78	+45
Pakistan	454	760 3/	+306
Thailand	63	86	+23
Sub-total:	1,697	2,852	+1,155
EUROPE:			
Cyprus	-5	0	+5
Finland	37	53	+16
Greece	56	121	+65
Ireland	1	22	+21
Spain	13	-16	-29
Turkey	156	181	+25
Yugoslavia	179	48	-131
Sub-total:	437	409	-28
MIDDLE EAST & NORTH AFRICA:			
Algeria	172 4/	381 5/	+209
Iran	11	171	+160
Israel	84	57 6/	-27
Jordan	76	74	-2
Morocco	60	102	+42
Sudan	28	80	+52
Tunisia	66	79	+13
U.A.R.	131	174	+43
Sub-total:	628	1,118	+490

(continued next page)

Table 3: Net Inflow of Foreign Official Capital 1/ (Con't)
($ million)

Area/Country	Annual Average Actual 1960/64	Annual Average Projected 1966/70	Change
WESTERN HEMISPHERE:			
Argentina	18	-59	-77
Brazil	171	130	-41
Central America	59	123	+64
Chile	94	121	+27
Colombia	75	218 5/	+143
Ecuador	6	32	+26
Jamaica	5	14	+9
Mexico	199	178	-21
Panama	8	10	+2
Paraguay	6	17	+11
Peru	35	155	+120
Trinidad & Tobago	11 7/	17 8/	+6
Venezuela	18	162	+144
Sub-total:	705	1,118	+413
ALL COUNTRIES:			
Specified 9/	3,610	5,910	+2,300
Unspecified 9/	1,150	1,870	+720
Total: 9/	4,760	7,780	+3,020

1/ Figures in this statement generally represent the inflow of official capital for financing the public sector, but in certain instances they also include financing from private sources; this is particularly true for past figures.
2/ 1961/65.
3/ 1965/69 = Third Five-Year Plan period.
4/ 1963/65.
5/ 1967/70
6/ Average of three years (1966, 1967, 1970).
7/ 1962/65.
8/ 1968.
9/ Rounded figures.

Table 4: Amortization of Foreign Official Loans 1/

($ million)

Area/Country	Annual Average: Actual 1960/64	Annual Average: Projected 1966/70	Change
AFRICA:			
Cameroon	2	2	0
East Africa	12 2/	30	+18
Ethiopia	3	10	+7
Liberia	3	7	+4
Malagasy Republic	1	2	+1
Nigeria	9	53	+44
Senegal	4	5	+1
Sub-total:	34	109	+75
ASIA:			
Ceylon	4	11	+7
India	106	340	+234
Korea	30	38	+8
Malaysia	3	23	+20
Pakistan	18	58 3/	+40
Thailand	13	22	+9
Sub-total:	174	492	+318
EUROPE:			
Cyprus	24	2	-22
Finland	.	.	.
Greece	8	19	+11
Ireland	2	4	+2
Spain	30	31	+1
Turkey	45	83	+38
Yugoslavia	89	202	+113
Sub-total:	198	341	+143
MIDDLE EAST & NORTH AFRICA:			
Algeria	9 4/	39 5/	+30
Iran	40	67	+27
Israel	133	144	+11
Jordan	2 6/	5	+3
Morocco	5	25	+20
Sudan	11	11	0
Tunisia	5	31	+26
U.A.R.	73	127	+54
Sub-total:	278	449	+171

(continued next page)

Table 4: Amortization of Foreign Official Loans 1/ (Con't)
($ million)

Area/Country	Annual Average Actual 1960/64	Annual Average Projected 1966/70	Change
WESTERN HEMISPHERE:			
Argentina	230	350 7/	+120
Brazil	185	308	+123
Central America	30 4/	30	0
Chile	81	97	+16
Colombia	25 8/	75 5/	+50
Ecuador	6	13	+7
Jamaica	.	.	.
Mexico	247	346	+99
Panama	.	.	.
Paraguay	3	6	+3
Peru	30	64	+34
Trinidad & Tobago	5 9/	5	0
Venezuela	52	40	-12
Sub-total:	894	1,334	+440
ALL SPECIFIED COUNTRIES:	1,580 10/	2,730 10/	+1,150 10/

1/ Including private debt guaranteed by the national government concerned.
2/ 1961/65.
3/ 1965/69 = Third Five-Year Plan period.
4/ 1963/65.
5/ 1967/70.
6/ 1963/64.
7/ 1966/69.
8/ 1961/65.
9/ 1962/64.
10/ Rounded figures.

Table 5: Net Inflow of Foreign Private Capital

($ million)

Area/Country	Annual Average Actual 1960/64	Annual Average Projected 1966/70	Change
AFRICA:			
Cameroon	•	•	•
East Africa	-48 1/	14	+62
Ethiopia	9	13	+4
Liberia	35	26	-9
Malagasy Republic	5	8	+3
Nigeria	73	75	+2
Senegal	•	•	•
Sub-total:	74	136	+62
ASIA:			
Ceylon	0	2	+2
India	16	100	+84
Korea	8	30	+22
Malaysia	78	78	0
Pakistan	18	29 2/	+11
Thailand	28	62	+34
Sub-total:	148	301	+153
EUROPE:			
Cyprus	•	•	•
Finland	37	47	+10
Greece	67	200	+133
Ireland	55	77	+22
Spain	189	416	+227
Turkey	35	46	+11
Yugoslavia	•	•	•
Sub-total:	383	786	+403
MIDDLE EAST & NORTH AFRICA:			
Algeria	-13 3/	61 4/	+74
Iran	44	110	+66
Israel	122	100 5/	-22
Jordan	3	5	+2
Morocco	0	4	+4
Sudan	8	6	-2
Tunisia	14	26	+12
U.A.R.	•	•	•
Sub-total:	178	312	+134

(continued next page)

Table 5: Net Inflow of Foreign Private Capital (Con't)
($ million)

Area/Country	Annual Average Actual 1960/64	Annual Average Projected 1966/70	Change
WESTERN HEMISPHERE:			
Argentina	196	62	-134
Brazil	46	145	+99
Central America	31	85	+54
Chile	46	56	+10
Colombia	49	57 4/	+8
Ecuador	7	11	+4
Jamaica	14	25	+11
Mexico	97	290	+193
Panama	18	26	+8
Paraguay	3	4	+1
Peru	14	73	+59
Trinidad & Tobago	38	47 6/	+9
Venezuela	-273	9	+282
Sub-total:	286	890	+604
ALL COUNTRIES:			
Specified 7/	1,070	2,430	+1,360
Unspecified 7/	310	680	+370
Total: 7/	1,380	3,110	+1,730

1/ 1961/65.
2/ 1965/69 = Third Five-Year Plan period.
3/ 1963/65.
4/ 1967/70.
5/ Average of three years (1966,1967,1970).
6/ 1968.
7/ Rounded figures.

CURRENT ACCOUNT DEFICIT, ANNUAL AVERAGE 1960-1964
COMPARISON BETWEEN IMF AND IBRD REPORTS
($ Million)

	IBRD REPORTS	IMF 1/
AFRICA:		
Cameroon	5	n.a.
East Africa	+33 2/	n.a.
Ethiopia	13	22
Liberia	59	n.a.
Malagasy Republic	29	n.a.
Nigeria	173	196
Senegal	18	n.a.
ASIA:		
Ceylon	43	43
India	934	874
Korea	238	238
Malaysia	32	46 3/
Pakistan	463	367
Thailand	52	52
EUROPE:		
Cyprus	11	9
Finland	77	80
Greece	115	118
Ireland	37	56
Spain	+71	+71
Turkey	192	157
Yugoslavia	158	162
MIDDLE EAST & NORTH AFRICA:		
Algeria	72 4/	n.a.
Iran	+11	44 5/
Israel	138	178
Jordan	75	75
Morocco	59	70
Sudan	60	60
Tunisia	95	95
U.A.R.	186	229

(continued on next page)

	IBRD REPORTS	IMF1/
WESTERN HEMISPHERE:		
Argentina	159	160
Brazil	204	277
Central America	74	78
Chile	192	205
Colombia	136	133
Ecuador	9	18
Jamaica	13	13
Mexico	260	278
Panama	32	31
Paraguay	10	10
Peru	34	24
Trinidad & Tobago	54	52
Venezuela	+417	+386

Note: + = current account surplus.

1/ Balance of Payments Yearbook, Vol. 17, 18 - Current account deficit defined as net merchandise, freight and merchandise insurance, investment income, other services and private transfer payments.
2/ 1961-65 average.
3/ 1961-64 average.
4/ 1963-65 average.
5/ Fiscal years.

ANNEX IV

THE NON-COMPARABILITY OF BANK DATA ON AVERAGE ANNUAL FLOWS OF CAPITAL (NET) TO THE SAMPLE COUNTRIES DURING 1960/64 WITH DAC DATA ON OFFICIAL BILATERAL FLOWS (INCLUDING TOTAL MULTILATERAL FLOWS)

(Annual Averages during 1960/64)

DAC country figures in the last column are not comparable to the Bank's figures because the former do not include "reverse flows", "capital flows (net) from non-DAC members" and net flow of private capital. The average annual flow of capital during 1960-64 from non-DAC members to the less developed countries as a whole has been reckoned by OECD at $550 million. On the assumption that of this average, the sample countries accounted for about $370 million (estimated on the basis of the ratio of flows to sample countries to total bilateral official flows), the DAC figure for the sample countries would amount to $4,160 million (3,790+370). This figure is also not comparable to the total of $3,610 million under Col. 1. because in addition to other factors, the former also accounts for private capital from non-DAC members.

	BANK			DAC
Area/Country	Official Capital (net)	Private Capital (net)	Total	Bilateral Official Flows from DAC Countries to Less Developed Countries Plus Flow from Multilateral Agencies (net)
	(US$ Million)			
AFRICA:				
Cameroon	7	.	7	n.a.
East Africa	42 1/	-48 1/	-6 1/	109
Ethiopia	11	9	20	24
Liberia	7	35	42	33
Malagasy Republic	24	5	29	n.a.
Nigeria	43	73	116	35
Senegal	15	.	15	n.a.
Sub-total:	149	74	223	201
ASIA:				
Ceylon	17	0	17	15
India	915	16	931	869
Korea	215	8	223	230
Malaysia	33	78	111	19
Pakistan	454	18	472	389
Thailand	63	28	91	44
Sub-total:	1,697	148	1,845	1,566

Area/Country	BANK Official Capital (net)	Private Capital (net)	Total	DAC Bilateral Official Flows from DAC Countries to Less Developed Countries Plus Flow from Multilateral Agencies (net)
EUROPE:				
Cyprus	-5	.	-5	16
Finland	37	37	74	n.a.
Greece	56	67	123	46
Ireland	1	55	56	n.a.
Spain	13	189	202	31
Turkey	156	35	191	183
Yugoslavia	179	.	179	143
Sub-total:	437	383	820	419
MIDDLE EAST & NORTH AFRICA:				
Algeria	172 2/	-13 2/	159 2/	350
Iran	11	44	55	53
Israel	84	122	206	112
Jordan	76	3	79	84
Morocco	60	0	60	90
Sudan	28	8	36	24
Tunisia	66	14	80	74
U.A.R.	131	.	131	195
Sub-total:	628	178	806	982
WESTERN HEMISPHERE:				
Argentina	18	196	214	49
Brazil	171	46	217	186
Central America	59	31	90	51
Chile	94	46	140	112
Colombia	75	49	124	68
Ecuador	6	7	13	17
Jamaica	5	14	19	7
Mexico	199	97	296	52
Panama	8	18	26	14
Paraguay	6	3	9	8
Peru	35	14	49	11
Trinidad & Tobago	11 3/	38	49	10
Venezuela	18	-273	-255	41
Sub-total:	705	286	991	626
Grand-total: 4/	3,610 5/	1,070	4,680	3,790 5/

1/ 1961-65 average.
2/ 1963-65 average.
3/ 1962-65 average.
4/ Rounded figures.
5/ See note at head of table.

Mr. Barend de Vries

April 15 1968

Irving S. Friedman

In addition to the comments I just made about Chile and Tunisia, I would like to pass on the fact that Mr. McNamara wondered why we were doing Turkey and Yugoslavia.

When you have a chance we might talk about it.

ISF

Mr. Barend de Vries April 15 1968

Irving S. Friedman

In addition to the comments I just made about Chile and Tunisia, I would like to pass on the fact that Mr. McNamara wondered why we were doing Turkey and Yugoslavia.

When you have a chance we might talk about it.

IF

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** April 12, 1968

FROM: Irving S. Friedman

SUBJECT: Status of 5-Year Bank Projection of Development Programs

I have met with the Area and Economics Departments' Advisers to review the scope of this exercise and agree on the organization of the work. We have agreed on the attached outline of this work which provides an economic framework for development operations in the countries concerned. The attached outline may look somewhat ambitious but I have emphasized that we are to base the work on available information and only to do that which is now feasible. However, I have also urged the economists to do their best on the basis of available data to quantify their thinking. I believe this is not time consuming for a number of countries as long as we are talking about crude projections, which we will not try to test at this time for internal consistency or probability. It would provide a frame of reference for any qualitative statements and judgments.

list of countries

Mr. de Vries of the Economics Department is reporting to me on the progress of the exercise. He heads a task force in the Economics Department which will advise and assist the Area Departments' Economic Advisers who are directing the work in their respective Departments.

ISF

cc: Mr. Aldewereld

FIVE-YEAR BANK PROJECTION OF DEVELOPMENT

IN SELECTED COUNTRIES

OUTLINE

I INTRODUCTION

1. The projections form part of the preparation of a 5-year program for Bank activities, which also includes projections of loan and project operations and an analysis of the consequences of these projections for the financing and staffing of the Bank.

2. The projections will necessarily be based on the Bank's present assessment of development achievement, problems and prospects. The extent of detail and quantification, particularly on sectors, will necessarily depend on the status of the Bank's current work on the country. Areas where our knowledge or judgment could be significantly improved by additional work should be identified.

3. The objective will be to specify for the countries concerned:

   a. Major development problems.

   b. Desirable and likely focus of countries' efforts.

   c. Principal policies and measures required for these efforts.

   d. Trends of major elements of development programs.

4. The countries to be covered are listed in Annex 1. Data and projections should be for 1962-66 (recent past), 1967 (present), 1969 and 1970 (immediate future) and 1973.

II <u>PRESENT POSITION</u>

5. A statement on present position is needed as a base for the 5-year projections. This and the next section should focus on problems and policies.

6. Present economic position and trends in past 5 years (Balance of Payments, Investment-Savings, Public Sector, growth trends in major sectors). (Where relevant line up statistical series with projections) (Cf. Annex 2).

7. Give your judgment on principal development priorities and identify <u>key problems</u> facing country, for example:

a. Financial: inflation, savings and tax performance.

b. Resource allocation:

Physical controls

Price structure

Adequacy of emphasis on particular sectors (agriculture, industry, infrastructure).

Excess of low priority public expenditures

Treatment of private sector

c. Planning: Performance in selecting and executing high priority investment, capability to increase effective development effort.

d. Population

III POLICIES

8. Based on our current views and knowledge, identify changes in present policies and measures required to cope with problems listed under para. 7. Indicate desirable timing (e.g. "immediate", "in next 2 years or so"), their political and technical feasibility, their likelihood, and the problems which may be encountered in adopting these policies.

IV FIVE-YEAR PROGRAM AND PROJECTIONS

9. What, in the Bank's present view, should be the country's priorities and the focus of its development effort in the next 5 years.

   a. Which of present problems (para. 7) are likely to persist and deserve major attention in a development program. In which sectors should development expenditures be increased and where should there be cut-backs.

   b. Indicate present and projected level of development expenditures. Composition by major sectors in greater detail for 1967, 1969 and 1970 than for 1973. (Transport, power, telecommunications; education, health and housing; agriculture and industry). (Cf. Annex 2, page 4).

   c. Where possible and relevant, indicate impact of recommended policy changes and measures (Cf. para. 8 and 9a) on level and composition of development expenditures. (e.g. impact of new taxes, shift in investment allocation, steps to improve project capability, improvement in export performance).

10. Projection of Major Elements in Program (1969-73):

    a. Statistical series of Annex 2.

b. Where relevant, specify ranges in projections, and indicate policy factors influencing these ranges.

11. External assumptions: No constraint on aid availability. Use standard assumption about absence of major world depression. Consult Economics Department on commodity price projections and prospective growth in industrial countries.

V CAPITAL INFLOW AND EXTERNAL DEBT

12. a. Range of external capital inflow indicated by IV. Composition (private and short-term, public loans, grants, use of reserves).

b. Debt position following from a., on appropriate assumptions as to terms of new debt.

VI WORK ORGANIZATION AND TIMING

13. Economic Advisers will be responsible for organizing and phasing the work on their countries. They will be in touch with Mr. de Vries who will head a group in the Economics Department which will provide necessary assistance to country experts.

14. Papers should be passed on to Mr. de Vries as they are ready in preliminary form. The deadline is April 26, 1968.

Economics Department
April 11, 1968

ANNEX 1

SELECTED COUNTRIES
(Provisional)

Africa: Ghana, Kenya, Tanzania, Uganda, Nigeria, Congo(K);

Asia: India, Pakistan, Korea, Malaysia, Indonesia, Thailand; Phil.

Europe: Turkey, Yugoslavia;

Middle East & North Africa: Morocco, Tunisia, Sudan, U.A.R.; Iran;

Western Hemisphere: Argentina, Brazil, Colombia, Mexico, Peru. Chile

Balance of Payments Data for Past and Base Years

Exports of goods and non-factor services.

(a) Merchandise

(b) Services

Imports of goods and non-factor services.

(a) Merchandise

(b) Services

Current Transfers (excluding official grants, but including technical assistance.

Factor Income Payments, gross.

(a) Interest on public debt, gross

(b) Other

Long-term Private Capital Inflow, net.

(a) Direct Investment, gross

(b) Other

Long-term Public Loans.

(a) Gross loans received

(b) Amortization

(c) Grants

Use of official reserves

Base year 1967

Past years 1962-66

National Income Data for Past and Base Years

Gross Domestic Product

(a) at current market prices

(b) at constant market prices

Consumption

(a) private

(b) public

Gross Fixed Capital Formation

(a) private

(b) public

Change in Inventories

Exports of Goods and non-factor services

Imports of Goods and non-factor services

Base Year 1967

Past years 1962-66

ANNEX 2

Projection (1969, 1970 and 1973)

(1) Exports and Imports of Goods and Non-factor services

(this may be either: 1. rate of growth or
2. year-by-year detailed figures)

(2) Factor Income Payments:

(a) Interest on public debt, gross
(b) Other

(3) Investment, Public and Private

(4) Expected Rate of Growth of Gross Domestic Product (either growth rate or projected levels)

(5) Rough Estimates of the Probable Range of Gross Official and Private Capital Inflow up through 1973

(6) Judgment on the Feasible Improvement in the Savings and Imports.

(7) Public Sector Revenue and Expenditure (1962-66, 1967 and projections)

Note: Where possible indicate ranges and policy factors determining these ranges.

Composition of Development Expenditures
(1962-66, 1967, 1969, 1970 and 1973)

1. Transport
2. Power
3. Telecommunications
4. Education
5. Health
6. Housing
7. Other Social
8. Agriculture
9. Industry
10. Services

Where relevant distinguish between private and public sectors and give major subcategories (e.g. item 1: roads, ports, railroads, airports; item 8: irrigation, credit, storage; item 9: heavy capital goods, light consumer goods).

Future years can be less detailed than past years.

Where relevant, indicate ranges and factors influencing range.

Mr. Robert S. McNamara April 10, 1968

Irving S. Friedman

Mr. Maurice Strong

Mr. Maurice Strong, who is the head of the Canadian Aid Agency, telephoned me today. He and I have had continuous contacts since he has been in office, and from time to time he was most useful on a personal and confidential basis in the IDA replenishment exercise and in getting Canadian support for the Grand Assize. He telephoned me today to ask whether I was planning to go to the Conference at the end of next week in Beirut. He is going to attend.

During the course of the conversation I asked about the statement made by Mr. Trudeau on Canadian aid. He said that he was certain from discussions with Mr. Trudeau that this statement was not intended to apply to the World Bank Group, but to other U.N. agencies. Mr. Trudeau has seemingly been unfavorably impressed with the proliferation of these other U.N. agencies. He agreed that I could pass on these assurances to you and others concerned.

cc: Mr. Knapp
Sir Denis Rickett
Mr. William Clark

Mr. Friedman

Mr. Robert S. McNamara April 8, 1968

Denis Rickett

Canadian Aid Policy

At the meeting of your Council this morning you asked me to make some enquiries about the statements reported to have been made by Mr. Trudeau to the effect that his government would re-assess their foreign policy and their attitude to international organizations and that, while foreign aid would be increased, there would be more emphasis on bilateral aid and greater selectivity.

I had a short talk about this with Mr. Patrick Reid. It may be worth recording what he said though no doubt you have already heard it from him yourself. He said that Mr. Trudeau's statement had come as something of a surprise to him. The Canadian Government had hitherto been strong supporters of multilateral aid. Mitchell Sharp and Morris Strong had felt that even bilateral aid programmes could not be effective unless they were backed up by strong international organizations such as the Bank and IDA.

He added that the Canadian aid programme (including a certain amount of hard lending at 6%) was increasing at the rate of $50 to $60 million a year. The total next year would be $400 million and by the early 1970s it should have reached $600 million. Since the total programme was expanding in this way, there would always be room for an increasing absolute amount to be devoted to multilateral aid even if the relative importance of bilateral aid were to become somewhat greater in the future.

Mr. Reid said to me, as no doubt he did to you, that he thought it would be very useful if you were able to find an opportunity to talk to the new Canadian Government about their aid policies once these have been formulated. He thought that a visit either in the near future or in say about a year's time might be considered. I do not know whether you have considered visiting Ottawa when you go to Montreal on April 20th. In any event you might wish to let Mr. Reid have details of your visit unless he has them already.

DR:emcc

c.c. President's Council

Mr. J. Burke Knapp April 9, 1968

Irving S. Friedman

Five-year Forecast of Bank/IDA Operations

1. Thank you for sending me a copy of the memorandum. Since I have always found it indispensable for the planning of the economic work of the Bank and IDA to look ahead as far as possible, I believe the forecasts requested from the Area Departments are bound to be useful. To take stock of what is in the pipeline should make it a great deal easier to assess our operational, financial and staff requirements for the immediate future.

2. I would like to emphasize one aspect of your assumptions. Taken together, they may be taken to imply that the Bank and IDA will continue to do in the next five years what we have been doing in the last five years. I am concerned that, unless clearly explained to the contrary, what is now put down as a set of assumptions may harden into a set of policies without having given consideration to possible alternatives. Mr. McNamara's proposal for a 5-year "forward look" should be the beginning of a thorough re-examination of the role which the Bank loans and IDA credits fit into what we consider to be desirable development programs and policies. Such an exercise would, of course, imply an exploration of the various assumptions included in your statement.

3. I realize that the kind of re-examination which I have in mind will take time and cannot be completed within a short deadline. Therefore, the forecasts which you have requested are useful as an interim step. May I add that I would find paragraph 2 of your covering memorandum difficult to follow. I think that given the assumptions, the more concrete the forecasts are by sector, the easier it may be to do, even though it involves arbitrary judgments.

4. I plan to inform the Economic Committee of the President's request that the economists come up with 5-year development programs for at least the more important development countries, however, crude. We will have the same deadline as the projections for projects and loans and will send our results to Mr. Aldewereld.

cc: Mr. Aldewereld

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP	Date April 5, 1968

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Friedman	
cc Kamarck + Adler	

	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

Have you any comments on the attached paper, especially with regard to the Statement of Assumptions?

JBK

From

J. Burke Knapp

DRAFT
JBKnapp:ism

To: Area Department Directors

From: J. Burke Knapp

Subject: Five-year Forecast of Bank/IDA Operations

1. As part of the 5-year "forward look" proposed by the President at the Senior Staff Meeting on April 3, I would appreciate it if you would submit to me by Tuesday, April 16, your best estimate of the amount of Bank loans and IDA credits that you would expect to be making in your Department during each of the next five fiscal years. These estimates should be broken down by country and so far as possible by sector, i.e. electric power, transportation, agriculture, industry and mining, development finance companies, education, communications, water supply, tourism, and other.

2. I appreciate that as you move on from the first year to the fifth year you will have to rely less on forecasting particular loans and more on forecasting the general volume of country lending in the light of the country's credit-worthiness or IDA-worthiness and the general relations of the Bank/IDA with the country concerned (including, in the case of the Bank, the amount of repayments which we will be receiving). However, please give me a definite sector breakdown for the first two years, and as much of a sector breakdown as you find it reasonable to forecast for the last three years, with the balance (if any) labelled "unidentified".

3. Mr. Aldewereld has asked the Projects Department to produce a similarly quick estimate of their expectations regarding the time required to bring to completion projects which are already "in the pipeline", and you should coordinate your forecasts with theirs (also with the expectations of the IFC with respect to the completion of industrial, mining, and

development bank loans or credits which are "in the pipeline").

4. For the purpose of this exercise please be guided by the assumptions in Annex A.

5. Will you please attend a meeting in my office at . . . . to review any questions which you may have regarding this exercise. I plan to have a further meeting after the receipt of your forecasts to discuss any problems which may emerge from them - e.g. excess of forecasted IDA credits over amounts assumed to be available for commitment.

Draft
JBKnapp:ism:dk

ANNEX A

Five-Year Forecast of Bank/IDA Operations
Statement of Assumptions

GENERAL

1. That there are no major changes in the general flows of international trade and payments, and no major changes in the trend of commodity prices beyond those contemplated in our present forecasts.

2. That there is no major change in the flow of development finance from bilateral sources, but that there is a modest growth in the activities of regional lending institutions.

3. That the Bank and IDA continue to solicit joint or parallel financing in selected cases, but without any intensification of this effort because of shortage of funds in the Bank.

4. That both the Bank and IDA continue to follow the basic "project approach" to development lending, and present policies with regard to "cost-sharing" and the financing of local currency expenditures.

5. That lending operations are not significantly deterred by new cases of "bad performance", political convulsions, etc.

6. That there are no defaults, and no major debt rescheduling exercises outside of India.

BANK

1. That there is no constraint arising from shortage of funds in the Bank.

2. However, that the Bank continues to exercise restraint in lending to the more advanced countries and continues pressing them to rely upon

their own resources and their credit in the private capital markets (this implies no resumption of lending to countries like Japan, Australia, Italy, etc.).

3. That the Bank continues to apply its present standards of creditworthiness.

IDA

1. That IDA is able to make total new commitments as follows:

1968/69	$500 million
1969/70	$500 million
1970/71	$1,000 million
1971/72	$1,000 million
1972/73	$1,000 million

2. That "quick disbursing" credits are confined to India, in amounts to be discussed with the Asia Department.

3. That the criteria for "IDA-worthiness" remain broadly the same as at present.

4. That the allocations to India and Pakistan remain at 40 per cent and 12½ per cent respectively.

5. That IDA lending terms remain as at present.

April 4, 1968

Mr. Robert S. McNamara April 3, 1968

Irving S. Friedman

<u>1968 Annual Conference of the Canadian Importers Association</u>

Attached hereto is a copy of the address I intend to make tomorrow in Toronto.

I accepted this invitation to speak to the Canadian Importers Association for a number of reasons, but one was that I have had a continuing admiration for the people engaged in this business in Canada. Canada, as you know, is one of the world's largest foreign traders, in the same class as France and Japan and exceeded only by the U.S., the U.K. and Germany.

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 3 1968

FROM: Irving S. Friedman

SUBJECT: Conference on World Cooperation for Development

I am attaching hereto an invitation which I have received to attend a Conference on World Cooperation for Development which is being co-sponsored by the World Council of Churches and the Pontifical Commission on World Justice and Peace, and I am also attaching my interim reply.

I would like to take this occasion to inform you of my relations with these institutions.

A few years ago, some time in 1964, I first became acquainted with Monsignor Gremillion through some mutual friends outside the Bank. At that time Monsignor Gremillion was still in the United States working to obtain greater interest and support of the churches and their members for the developing countries. (This was before the Papal Encyclical had been written.) We had a number of private discussions on what might be done and how economists might be helpful in this effort. Perhaps my principal point was that it was undesirable and unnecessary for the churches to issue statements in which the economics was poor nor was it necessary to develop an independent expert group of economists because I was convinced there would be many economists in the World Bank and elsewhere, including myself, who would be happy to cooperate on a voluntary basis.

In the summer of 1967 Monsignor Gremillion went to Rome to be Secretary of the Commission for World Justice and Peace, and Monsignor Bordelon in Washington became Director of the U.S. Secretariat for World Justice and Peace, which is under the Bishop's Committee for World Justice and Peace of the National Conference of Catholic Bishops. He was introduced to me by Monsignor Gremillion and I have had close continuous relations with him. At his urging I have participated in a number of discussions organized by his group as well as giving informal help and advice when sought, and also involving other Bank economists through me on a volunteer informal basis. For example, we did a critique from the scientific economic viewpoint of the Papal Encyclical -- again on a voluntary, personal and confidential basis -- and Monsignor Bordelon and Barbara Ward have repeatedly told me that it has been greatly appreciated. Moreover, Monsignor Bordelon tells me that Rome has decided that there will be no future major pronouncements involving economic matters without first trying to get the benefit of experienced economists.

I had hoped that at some time it might be appropriate for the World Bank as an institution to participate at least as observers in the deliberations of these groups. During 1967 it seemed to me that the time had become appropriate for the World Bank to have such a relationship with the Pontifical Commission as it had already established one with the World Council of Churches.

I arranged for Monsignor Bordelon to meet Mr. Fulton of our Information Department. I also took the initiative to explain that Mr. Demuth ought to be the regular channel of communication when requesting assistance from our institution. After this meeting Mr. Harold Graves was designated the Bank's continuing staff member for this purpose, and an invitation was extended to Mr. Graves to attend a meeting of church leaders in Brussels and a meeting in Beirut in 1968. He has since been invited to other meetings. I have also had Mr. Graves accompany me to a couple of meetings in New York and Newark. I have tried to distinguish my participation as a friendly expert in international economics and development from our participation as an institution. I have explained to Monsignors Gremillion and Bordelon and others, my belief that the formal relationship is better maintained by someone who can participate in their discussions and is more available. I have also emphasized that Harold Graves is an able person experienced in explaining not only the activities of the Bank but also the situation in the developing world to public audiences. I said that I would be happy to be of help when they needed help which went beyond that which Harold Graves could give. I am aware that there is probably much personal feeling involved here in their attitude toward me since I was among the first to encourage their efforts and to volunteer my services and provide them with an informal link to the Bank's great expertise in development matters. Their efforts are already bearing fruit and promise to be very important in the future.

The proposed Conference in Beirut is from April 21-27. It is the first ecumenical effort in our field of development. If I were to go I would think in terms of being there for about the first three days -- say Sunday through Tuesday when the intensive discussions on the developing world and what can be done by the churches are likely to be held. Harold Graves is planning to be there for the entire period as a Bank participant. I am sure his participation will be worthwhile from all viewpoints. I am planning to accept the invitation to go as a technical consultant, but if you would prefer that I minimize my travelling at this time I would, of course, understand. In any case I will send in the paper which I promised to them on The Development Performance of the Past Twenty Years.

Your reaction to this would be most appreciated.

Atts: (2)

Mr. Robert S. McNamara April 3 1968

Irving S. Friedman

Conference on World Cooperation for Development

I am attaching hereto an invitation which I have received to attend a Conference on World Cooperation for Development which is being co-sponsored by the World Council of Churches and the Pontifical Commission on World Justice and Peace, and I am also attaching my interim reply.

I would like to take this occasion to inform you of my relations with these institutions.

A few years ago, some time in 1964, I first became acquainted with Monsignor Gremillion through some mutual friends outside the Bank. At that time Monsignor Gremillion was still in the United States working to obtain greater interest and support of the churches and their members for the developing countries. (This was before the Papal Encyclical had been written.) We had a number of private discussions on what might be done and how economists might be helpful in this effort. Perhaps my principal point was that it was undesirable and unnecessary for the churches to issue statements in which the economics was poor nor was it necessary to develop an independent expert group of economists because I was convinced there would be many economists in the World Bank and elsewhere, including myself, who would be happy to cooperate on a voluntary basis.

In the summer of 1967 Monsignor Gremillion went to Rome to be Secretary of the Commission for World Justice and Peace, and Monsignor Bordelon in Washington became Director of the U.S. Secretariat for World Justice and Peace, which is under the Bishop's Committee for World Justice and Peace of the National Conference of Catholic Bishops. He was introduced to me by Monsignor Gremillion and I have had close continuous relations with him. At his urging I have participated in a number of discussions organized by his group as well as giving informal help and advice when sought, and also involving other Bank economists through me on a volunteer informal basis. For example, we did a critique from the scientific economic viewpoint of the Papal Encyclical -- again on a voluntary, personal and confidential basis -- and Monsignor Bordelon and Barbara Ward have repeatedly told me that it has been greatly appreciated. Moreover, Monsignor Bordelon tells me that Rome has decided that there will be no future major pronouncements involving economic matters without first trying to get the benefit of experienced economists.

I had hoped that at some time it might be appropriate for the World Bank as an institution to participate at least as observers in the deliberations of these groups. During 1967 it seemed to me that the time had become appropriate for the World Bank to have such a relationship with the Pontifical Commission as it had already established one with the World Council of Churches.

I arranged for Monsignor Bordelon to meet Mr. Fulton of our Information Department. I also took the initiative to explain that Mr. Demuth ought to be the regular channel of communication when requesting assistance from our institution. After this meeting Mr. Harold Graves was designated the Bank's continuing staff member for this purpose, and an invitation was extended to Mr. Graves to attend a meeting of church leaders in Brussels and a meeting in Beirut in 1968. He has since been invited to other meetings. I have also had Mr. Graves accompany me to a couple of meetings in New York and Newark. I have tried to distinguish my participation as a friendly expert in international economics and development from our participation as an institution. I have explained to Monsignors Gremillion and Bordelon and others, my belief that the formal relationship is better maintained by someone who can participate in their discussions and is more available. I have also emphasized that Harold Graves is an able person experienced in explaining not only the activities of the Bank but also the situation in the developing world to public audiences. I said that I would be happy to be of help when they needed help which went beyond that which Harold Graves could give. I am aware that there is probably much personal feeling involved here in their attitude toward me since I was among the first to encourage their efforts and to volunteer my services and provide them with an informal link to the Bank's great expertise in development matters. Their efforts are already bearing fruit and promise to be very important in the future.

The proposed Conference in Beirut is from April 21-27. It is the first ecumenical effort in our field of development. If I were to go I would think in terms of being there for about the first three days -- say Sunday through Tuesday when the intensive discussions on the developing world and what can be done by the churches are likely to be held. Harold Graves is planning to be there for the entire period as a Bank participant. I am sure his participation will be worthwhile from all viewpoints. I am planning to accept the invitation to go as a technical consultant, but if you would prefer that I minimize my travelling at this time I would, of course, understand. In any case I will send in the paper which I promised to them on The Development Performance of the Past Twenty Years.

Your reaction to this would be most appreciated.

Atts: (2)

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP

Date 4/3

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Friedman	

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

Remarks

I read to Mr. McNamara attached, excluding the two bracketed sentences, and told him that this was your draft. He said it was an excellent job.

From RBS

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

April 3, 1968

Mrs. Jacobsen:

We talked this morning. Attached please find the full paragraph on IDA which I read to you over the telephone except for the two sentences in brackets. Senator Percy may want to include these sentences unless he feels his speech gets too long.

With many thanks,

Rainer B. Steckhan
Personal Assistant to
Mr. McNamara

Mrs. Nadine Jacobsen
Office of Senator Percy
New Senate Office Building
Constitution and First Street
Room 1200

I should like to express my wholehearted support for the proposed replenishment of the resources of the International Development Association (IDA). As you know, IDA is an affiliate of the World Bank Group with its resources contributed by 18 of the richest countries, including the United States. I understand that the proposal will be to increase its total resources by $400 million a year for a period of three years. Of this the United States share will be 40% or $160 million a year. This means that for every dollar put up by the United States, a dollar and a half will be put up by other donor countries. This indeed is unique and most welcome. Moreover, I understand that arrangements have been agreed whereby there will be no adverse effect whatever on the U.S. balance of payments from IDA operations for at least a number of years ahead. [This is being done without interfering with the high standards of international competitive bidding which are the under-pinning of the sound reputation enjoyed by the International Development Association.] We have all come to learn that despite the soft terms on which IDA's credits are extended to the developing countries most in need of such terms, IDA applies the same rigorous, careful, cautious standards we have come to take for granted from the World Bank. From every viewpoint I am sure that there is no way in which we give as effective contributions to help finance increased productivity in the poor countries as through the multilateral mechanism of the International Development Association. [Last, but not least, this very large operation is carried on with very little administrative cost. Indeed, its administrative expenses amount to only about 1% to 2% of its entire disbursements. The rest is used for the purposes for which I believe we should appropriate the funds, namely to help meet the pressing needs of the many poor countries served by this institution.]

APR 2 - 1968

I should like to express my wholehearted support for the proposed replenishment of IDA resources. I understand that the proposal will be to increase its total resources by $400 million a year for a period of three years. Of this the United States share will be 40% or $160 million a year. This means that for every dollar put up by the United States, a dollar and a half will be put up by other donor countries. This indeed is unique and most welcome. Moreover, I understand that arrangements have been agreed whereby there will be no adverse affect whatever on the U.S. balance of payments from IDA operations for at least a number of years ahead. This is being done without interfering with the high standards of international competitive bidding which are the under-pinning of the sound reputation enjoyed by the International Development Association. We have all come to learn that despite the soft terms on which its credits are extended to the developing countries most in need of such terms, it applies the same rigorous, careful, cautious standards we have come tottake for granted from the World Bank. From every viewpoint I am sure that there is no way in which we give more effective contributions to help finance increased productivity in the poor countries than through the mechamism of the International Development Association. Last, but not least, this very large operation is carried on with very little administrative cost. Indeed, its administrative expenses amount to only about 1% to 2% of its entire disbursements. The rest is used for the purposes for which I believe we should appropriate the funds, namely to help meet the pressing needs of the many poor countries served by this institution.

April 2 1968

Dear Mr. Rey,

I must apologise for not acknowledging your letter of March 14 sooner, but I was out of the country when it arrived.

I am looking forward to reading the attachments.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Andrew Rey
Lyndell Farm
R.D. 2
Downington, Pa. 19335

Mr. George D. Woods

March 11, 1968

Irving S. Friedman

Supplementary Finance - UNCTAD

I presume that you have been informed of the information coming from our mission in UNCTAD regarding discussions on Supplementary Finance. It seems that the technical meetings have been finished and now the back-room work has begun in earnest.

I get the impression that the line-up is about the same, some developed countries, e.g. Sweden and The Netherlands, plus the LDC's, vigorously supporting, some developed countries giving it a kind of worried support (of which the U.K. would be the outstanding example), and Japan, Germany, France and the U.S. continuing to raise questions and technical issues. The underlying problem is, I believe, that the Scheme would cost money.

In the past the Germans and Japanese were mostly concerned about the technical problems involved using export projections and relating financial commitments to such export projections. They seemed to believe that it meant an open-ended commitment on the amount of financial support which a country might receive. The French had stressed the Commodity Agreement approach as an alternative to supplementary finance, which they repeatedly stated represented an attempt to deal with international economic problems through the use of the price/market mechanism instead of international regulation of markets - price fixing in the consuming countries, producer controls in the exporting countries, and international agreements to obtain compliance. The Americans have kind of floated around expressing wonder about what should be included in policy packages and weren't there other uncertainties facing the developing countries that ought to be considered.

In this connection I was particularly interested myself in the statement of the Economic Commission for Africa. Despite my natural bias, I was surprised at their enthusiastic support for the supplementary finance scheme, as it is their part of the world which is talking most about commodity arrangements in addition to the French.

I am attaching an extract of the statement made by the spokesman for the Economic Commission for Africa at the Plenary session in Delhi.

Attachment(1)

Mr. McNamara March 5 1968

Irving S. Friedman

Attached hereto is a letter from a Dr. George Szego, together with enclosures which I was asked to handle on your behalf.

I am also attaching my reply. It seemed best to keep it non-commital.

In the meantime I have taken the liberty of having a few of the staff, including myself, read the attachments in case you would like to have any comments from us on them.

Attachments

March 5 1968

Dear Dr. Szego,

Your letter of March 1 1968 has been referred to me.

As you may know, Mr. McNamara is at present not in Washington and is not expected to be at the World Bank until about April 1. I will, of course, bring your letter and its attachments to his attention when he arrives.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Dr. George C. Szego
Oakwood
Warrenton
Virginia 22186

SecM68-50

FROM: The Secretary

February 29, 1968

AWARD OF THE MEDAL OF FREEDOM TO
MR. ROBERT S. McNAMARA

Attached for information is the text of the statement made by President Lyndon B. Johnson at a ceremony at the White House yesterday at which he presented the Presidential Medal of Freedom to Mr. Robert S. McNamara.

Distribution:

Executive Directors and Alternates
President
President's Council

FOR IMMEDIATE RELEASE FEBRUARY 27, 1968

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT AT
THE CEREMONY AWARDING THE
MEDAL OF FREEDOM TO SECRETARY
ROBERT S. MC NAMARA
THE EAST ROOM

(AT 1:20 P.M. EST)

Secretary and Mrs. McNamara and family, Members of the Cabinet, Members of Congress, Chief Justice, Distinguished Guests:

Thomas Jefferson said:

"When a man assumes a public trust, he should consider himself public property."

The man we honor here today has lived that philosophy for more than seven long years.

The General Services Administration does not list him among our official assets, but he is one of America's most valuable public properties.

Bob McNamara may not have accomplished the impossible. But he has achieved the unlikely: managing and directing the huge complexity that is our defense establishment of the United States of America.

Those of us who served in Government during the Second World War came out of that conflict very proud of our Armed Forces -- but all of us were deeply concerned for our future.

President Truman, that great leader of our country, at that time said:

"One of the strongest convictions which I brought to the office of the Presidency was that the antiquated defense setup of the United States had to be reorganized quickly as a step toward insuring our future safety and preserving world peace. From the beginning of my administration I began to push hard for unification of the military establishment into a single department. . ."

As a Congressman I spent hours and days listening to the testimony for and against unification. Most of the arguments came down to one commen denominator: it just can't be done. It is impossible.

No one heard that refrain more often than the man who is about to become our new Secretary of Defense. Clark Clifford was here in the White House trying to help President Truman. He has told me this:

MORE

(OVER)

"I know so clearly what President Truman had in mind all during that time. And all through the years he kept hoping that we could and we would some day reach that point. Under Bob McNamara we finally did."

So, Bob McNamara has really served faithfully three Presidents: as a member of the Cabinet under President Kennedy and myself, and -- after 20 years -- as the man who made our Defense Department what Harry Truman wanted it to be.

Now, another distinguished American assumes the leadership of the establishment that he helped to create -- and that Bob McNamara helped to perfect.

The task, I think, and I think Bob McNamara thinks, could not have passed to abler and wiser hands.

In Bob McNamara, the World Bank is gaining an executive of vision and a thinker who is also preeminently -- with apologies to Mrs. Johnson -- a doer.

Daily we read the reports that the developing nations are hopelessly far behind. The gap between the "haves and the have-nots" is said to be so wide and so growing that is is a great threat to world peace and that it will never be narrowed.

I do not generally make predictions on such matters and certainly my record does not compare with certain noted columnists, but I will make a prediction here in the East Room this morning.

I predict that 20 years from now another President will stand here and say: "a revolution of achievement in the developing nations began with the appointment of Robert S. McNamara to the World Bank in 1968."

For many long years Bob McNamara has guided our defense establishment. He has helped to give America the strongest, most efficient military power in history.

Now he is going to try, try to build the kind of world that alone can justify that strength.

We are asking him to attack the root causes of violence and turmoil -- poverty, disease, ignorance, and hopelessness.

Those are the ancient enemies of the human race, who have never been defeated before. But our generation has the strength and the power and the resources, I hope, to eliminate them from the face of the earth.

What now is needed is intelligence -- and organization and the will.

In this intensely loyal, brilliant and good man, America is giving to the world -- and if I may be personal -- I am giving the world the very best that we have to win the most important war of all.

MORE

America is grateful for what he has done -- and I speak for all of America this morning -- and more important, for what he is about to do.

Mr. Secretary, on behalf of your fellow Americans, all of them, your country salutes you.

I will now read the citation of the highest medal that the President can award to a civil servant.

"The Presidential Medal of Freedom citation, Robert S. McNamara. For 7 years you have administered our complex defense establishment, unifying our strength so that we might respond effectively wherever the security of our free world was challenged. A brilliant analyst, a modern administrator, you have brought a new dimension to defense planning and to decision-making.

"You have grasped the urgent social crisis of our time, the awakening of hope among the world's poor. You have understood that while freedom depends on strength; strength itself depends on the determination of free people.

"Your seven long years of unshakable loyalty to the Republic, to the President, and to all who serve beside you and under you in the Armed Services, is an example for the public servant and an inspiration for your countrymen.

"May your selfless service spent in defending freedom bring even greater awards in the larger work that you now undertake; to promote freedom throughout all the world."

It is signed "Lyndon B. Johnson, President, the White House."

END (AT 1:29 P.M. EST)

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

OFFICE MEMORANDUM

TO: FILES

DATE: February 28 1968

FROM: Irving S. Friedman

SUBJECT: Lunch with Mr. Merchant

Yesterday at lunch Mr. Merchant inquired what I thought the three critical problems which would confront the new president when he came to the Bank. My reaction was that they were:

1. The decision whether the Bank should continue to try to play the role of leadership in world economic development. In other words, should it continue the Woods policy of making the Bank a development finance institution, although Bank, to the private notion, is that a bank is a bank. (Mr. Merchant thought that there was no question of returning to the past and that the Woods innovations ought to be further developed.)

2. The external indebtedness problem -- giving a lead to the world as well as for Bank/IDA participation.

3. The structural changes within the Bank to cope with the new roles of the Bank initiated by Woods. This includes relations between the president and the Board and the Board and the staff, as well as within the staff itself, and relations between the staff and members.

4. The implications for the Bank of having to ration part of IDA funds so that both the recipient as well as donor countries became mainly concerned with how funds were being used.

Mr. George D. Woods February 23, 1968

Irving S. Friedman

Bank/Fund Collaboration in Economic Work

As background for your lunch with Mr. McNamara and Mr. Schweitzer on Monday, you might like to have a description of the way in which the Bank and Fund cooperate in economic work.

1. Country Work

In country work the country economists from both the Bank and Fund keep in current touch with one another on those countries that both the Fund and the Bank are interested in. As you know, in the Bank's Economic Committee we discuss and agree on our recommendations to you on: our judgment of the economic performance of each country considered, what improvements in performance are feasible for the country to carry out and what economic policy posture the Bank ought to have towards the country. The Fund participates fully in this process. The Fund staff is represented at all meetings of the Bank Economic Committee on countries. In the Bank we have found the Fund representatives extremely useful as their participation gives us the benefits of the Fund's knowledge and experience and helps us arrive at better decisions. There is no parallel arrangement in the Fund since the Fund does not have a similar machinery for arriving at policy decisions.

2. Fiscal Field

The Fund has a Fiscal Affairs Department which is concerned with public finance and technical assistance on tax and budget matters. In the Bank's Economics Department we have a division on Domestic Development Finance which covers a somewhat different sector than the Fund's department since a large part of its work is in the field of public utility pricing, capital markets and the financing problems of sectors, e.g. agricultural taxation and credit. There is enough in common, however, to justify a close working relationship. Consequently, Mr. Goode, the Director of the Fiscal Affairs Department, and Mr. Kamarck, Director of the Economics Department, have a regular monthly meeting on current operations, research and plans for missions. Since this working arrangement came into effect almost two years ago, the Bank has not recruited people who can be secured from the Fiscal Affairs Department for missions. Recently, for example, the Fiscal Affairs Department has provided public finance personnel for our Indonesian and Moroccan missions.

3. External Debt

In recent years the Fund has acquired an interest in external debt problems as it has been called upon to help countries get through balance of payments crises in which debt repayments are an important item. Also in its stand-by arrangements the Fund has been experimenting with setting conditions on the amounts or character of suppliers' credits a country may take on. Since the basic external debt data is produced in the Bank and the Bank has a major interest in this field, it has become clear that special arrangements need to be worked out for a better coordination between the Fund and the Bank in this regard. Consequently, Mr. Kamarck, within whose department the external debt work falls, and Mr. Sturc, the Director of the Exchange and Trade Relations Department of the Fund who is responsible for coordinating work in this field in the Fund, have begun to have regular meetings to coordinate the Fund and Bank approaches. As a part of the collaboration in this field, the Economics Department has provided staff for IMF missions where help was needed to reconcile debt and balance of payments data.

4. Rio Commodity Study

The arrangements that were set up for this study are as follows: For the Bank, Mr. Avramovic heads up the work. His deputy is Louis Goreux, an adviser of the Economics Department who was formerly with FAO. Mr. Sundrum, one of my small personal group, has been assigned full time to this study as well as Flora White and K. Krishnamurty of the Economics Department. The Economics Department's Export Projections and Trade Division is giving support to the study by providing data and background analyses on problems relating to commodities to be discussed in the study.

On the Fund side, Mr. Polak, the Economic Counsellor of the Fund, is in general charge. Under him are Fred Hirsch, Senior Adviser in the Research and Statistics Department; R. J. Familton of the Exchange and Trade Relations Department; Duncan Ridler and Michael Kuczynski, both of the Research and Statistics Department. The Fund staff were able to devote only part time to this study until recently; now, all except Mr. Polak are full-time. The work is coordinated through a joint working party of the two staffs.

It has been agreed that the report will be written in three parts. Part I will contain the analysis of the commodity problem as it affects less developed countries and the economic feasibility of various solutions, to be prepared by the joint working party of the two staffs. Part II, to be prepared by the Bank staff, will contain the implications for possible action by the Bank. Similarly, Part III, to be prepared by the Fund staff, will contain implications for possible action by the Fund.

The material for a provisional outline of Part I has been agreed in the joint working party to be cleared by the two institutions for submission to the respective Boards in March.

5. Other Research

The Fund's Research and Statistics Department and the Bank's Economics Department keep one another currently informed of their research programs. There has been very little direct collaboration largely because the research areas of the two departments are sharply different. The Bank's research is largely operational research directed to problems that arise from the Bank's projects and country work and the Fund's research is largely directed towards the special needs of their institution, i.e. problems of international liquidity, special drawing rights.

6. Other

The Fund and the Bank jointly publish the Direction of International Trade which collects and publishes trade data on all the countries in the world. Under the agreed arrangements, the Fund staff does the work for this but it is published at the expense and under the names of both institutions.

The joint Finance and Development Review is jointly financed and written by staff of both institutions.

From time to time, Bank staff lecture at the Fund's Institute and vice versa in the Bank's Economic Development Institute.

There is a great deal of cooperation also in statistical work. The two organizations sponsored an international conference on improving capital flow statistics, for example. The work for both institutions on collecting data on foreign capital issues in the principal world markets by agreement is centered in the Bank.

The Fund and Bank have agreed to acquire a computer jointly and to set up a joint computer and data processing center to be run by the Bank's Administration Department and housed in the Bank's new building.

AMKamarck/ner
February 23, 1968