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FORM No. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** June 16 1969

FROM: Irving S. Friedman

SUBJECT: Commodity Stabilization

I have just received the attached memorandum from Mr. Polak of the Fund suggesting a new sentence for paragraph 3(a) of our commodity decision.

I have discussed this matter with Mr. Mendels and he will arrange to have this sentence available for circulation to the Board tomorrow morning.

Att:

cc: Mr. Mendels
Mr. Broches

 (Returned)
2.30pm

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

JUN 16 1969
5 pm

MEMORANDUM

TO: Mr. Friedman

June 16, 1969

FROM: J. J. Polak

SUBJECT: Commodity Stabilization Paper

Mr. Southard asked me to convey to you what, in our view, would now be the best description of the action that is likely to be decided by the Fund. I would suggest that the following single sentence would be appropriate.

> "The Fund has decided that it will provide temporary financial assistance to member countries having a balance of payments need, in order to facilitate their participation in international buffer stocks under economically feasible international commodity agreements."

In present circumstances I see no justification for a reference in your paper to the partial link with the Fund's compensatory financing facility.

cc: Mr. Southard

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

June 9 1969

Mr. McNamara:

If you have nothing else to read!

ISF

Irving S. Friedman

President has seen

JUN 12 1969

(Returned)

THE NEED OF DEVELOPING COUNTRIES FOR A NEW ECONOMIC PHILOSOPHY

by Irving S. Friedman

Reprinted from *The Colorado Quarterly*
Volume XVII, Number 4–Spring, 1969

The need of developing countries for a new economic philosophy

IRVING S. FRIEDMAN

One of the most important developments of the postwar period is the extraordinary growth of nation states. There has been at least a doubling of their numbers over the past twenty years, and the end of the process is not yet in sight. Nation building on such a scale and with such intensity is unprecedented in human history and would have produced in any age and under any given set of circumstances, however favorable, a whole range of new problems in international economic and political relationships. One has only to look at the internal history of Europe in the nineteenth century to see that the process of creating and absorbing new units into the international community of nations is difficult and painful.

In the postwar period difficulties of assimilation have been complicated by the need for the international community to adjust to a new rationale of nationhood and a new political and economic philosophy of international association. Under the prewar system sovereignty usually went hand in hand with economic and social viability and international relationships were conducted essentially on the basis of equality and self-reliance economically.

The new nation states have emerged in an environment of social and cultural divisiveness and economic backwardness; this has opened up a new dimension of international political relationships. The postwar growth of the concept of a world commitment to economic and social development of the less developed countries is connected to this phenomenon. Unilateral resource transfers to the developing world have been justified on grounds that underdevelopment as such constitutes a threat to international peace and security and should be tackled at the grass roots—better to eliminate social discontent and economic backwardness by helping to create conditions where people can have jobs, food, shelter, and hope than to embroil the world in recurring military and other crises because there are hunger and desperation and hopelessness. Coordinated international action to this end is universally accepted in principle.

After World War II the concept of the interdependence of nations largely took the form of an appeal to self-interest. For example, incomes should be sustained in the developing countries so as to provide the exporting countries with a market for manufactured goods, and the prices of raw materials should be stabilized, if possible, so as to ensure certainty of production and availability of supplies. The international community became aware that it must somehow reconcile the political concept of national sovereignty with the economic concept of interdependence—or at least coexistence—in a situation where the new nations did not define areas of cultural homogeneity and economic and social viability and where, because of the conditions in which they were formed, their mere existence created new international dangers. It set about this task in the grand manner: from the Savannah Conference in 1944, called to inaugurate the Bretton Woods ventures, the International Monetary Fund and the World Bank, to UNCTAD II in 1968 when it activated an elaborate international system to promote international peace and foster growth through unilateral resource transfer to, and concessionary trade and economic relationships with, the less developed countries.

There are three facets of this international effort to achieve social and economic transformation in the less developed countries. The first concerns the role of the developing countries themselves, the second the role of developed countries, and the third the role of international organizations.

Insofar as the first is concerned, a distinction should probably be made between environmental problems—longer term obstacles to development that must somehow be whittled down to allow for a greater responsiveness of the economy to measures for economic and social development—and problems of economic management and performance, which involve the selection of policy instruments to achieve stated objectives and the type of effort that developing countries should themselves make on a sustained basis to further their own development.

With regard to environmental problems, population growth is in many countries the most outstanding and intractable. We have re-recently read a lot about this and its relation to poverty: the Papal pronouncement on Peace and Justice dramatized the suddenly accelerated worldwide interest. The facts are indeed disquieting. Many of the developing countries will on present trends achieve a doubling of their populations in about twenty years. Within the lifetime of our college generation, Brazil, now a country of fewer than 90 million people, will become as populous as the U.S. is today, and India may have the dubious distinction of topping the 1,000 million mark—a statistical landmark which her neighbor Communist China would already have achieved. Rapid population growth means that the countries concerned must do more and more at an ever increasing pace merely to sustain past economic gains, without much hope of adding to these gains.

What is required is not just more food—although this aspect of the problem has, rightly, in my opinion, received the greatest immediate attention—but well managed urbanization, increased physical and social infrastructure—more water, more electricity, more roads, more sanitation, more educational facilities—in short more of everything to provide a minimal degree of facilities for civilized living. The economic and social effects of this population explosion are tremendous; problems of this dimension have never been envisaged by mankind before. Many developing countries in Asia and Latin America are increasing their populations by over 3 percent. Given their very low levels of output and consequent limitation on savings required to sustain large and accelerating rates of economic growth over this period, an increase of about 1 percent to 2 percent in their per capita income per year over the next twenty years is all that can be expected even with a reasonable inflow of capital from donor countries and international organizations and good economic performance on their part. The forms and content of consumption may change under pressures of low income, urbanization, mass world-wide media of communication, the revolution in production, etc., but poverty will still be the condition of most of the world's peoples, and the contrast between conditions in the poorer countries and the richer countries is likely to be even more dramatic than today.

A second environmental problem relates to the fact that many of the new countries became independent by opting out of groupings with which they had been associated for perhaps many decades and within which their economic structures had evolved. Many of these find themselves now in a virtually unviable economic position. Wider, but looser, economic and political groups have sometimes emerged instead, but their effectiveness as organs for economic integration has varied, depending on the degree of cultural and political homogeneity of the countries involved and the inherent scope for economic gains to all through integration. Modern day regionalism as evidenced in Central America, the West Indies, East Africa, and the areas around the Congo—to mention some conspicuous examples—can play an important role in buttressing the economics of small or poor countries to achieve the degree of economic viability consistent with their role as sovereign states.

Another major environmental problem is that of the realization of rising expectations. The twentieth century takes great pride in the fact that it is the century of "rising expectations." The phrase was coined around the turn of the century and has been used most frequently by sociologists and political scientists, usually within the context of explaining behavioral attitudes of people and their response to social change.

Rising expectations for the two billion people of the less developed world have particularly significant psychological, social, and economic effects—nationally and internationally. Although hemmed in by want and hunger and disease these people have definitions of the potentiality for material advancement of individuals and of nations, definitions which may, however, have no relationship to the realities of their own countries. Their concepts of consumption, of education, of housing, of transportation, of the employment they should have—these concepts have originated elsewhere: the United States, the Netherlands, England, France, Japan, Italy, etc. Obviously these imported concepts will not be realized for most of them in their own lifetime, or in the lifetime of their children, for that matter. Yet they hope, and they hope more and more intensely as the mass media of communications expand and their vision of the good life becomes clearer and more detailed. These hopes greatly influence private and public behavior.

This tension between expectation and reality can lead to total individual as well as national frustration. Impatience, restiveness, and hankering after the unattainable have become inevitable. Rising expectations can spur improvement but they can also have serious adverse effects on the development effort. If governments are weak and faltering, the quest for fulfillment can lead to major economic misallocation of national resources, material as well as human, as quick or glamorous gains are given priority over sustained growth or basic improvements in human well-being.

Another environmental problem is the uncertainty of economic life in some of the developing countries. A certain degree of uncertainty is desirable. In the United States we have great quarrels about taxation, monetary policy, balance of payments measures, agricultural policy, but we do not quarrel about most of the economic, political, and social system. People do not start hoarding goods in expectation that one candidate or another is going to win an election; they do not start packing their trunks or getting tickets for airplanes or liquidating their investments. To an extent something like this, however, happens in many developing countries. Where there is no assurance of continuity, there can be no real forward economic planning—private or public—no broad communal participation in national economic goals, no incentive for involvement.

The economy operating under such a system is a brittle one, liable to be cracked wide open by unexpected shocks. The less developed countries for their own sakes must somehow learn to develop a system of government in which equivocation and vagueness are replaced by a reasonable degree of certainty and preciseness. What is required is not just a legal framework for conducting economic relationships but the evolution of a public consensus as to what is right and proper, a code of personal and community behavior that is expected to prevail under changing circumstances. But these are things that must emerge from within; they cannot be transplanted, willy-nilly, from outside.

Turning from environmental problems to those of economic management and performance, the thing that strikes me as particularly characteristic of less developed countries is the diversity of economic and social objectives and the differing orders of priority given to these objectives in different countries and at different times even in the same country.

The process of development in these countries may be seen as one of simultaneous and inter-related movements along a wide spectrum of desirable objectives: faster growth in GNP, price stability, employment opportunities, income redistribution, improved social security, better education, better housing, better medical care, and so forth. Theoretically a country can choose a path of fast economic growth and ignore goals of financial viability and social integration. But for all practical purposes, this is impossible. Economic and social goals reinforce one another—especially in the longer term—and the pursuit of one at the expense of most of the others will lead to serious economic distortions and precipitate political and social crises.

However, even if balanced economic and social development is accepted as desirable, there is no easy way of judging what blend of objectives and policies is best for a particular country; it involves not only the availability of resources but also the aspirations of people and the needs for economic, social, political, and cultural unity and cohesion. A country with a serious unemployment problem and a restive population may give high priority to employment creation and social security. Another with a strong political system and cohesive population may opt for more economic growth rather than more comprehensive social security coverage. A third with too small an entrepreneurial group may decide to concentrate its efforts on deepening the human, physical, and institutional infrastructure for development—creating more roads, generating more electricity, building more schools, establishing an agricultural bank—irrespective of the gestation period of such investment or its contribution to GNP growth in the immediate future.

Decisions regarding the choice of objectives and the means to achieve them must also take account of the relative impact of particular measures on the total developmental process—how much they can contribute to activating and sustaining a high level of economic activity, and what they can do to improve the effectiveness with which economic resources are used. Resource allocation based solely on the subjective criteria of governments without reference to opportunity costs or increasing returns or potential for future economic and social gains may lead to a brief flicker of the development flame—and no more. For the development process to be sustaining, the choice of policy measures and the means to attain them must be based on principles of economic efficiency as well as subjective needs or political requirements. This is particularly important in the international development effort. If a country requires international assistance, it may well have to prove its eligibility for help by meeting the minimal criteria of economic performance required by the international community.

In the broadest terms, "performance" covers the effectiveness with which public policy and both public and private resources and capacities are directed to the present and future promotion of economic development. It must be evaluated on the basis of detailed knowledge of individual countries, which vary greatly in their natural and human endowments and in their institutional limitations. Because of this diversity, performance must be examined primarily on a time-series basis for each country and only secondarily on an inter-country comparative basis. A continuing examination of developments and programs of a specific country should make it possible to gauge improvement or deterioration in its performance. Each country will experience various phases in its development process, in which it may be faced with different sets of constraints and problems and in which the "blend" of appropriate policies will vary. Therefore, even in the same country the emphasis on various aspects of performance criteria may vary as different stages of development are reached.

It is customary to regard economic growth as measured in GNP, or GNP per capita, as a particularly important index of development performance; indeed as an index of economic growth it has come to be associated with development as no other single peg along the wide developmental board. This is unfortunate. Conceptual and practical difficulties of compilation and aggregation apart, an index of economic growth, which is no more than a measure of current flows and achieved increases in output, may show little of the dynamism and hidden strengths or weaknesses of an economy. This is particularly true of the developing countries where "something new" always seems to be happening. For example, drought in India in 1964 and 1965 drastically altered the short-term prospects of that country; there was a contraction in the growth index, while growth potential actually increased. Conversely, favorable weather may result in larger harvests while the growth potential of the country remains essentially unchanged. The expansion in the "absorptive capacities" of less developed nations; the establishment of more efficient organizational, institutional, and human infrastructure; improvement in techniques of monetary and fiscal management, etc., are "investments" from which returns will not be measurable for many years to come.

In short, there is a constant hum of economic activity and innovation proceeding within an economy over any time period. Thus, a simple index of economic growth cannot measure or reflect the dynamism of a society or its achievements in terms of laying the foundations for even faster economic growth in the future; it cannot evaluate the efficiency of the techniques of economic management used in allocating or influencing the allocation of national resources; it cannot express the potential for attracting international investments or the inducements provided for encouraging exports. Even as a summary of current flows, it can only give, with varying degrees of error, an indication of the magnitude of income; it can say nothing about how this income is distributed or whether the conditions exist for a concerted national drive to development through consensus and common sacrifice. It does not tell us anything of the texture and quality of the development effort, but only that income and production increased or decreased over a particular time period.

It is for these reasons that I feel that in evaluating development performance we should look beyond growth rates and focus our attention instead on aspects of policy concerning the effectiveness of a country's own efforts, first in the mobilization of resources and next in their utilization.

Insofar as mobilization of resources is concerned, a major expression of a country's development efforts is the ratio between the rate of saving and the gross domestic product. Even more significant than the average is the marginal savings rate, which shows what part of the additional income of a nation is actually saved. Developing countries are chronically short of the savings needed for investment. Successful development usually requires that the marginal rate of savings be higher than the average rate. This question requires consideration of the extent to which tax and financial policies offer incentives to raise levels of private savings and investments. It also implies examination of the institutional aspects of the mobilization of savings, especially of a country's efforts in organizing financial institutions to mobilize additional savings and channel them into productive development.

Of special importance is the role of the public sector in raising savings rates. In most developing countries, private savings are inadequate to finance investment requirements and the public sector has to generate additional savings, often of considerable magnitude. However, it is not to be forgotten that public savings are usually involuntary savings resulting from taxation. Major indicators of the performance of the public sector are the rates of tax revenues on one hand and the levels of current expenditure on the other, both in relation to national income. Evaluation of the fiscal and budgetary systems of a country cannot be limited, however, to overall levels of revenues and expenditure; the impact of the fiscal techniques used on economic activity and development must also be considered.

Several other factors are important in the context of policies for resource mobilization. To begin with, the government's policy towards the attraction of external private capital is important. Domestic monetary policies may also be an indication of a country's commitment to resource mobilization for development. Rapid and persistent inflation due to excessive monetary expansion will have harmful effects on the level of savings and the overall efficiency of the economy.

No less important than the formation of material capital are the government's policies and programs to enhance the growth of human capital, especially by broadening the skills and know-how of the population, for the scarcity of such assets is often a major constraint on the effective use of other forms of capital. One indicator of the government's effort in this field is the share of total current expenditures devoted to education and health. Another indication is the effort to introduce satisfactory family planning. Other indicators are even less precise; they require a qualitative evaluation of the government's program to raise the level of technical and managerial skills, improve its own administration, and ensure the participation of all sectors of society in the task of development. Needless to say, making judgments on such matters is most difficult and must be approached with care and humility.

Turning to the utilization of resources, or the economic efficiency of resource allocation, the concept of an optimal allocation of resources is still in widespread use, but I feel that for the developing countries no simple or uniform formula can be applied to determine whether or not best use is being made of available resources. In every instance the investment program must be assessed in light of the longer requirement for goods and services to spur the developmental process. Where, to take an example, investment in agricultural and other food production facilities has been lagging seriously—and this is the case for many developing countries—there is an *a priori* case for saying that an accelerated investment program for agricultural rehabilitation is needed and that more new resources should be invested in this sector than over some past time period—almost irrespective of what is happening in other sectors. At the same time a country may judge that the urgency of instituting a highly.intensive vocational training scheme or for significantly extending educational facilities is persuasive enough for justifying a "crash" program or a series of "crash" programs over a relatively short period at the expense of, say, a new highway program.

A frequently reliable measure of effectiveness in resource utilization is success or failure in the promotion of exports, the principal source of foreign exchange for developing countries and of a far larger magnitude than external aid. The level of export earnings of a developing country, which largely determines its capacity to import, is often limited by factors beyond its own control. In many developing countries, exports are concentrated in a small number of primary products, often foodstuffs, the demand for which may be highly inelastic; thus a given increase in world supplies may well result in a much sharper fall in prices, at least in the short run. In other cases, developing countries are often faced with protected markets in the industrial countries. In addition, cyclical downturns in the industrial economies have sometimes had a harmful effect on exports of the developing countries.

In addition to these and other hazards, the expansion of exports of the developing countries is, however, strongly affected by their own price and taxation policies, as well as by the composition of investments. In a number of developing countries, prices set by central marketing boards for exportable commodities do not encourage an adequate volume of exports. In certain cases unrealistic exchange rates, sometimes combined with subsidization of domestic consumption of exportable commodities, actively inhibit the growth of exports. In some countries the tax system bears more heavily on exports than on other sources of income. The evaluation of performance in resource utilization requires an assessment of the growth rate of exports of both primary products and "non-traditional" export goods, and especially of domestic policies affecting export expansion and diversification.

Similarly, the utilization of resources is greatly influenced by government policies towards production for the domestic market and the level of protection for such production. A certain degree of protection for local industries may be favorable to economic growth, especially in the initial stages. Excessive protection of domestic industries, however, either by tariffs or by administrative restrictions on competing imports, if enduring for a long period, leads to inefficiencies which are often embodied in the structure of industries and become major bottlenecks in the development process. The levels of tariffs and other measures of protection, therefore, serve as one of the indicators of a country's performance in the utilization of resources for the domestic market.

One question bearing on performance remains to be answered. What of situations where a country's potential development resources are being eroded by excessive military expenditures, or prestige outlays, or "white elephant" brainwaves of politicians?

It is indeed true that many of the less-developed countries have not as yet found it possible to pursue effectively sustained policies for social and economic development. Some optimists, including myself, had hoped that development would, with time, have attained the status of a sacred objective—an issue apart from other issues, about which there was sufficient public consensus to sustain its pursuance despite political, social, or economic vicissitudes. Yet in quite a number of developing countries governments past and present have not had the will or the determination to keep their countries on the path of sustained growth. Such countries are poor performers from the viewpoint of economic development.

II

I turn my attention now to the role of developed countries under the postwar international system. While these countries have repeatedly affirmed their adherence to the principle of accepting continuing responsibility for accelerating development, they have not as a group been prepared to implement fully this responsibility. They have built an elaborate institutional structure for effecting resource transfers, but have not found it possible to transfer resources on the scale required to accelerate the development process to the extent feasible. Moreover, such transfers as occur are mostly not effected in forms that will ensure a maximization of their contribution to the growth process in the less developed countries.

At the present time the combined gross national product of the developed world (excluding the Soviet bloc countries) is about $1,550 billion, the amount being saved each year about $325 billion; of this, about $7 billion is being transferred as official development assistance on a net basis. Contrasted to a near doubling over the six years, 1956-61, the volume of such development assistance virtually stagnated between the years 1961-65. Thereafter, there has been some recovery. The recent increase has been mainly due to the smaller donor countries. The net assistance from these countries increased at an annual rate of about 26 percent between 1965 and 1967. In contrast the combined net flow from major donors—France, Germany, the U.K., and the U.S.—rose by only 2.5 percent per annum. As a result, the share of the latter in the total net flow of assistance from countries belonging to the Development Assistance Committee of OECD declined from 86 percent in 1965 to 80 percent in 1967.

It is not just the inadequacy of the developed countries' contributions that is significant. Equally important is the need for continuity and certainty in the flow of development finance in any particular country over a span of years. At the present time the foreign aid programs of most donor countries are on a year-to-year basis. Hard and meritorious governmental policies, supported by the courage and sacrifice of a people, can be frustrated because a marginal amount of additional resources needed—the foreign exchange that was expected to be provided by donor countries and organizations—was just not forthcoming at the right time or in the right amount. Once embarked on the task of implementing a development program, a country simply cannot back out from mid-stream without the risk of serious misallocation and economic backsliding.

All this is the more unfortunate because the external capital resources required by the less developed countries from the developed ones have represented on average only about 20 percent of total resources that must be mobilized for implementing development programs. The developing countries can now effectively use up to $5 billion more per annum in external resources to implement their own efforts to transform themselves. Although marginal in relation to total needs, this amount is critical for sustaining and accelerating development simply because it represents foreign exchange that can finance via imports the addition to the resources available for investment made necessary by the limitations on domestic savings, usually by the importation of machinery and capital equipment and technology—normally the scarcest of all commodities in the underdeveloped countries.

I personally do not believe that the developed countries wish to opt out of their obligations to assist in the social and economic transformation of the less developed countries. What has happened, I suggest, is that the emergence of a series of economic problems in major donor countries over the past few years—for example, the continued relative scarcity of savings in many developed countries, budgetary problems, and balance of payments deficits in the United States and the United Kingdom, coupled with a thaw in the "cold war"—have reduced somewhat the priority given by developed countries to their responsibilities in the less developed ones. This lessening of enthusiasm toward the international effort has been aided and abetted by a general atmosphere of disappointment and disillusionment about the developmental achievements of the less developed countries over the postwar decades, however unjustified in many cases.

What is required at this stage is the vigorous articulation of national interests in development finance based on realistic and hard nosed appraisals of what is happening and what can happen. Within a regime of better understanding and a fuller awareness of what really is at stake, one of the first tasks to be tackled is the authoritative estimation on a country-by-country basis of the external capital that is required over specific time periods to sustain and accelerate development in the poorer countries. We in the World Bank have made such estimates. However, whoever does it and whatever techniques are used, the objective must be to arrive at a set of figures that can serve as the linchpin for international action, a quantitative springboard from which a concerted drive to implement the international development effort can begin anew.

Having ascertained the requirements of developing countries, the developed countries must themselves agree on a "burden sharing" principle for meeting these requirements. For the so-called Development Decade (1960-1970) the United Nations had recommended that developed countries contribute 1 percent of their GNP for the economic development in the less developed countries. So far very few countries have attained this target, and present trends do not suggest that the UN recommendation will be implemented in the near future. The question needs to be considered whether the principle of a "straight across the board" commitment of this type is likely to be more politically acceptable than one based on some allocational criteria that takes into account factors such as differences in attained living standards, the degree of vulnerability of particular developed countries to international political and economic tensions, and the extent of involvement of these developed countries in the international economy through trade and financial relationships.

The question remains of the form in which resources should be transferred. Various questions arise: Should foreign assistance be disbursed through bilateral channels or multilateral channels or some combination of both? Should it be "tied" to purchases in the donor country and particular "projects" in the less developed ones? What should be the conditions of its repayment?

Insofar as channels of disbursement are concerned, three things at least should be remembered. Bilateral programs of foreign economic assistance have developed independently of one another over the last twenty years, they serve different national purposes, and the direction of aid to recipient countries is greatly influenced by past history and current relationships. When a donor country becomes pledged to assistance above this floor, the question of multilateral versus bilateral transfers becomes operational. In such a situation the choice of channel must of course be governed by the donor's wishes, political acceptability, and other considerations. However, a particularly heavy concentration on bilateral programs can lead to an economically unbalanced aid effort, and even though the amount of resources transferred may be right, its distribution among the developing countries can be hopelessly lopsided. This will not only imply a misallocation of some development funds; it will lead to a reduction in the effectiveness of the total international program.

It seems therefore that side by side with a minimal volume of bilateral transfers, the international development effort should be oriented so as to enable the accumulation of pools of funds to be used on a multilateral basis, if only to iron out the distortions caused by the bunching of bilateral funds in particular countries or regions or for particular purposes or on particular conditions of availability. This concept of multilateral assistance as a contemporary device to achieve a more satisfactory allocation of international assistance in the less developed countries defines a minimal role for multilateralism.

There are of course other grounds for advocating expanding programs of multilateral assistance. Important among these is the argument that disbursements through international organizations *per se* can more readily satisfy economic efficiency criteria in any particular country than disbursements under bilateral programs. From the donor's viewpoint, it is also cheaper to use multilateral channels than to administer bilateral programs. Moreover, disbursements through multilateral channels reduce the likelihood of undesired political involvements or even unwarranted criticism. Not least of the arguments for a greater share of development assistance disbursement through multilateral channels is that well organized machinery already exists for disbursing such funds on criteria that are regarded as highly satisfactory by both donor and recipient.

On the question of conditions of aid, the tying of the latter to purchases in the donor country is a common feature of most bilateral programs. This involves, in effect, a hidden subsidy by the developing countries of the exports from the developed ones; this subsidy in any particular instance is defined by the differences between the national cost of project construction under international competitive bidding and the actual cost of it through exclusive purchases from a particular donor country. Balance of payments considerations are usually regarded as the justification for aid tying, despite donor debt increases. "Donor tying" is at best a questionable condition of aid allocations. Aid disbursed through multi-lateral channels is usually granted on the principles of international competitive bidding. This fact constitutes a strong argument for expanding multilateral programs.

Turning to the question of different lending techniques, the preponderant emphasis in both bilateral and multilateral sources of international finance has been on project aid—for example, providing foreign exchange funds to a particular country to allow the expansion of the productive capacity of a given facility such as a road, power plant, or factory or of the productive capacity of an entire sector, such as agriculture or power. To what extent and in what circumstances a donor should be prepared to go beyond this and provide "program" assistance that is not tied to a particular project but is allowed to accrue instead to the development program of the government as a whole or to the entire economy is a question that still remains to be answered by most donor countries and international agencies.

In the early postwar years when most of the developing countries were just starting out on the road to development, their need for help on project preparation and design was perhaps as great as their need for external capital itself; today many of them have substantially improved their ability and their capacity to design and carry out effective development policies and programs. Over this same period changes in economic structure of some countries in degree of industrialization and in foreign trade have placed operative ceilings on their capacity to absorb effectively international assistance in the form of capital goods imported for specific projects. Most of the larger and semi-industrialized countries, such as India, Pakistan, Brazil, Mexico, and Argentina, are developing their own production of many types of machinery and equipment. Their need is not so much for more capital equipment imported from overseas to build or expand certain facilities but for a mixture of capital goods and industrial and maintenance material, much of which can perhaps be produced at home. At the same time domestic savings are not adequate for available production investment opportunities and external capital is still needed. Strict adherence to the principles of an investment project approach to international assistance can lead in such instances and others to economic inefficiencies in the use of external capital.

The question remains of what interest and repayments conditions should govern the disbursement of financial assistance for international development. A major consideration to take into account here is the phenomenal increase in indebtedness of the developing countries over the past decade. From 1956 to 1966 the medium- and long-term public debt of ninety-two developing countries increased four-fold; debt service obligations quintupled. This sharp increase in the external debt is a matter of the gravest concern for a growing number of developing countries. In some cases the burden of servicing debt has become so acute that it has required arrangements for the rescheduling of past debt, debt that must necessarily increase if their development effort is not to sputter and stall.

Unless the debt servicing capacity of the developing countries is improved one way or another, debt crises are likely to become more general in the future, especially in those countries requiring net inflows of capital for a considerable time yet. The trend is for the terms of financial assistance to developing countries to harden rather than soften: between 1961 and 1966 the share of grants in public financial assistance flows decreased from 76 percent to 63 percent; interest rates on the cumulative total of bilateral loans increased and the period of repayment shortened. The implications of this for the international development effort can be gauged from the fact that, as noted above, the flow of financial assistance remained about constant over the same period. Given onerous official debt and debt service thereon, the net flow of official funds to the developing countries was therefore considerably reduced; yet the cumulative debt burden of this reduced flow will be higher than ever in the future. The developed countries will be sowing dragon's teeth for themselves and jeopardizing past developmental gains unless there is a program of coordinated action to lighten considerably the debt servicing burden on officially extended external finance and a willingness to reconsider the terms and conditions which should govern future development finance. It may be worth pointing out at this point that increased flows of foreign private developmental capital could greatly assist in coping with the problems of external indebtedness.

III

International organizations have three basic functions to fulfill in the international system described above. Firstly, as part of the institutional structure erected to implement the international development effort, they have a role as administrator and coordinator and, in some cases, financier. Secondly, as intergovernmental agencies with specific functional expertise, they have a role as consultant and adviser. Thirdly, as operative units of the United Nations system dedicated to the social and economic upliftment of peoples everywhere, they have a role as advocate and originator. All these roles become inextricably intertwined into one another in day-to-day functioning.

The role of administrator derives from the function of specialized agencies as the overseers of international programs for social and economic transformation. At the international level there is a whole plethora of institutions whose funcions are to assist member countries to achieve particular goals along the developmental spectrum: for instance, if a country wishes to give high priority to employment creation in its program for social and economic transformation, it can turn to the International Labor Office for technical and other assistance; if it wishes to institute a program for better health, it can turn to WHO; for better education to UNESCO; for faster economic growth to IBRD; and so on. Either by accident or design postwar international institutionalism has become structured into functional and specialized agencies, each of which acts as an international shadow of particular national objectives.

Through what media and on what principles of association do international organizations assist in helping countries to achieve national objectives? To begin with the system as it works is one of continuous consultation in the implementation of national plans and policies. At some early stage of planning a selection of international organizations, depending on the blend of objectives to be pursued, is frequently brought into the picture primarily as advisers to fix and structure objectives and to integrate them into an international context. If country X, for instance, intends to give high priority to a crash program for employment creation during the first two years of a Development Plan, a number of international agencies, such as the International Labor Office and the World Bank, may well be brought in to do one of several things or a series of several things: for example, they may be asked to examine the objectives and the priority given to them, send missions to recommend ways and means through which they can be achieved, provide technical or financial assistance to ensure successful implementation, and supply information on what other countries in similar circumstances have done in the past or are doing at present.

An important point to remember is that in providing financial or technical assistance each individual organization uses its own allocational criteria. It may be argued that such criteria should be integrated into a total and uniform development performance test, but at the present time the type of coordination required to activate within the community of international organizations a standardized system for measuring developmental performance just does not exist. Competitiveness among international organizations may be a factor in impeding the evolution of such a code, but there are also profound uncertainties as to what criteria should be incorporated into such a code. The international organizations do not deal with simplified hypothetical cases but with complex societies whose explosive, changing characters outpace the arts and skills of man in providing satisfactory analyses, and effective government, and leadership.

The complexities of the societies and their problems coupled with the functional specialization of the international agencies may result in basic inconsistencies in advice given to member governments on developmental problems. To give one example, an organization that is concerned with unemployment problems may advise a country to use an "intermediate" labor intensive technology in the process of diversifying its economy and industrializing itself, while another, concerned only with an economic gain, may be advocating the use of highly capital-intensive plant and machinery imported from overseas. Or one may be pressing for a fairly comprehensive social security system while another may be advising more intensified resource allocation in physical, rather than social or human, infrastructure. Such conflicts cause confusion in the minds of policy makers and serve to diminish the influence of international institutions in both developed and developing countries.

Considerations such as these demonstrate the need for the international agencies to achieve greater coordination in the advisory field. However, the difficulties of close coordination cannot be minimized; it is only partially achieved in national governments, even with long traditions of continuous government and qualified and experienced civil servants. Indeed, until much more progress is made in clarifying national objectives and in the reconciliation of national objectives with international objectives, it may well be that on balance the diversity of advice now being given serves useful purposes and helps avoid massive errors.

Coordination among international organizations could enhance the impact on development of international organizations. But there is another type of coordination that is equally important, the coordination of the activities of donor countries themselves in order to avoid major inefficiencies in bilateral aid allocations and disbursement. International organizations play an important role in such coordination; of particular importance are the World Bank, the Development Assistance Committee of the OECD, and the Inter-American Committee of the Alliance for Progress in this field.

The major donor countries need to coordinate their activities in respect to the conditions of the provision and repayment of development assistance so as to allow the developing countries to be able to service debt and yet maintain a reasonable development effort. The Development Assistance Committee (DAC) translates this general objective into specific recommendations of ways and means of accomplishing this. This is done in many ways, including analysis and criticism of bilateral aid programs of particular countries, continuous articulation of the disadvantages of aid tying, advocacy of "softer" rather than "harder" terms and conditions, increasing rather than decreasing volumes of total aid flows, and greater rather than less harmonization. The DAC has had an important salutary effect on aid efforts, although often their successes are not clearly identifiable as such because the consequent actions are taken by others.

The World Bank, and other institutions including OECD, plays a different role in aid coordination. As the sources of aid have become more and more diversified and as the need of particular countries has increased, the World Bank especially has taken the lead in creating specific machinery whereby the case for development assistance to any one country can be put before donor countries all at once on some agreed principle or format of aid giving—some concept of development performance that can command wide acceptability among potential donors.

The formation of such consortia and consultative groups for individual countries is a recent innovation in international economic relationships; its rationale is the basic good sense not only in trying to put the program and policies of a particular aid-receiving country under the continuous scrutiny of those from whom it expects to receive aid but also in trying to match aid requirements with aid availabilities and vice versa. Aid coordination through consortium or consultative group can also serve as the instrument for negotiating the rescheduling of old debt or other debt lightening exercises in cases where it can be agreed that present debt burdens do actually frustrate the efforts of a country to develop itself. A consortium or consultative group thus provides a clearing house where the requirements and the problems of development can be aired between a developing country and the developed ones.

I turn now to an aspect of aid coordination that has its origin in regionalism. The Inter-American Committee for the Alliance for Progress is the key coordinating body for development assistance from the United States to the Latin American countries. Designed primarily to transform a bilateral aid relationship between the United States and each individual Latin American country into an intranational and multilateral relationship whose rationale is economic development of the entire Latin American region, the Committee is empowered to scrutinize development plans and policies of individual recipient countries as well as the aid and, more generally, the economic policies of the United States towards Latin America.

The work of the Inter-American Committee and the World Bank involves detailed critiques of development policies and performance as well as recommendations about terms, conditions, and volume of aid. At the very least, together with parallel activities by the International Monetary Fund in the fields of monetary policy and balance of payments management, they demonstrate that it is possible for responsible respected inter-governmental agencies, encompassing both the developed and developing countries, to conduct effective international surveillance of national economic and financial policies on the one side and of international financial assistance on the other.

IV

After twenty years the international development effort is still in its infancy—brittle and fragile despite the great progress made. We have erected an impressive institutional structure but it remains underutilized. We have managed to create an awareness among leaders in the developed countries of the grave importance of this problem, but public opinion in most countries has not accepted the concept of development assistance as an act of national self-interest. We have tried to get developing countries to realize that development must come basically out of their own efforts and sacrifices—that their heroes must be the farmer, the factory hand, the scientist, the promoter, the banker, and the doctor—but they still see fit to place other objectives in a higher order of priority.

These countries remain particularly sensitive and wary of advice from outside, even if such advice can be proved to be demonstrably in their own interest and helps secure for them international good will and external financial resources to implement development plans. If the international development effort has sputtered, if the gains have come in drops and tricklets, it is not only because the international flow was meager or the machinery deficient or the political "climate" unfavorable but because there is not a sense of total participation to achieve objectives generally and wholeheartedly accepted by countries, both the poorer and the richer. One fact that we often tend to overlook is that what we are trying to achieve goes even beyond the social and economic transformation of nations to the far reaches of personal behavior and attitudes of people in both developed and developing countries, particularly in their attitudes towards other people.

Yet there are gains. There is much more hardheaded awareness of the problems among countries today than ever before. There are many more leaders in the developing world who have a fuller appreciation of the problems of their countries and the need for bringing a sense of both reality and dedication to their job. There are many qualified and dedicated administrators, civil servants, and educators in these countries. Private people are accepting changes and learning how to absorb modern technology. More entrepreneurs are directing their attention and efforts to productive activities. More skilled workers are coming into being. We have come a long way compared to only ten or twenty years ago, but the transformation is only beginning. For example, in the May, 1968, riots in Paris, it was quite distressing to find that among the posters of students was one that advocated the stopping of aid to the French-speaking countries in Africa so that France could concentrate on its own internal problems. In some developing countries, expression of general concern that rapid increases in population are stultifying efforts to improve living conditions are greeted with hostile cries of outside interference. Such attitudes are not universal but they make us realize that the general understanding of the development problem is too limited for the kind of political commitments needed. We have to cultivate a much broader public understanding everywhere if we are to have any confidence that even the limited things we are doing now can have some hope of continuity in the future. And this is one thing I worry about all the time.

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** June 6 1969

FROM: Irving S. Friedman

SUBJECT: UNIDO meeting

I think you will be interested in the attached memorandum, particularly the reference on page 2 to the UNIDO budget, and the material on the bottom of page 3 and 4 dealing with relations between the Bank and the Industrial Development Board.

ISF

Att:

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

OFFICE MEMORANDUM

TO: Mr. Andrew M. Kamarck

DATE: May 28, 1969

FROM: George Kalmanoff G.K.

JUN 2 1969

SUBJECT: Attendance at Third Session of the Industrial Development Board of UNIDO, April 24 - May 15, 1969, Vienna.

The Industrial Development Board is the immediate policy-making body of UNIDO, which is an integral part of the UN, and reports to the UN General Assembly through the Economic and Social Council. The Board meets in annual session, of which the one I attended was the third, to review the activities of the Organization. The Board is composed of 45 member nations, of which 27 are LDCs, 14 developed market economies, and 4 centrally planned socialist states.

In addition to the 45 member states which are regular members of the Board, the Third Session was attended by observers from 30 other states, from some 11 UN agencies, from 8 other intergovernmental agencies, and from 11 non-governmental organizations.

I attended only the last few days of the session, from May 12 through 15. The session had been planned to end at the close of the day on May 15, but terminated somewhat ahead of schedule, at approximately 2 A.M. on that date. The Board had been in session since April 24, and had been preceded by a meeting of its subsidiary Working Group on Program and Coordination that took place from April 8 through 22. Thus the entire proceedings lasted for 5 weeks. It was resolved that the next annual session should take somewhat less time, and there will be a maximum of only 4 weeks for the meetings of both the Working Group and the Board itself. This will occupy the month of April 1970.

The point of having the Working Group is presumably to shorten the deliberations of the Board itself. It seems, however, that both the Working Group and the Board go over essentially the same ground. The Working Group was in the process of reviewing the more than 300 individual technical assistance projects in which UNIDO is involved, for the most part fragmented and disparate, and its report consists of comments and suggestions made on these projects and on headquarters activities of the UNIDO Secretariat. Its report contains no formal recommendations to the Board nor does it provide any guide to future activities. The participation in the Working Group seems to be very much the same as that in the Board. The Working Group is open to all members of the Board, and this year some 41 members participated.

The outcome of these 5 weeks of activity is a report on its session by the Board to the UN General Assembly through the Economic and Social Council. The contents of its report consist of the report of the Working Group, the report of its own discussions which seem to cover the same ground as the Working Group, and a series of resolutions adopted on various subjects. The report of the Board was not completed by the time of my departure from Vienna, and will arrive at the Bank in due course.

JUN 9 1969
President has seen (Returned)

The part of the session that I attended was taken up with consideration of the resolutions. It had been preceded by a "debate" on the report of the Working Group, during which 22 speakers pronounced themselves, a "general debate" of the Board itself during which 52 speakers took the floor, and adoption of the report of the Board to the UN General Assembly.

It should be borne in mind that UNIDO was set up to focus on technical assistance for industrialization in the LDCs. It has a headquarters staff of some 270 professionals, supported by an administrative budget which is part of the regular UN budget amounting to about $9 million, and is responsible for administering technical assistance field activities with a value of contributions through the UN system in the neighborhood of $10-$15 million per year. The sources of finance for the technical assistance projects are diverse, including the UN's regular program of technical assistance, appropriations by the UNDP, and some funds made available voluntarily at pledging conferences exclusively for UNIDO. In fact, UNIDO administers only a minor part (some 15 percent) of the value of UN-financed technical assistance activities in industry, the major part being carried out through other, specialized agencies, in particular the FAO, ILO, and UNESCO.

The approximately 15 resolutions adopted at the Third Session of the Board for the most part contained nothing new or of any substantive significance. Nevertheless, great amounts of time were taken up in debates on drafting points contained in the resolutions in which the entire 45-man body was participating, despite the fact that there was a considerable effort outside of the formal sessions to agree on wording in a "contact group" with representation from the various categories of countries: LDCs, developed market economies, and socialist states. The resolutions cover such subjects as: endorsement of UN budgets and procedures for the regular program of technical assistance for industrial development; endorsement of agreements entered into between UNIDO and other UN agencies and calls for further agreements with all other UN agencies concerned; recommendations for continuation and expansion of certain UNIDO programs such as those providing Special Industrial Services and Industrial Development Field Advisers; a recommendation that industrial development should be given high priority in the Second Development Decade; a recommendation that international cooperation for industrial development should be "free of all political, economic, and other conditions that might alter its nature or frustrate its purpose"; and a request to the Executive Director to consult Governments concerning the advisability of calling a special meeting of UNIDO at the time of the 1970 UN General Assembly Session to emphasize the importance of industry in connection with the Second Development Decade. One separate resolution endorsed the idea that LDCs use computer techniques aimed at accelerating industrial development. On the other hand, a proposal by Sweden that a smaller committee of 15 members be set up to formulate recommendations to the next session of the Board concerning areas of UNIDO's work program to be emphasized during the Second Development Decade, UNIDO's organization structure, and the scope and financing of its activities, failed to gain support and was withdrawn.

Advantage was taken of the forum provided by the session to air certain aspects of international political and ideological disputes. The lead was generally taken in this respect by the USSR delegation, with its points of view echoed by other socialist states. On the Middle East, the USSR delegation complained that requests from Israel for assistance from UNIDO were processed with suspicious rapidity, whereas requests from Arab countries gave rise to difficulties. The Bulgarian delegation made reference to Israel's constant aggression which seriously compromised the Arab countries' industrialization and economic development. In connection with the discussion of UNIDO and the Second Development Decade, the USSR delegation made much of the point that the UN Preparatory Committee for the Decade is an incompetent body since the socialist states are not represented on it. Apparently the socialist states are boycotting the Committee because of the presence on it of the Federal Republic of Germany and the absence from it of the German Democratic Republic. The absence from UNIDO of the German Democratic Republic was also deplored. On the subject of the organization and operations of UNIDO, the USSR delegation expressed its support for a system of deputy executive directors, one of whom should be a Soviet citizen, and complained about failure to use technical assistance experts from socialist countries. On the subject of the role of foreign capital in industrial development and on the investment promotion activities of UNIDO, sharp disagreement was registered by the socialist states which "felt that UNIDO should defend the interests of developing countries against monopolistic private capital which threatened to enslave them, and strive to strengthen the public sector in industrial life."

As is by now obvious, there was little of direct interest to the Bank in the proceedings of the Industrial Development Board. Nevertheless, there is much of interest to the Bank in the work being carried out by the UNIDO Secretariat. I spent several days following the session in discussions with the Secretariat, an account of which is being set forth in a separate memorandum. A few items relating to the Bank did, however, come up in the course of the Board proceedings. In referring to cooperative agreements negotiated by UNIDO with other UN bodies (ILO, UNESCO, ECE, ECA, ECLA, UN Economic and Social Office in Beirut) and in connection with other arrangements now being worked out (FAO, WHO, ECAFE), the Executive Director commented that "negotiations with other organizations within the UN system had admittedly led to some satisfactory results; but a closer relationship must be established with the World Bank, the regional development banks, and other regional organizations concerned with industrial development". The delegation of Pakistan was even more explicit with respect to the World Bank, expressing itself as follows: "UNIDO may thus follow the example of other international agencies in establishing a working arrangement with the World Bank, perhaps even coming to a formal agreement by which an appropriate share of world capital resources might be secured for the industrial sector". The US delegation indicated to me privately that it had urged the Executive Director to explore possibilities of a closer relationship with the World Bank.

The issue of cooperation with the World Bank came up in particular in discussion of a resolution adopted on promotion of export-oriented industries. The Netherlands delegation proposed an amendment to the draft of the resolution calling upon the Executive Director to "seek the cooperation in the field of promoting export-oriented industries of the World Bank which is examining the problem of increased earnings of developing countries from manufactured products and further processing of raw materials and agricultural commodities". This was strongly objected to by the USSR delegation as representing "yet another attempt by the advanced Western countries to sidestep UNCTAD." The Netherlands amendment was ultimately watered down to read that "the Board further requests the Executive Director to cooperate with regional and international institutions within the UN system."

In discussing the need for external private capital for industry, the delegate of the Ivory Coast stated that the World Bank should be encouraged to set up an international investment insurance agency and that UNIDO could usefully collaborate in this endeavour (he did not specify how). He also stated that the World Bank and UNIDO should assist the LDCs to obtain capital on international markets in the form of long-term, low-interest loans. These comments by the Ivory Coast delegation were made prior to my arrival. I noted them in reading the Summary Record after the end of the session. Some clarifying remarks might otherwise have been in order.

cc: Mr. Stevenson
Industrialization Division
Messrs. Demuth, Consolo
Mr. Raj
Mr. Diamond

GKalmanoff:vlb

FORM NO. 89
(2.66)

INTERNATIONAL BANK FOR
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ROUTING SLIP	Date June 9 1969

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. McNamara President has seen JUN 12 1969	(Returned)
Mr. Knapp	11 a.m.

	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 believe you will find this of interest.

ISF

From

Irving S. Friedman

FORM No. 57

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

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: June 6, 1969

JUN 6 1969 3.30 pm

FROM: N. A. Sarma N. A. Sarma

SUBJECT: DAC (informal) Meeting on Supplementary Financial Measures (Paris: June 4)

I attended the above meeting, which was convened to enable DAC members to exchange views preparatory to the next meeting of IGG on Supplementary Finance in New York from June 23 - July 3. Mr. Wishart also was there. Mr. Koinzer of Germany was Chairman.

In the course of discussion, in response to specific questions by the Chairman and by others, I stated the position with respect to the further material requested of us by the IGG. The DAC members expect us to provide papers on specific questions for the IGG meeting; especially on (revised) cost estimates, and whether the Bank/IDA can administer a scheme, if funds were made available and if E.D.'s so agreed, within the existing Articles of Agreement. They also hope there would be consultations between Fund staff and Bank staff on the relation between S.F. and C.F.F. and that this would be clarified at the IGG meeting. I stated that we have considered available data for more recent years also, and our present cost estimates indicated $300 million a year as a reasonable figure.

My impression is that the overall attitude showed some resilience. There was an awareness of expectations of LDC's with respect to Supplementary Finance, and that funds for this purpose had to be additional. The U.S. recognized this was an important aspect of the development problem, but was not certain yet about the priority to be accorded to it. Australia did not say anything. France restated its known position, but briefly and less vigorously.

The U.K. specifically said that any scheme of S.F. that only diverted existing development funds to this purpose would be of little interest to developing countries. The idea had been expressed that IDA would be the administering agency. The U.K. raised the question of replenishment of IDA for its existing functions, and funds for this particular purpose of meeting export shortfalls. How would the S.F. contributions be shared among donors? The U.S.A. did not preclude IDA replenishment with this purpose also in mind, and noted that if IDA was to be the administering agency, the sharing of contributions could well be like for IDA. Several members spoke of Third IDA Replenishment and S.F. The U.K. noted that this would complicate negotiations more than if the two were staggered and separately dealt with. France doubted if all countries would agree to IDA replenishment with S.F. included in it. (I steered clear of this discussion.)

As summed up by the Chairman, there was a general feeling around the table that the next IGG session should be the final one. It would then be up to the Trade and Development Board and for governments to pursue the matter further. Therefore, Group 'B' (DAC) members should come prepared to state their respective positions at an early stage of the IGG meeting, so as to facilitate the finalizing of the Report. If an agreed report did not emerge, as seemed likely in view of the rather wide range of views even among Group 'B' countries, then the Report of this meeting could be envisaged as supplement to the Report of the Group that was forwarded to UNCTAD II.

Mr. Koinzer noted that the so-called simplified alternative presented by them earlier did not gather any wide support. They were for a simple scheme, that was essentially discretionary and administered by an existing agency. The U.S. shared this view. It was observed by some members that on refinancing of Fund Facility, and other alternatives, there were no papers. It would not be possible to consider them at the IGG meeting unless details were presented. Then, as France put it, discussion would focus on Bank Staff Scheme, and this is what LDC's wanted.

cc: Mr. Wishart

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Paul Clarke.

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DRAFT MEMORANDUM TO MR. McNAMARA JUNE 4 1969

Country economic reports - Germany

Do not have a general country economist the way we do. The Kredit Anstlat does project investigation with only an incidental look at the economy. In Bonn the Ministers use our economic reports whenever a general look at the economy is necessary. However, in some cases the reports are less used than otherwise because of language difficulties.

In addition our reparts are sent out to all Embassies and the experience has been that in the last couple of years what the Embassies report on the conditions in their countries is very close to what is contained in the latest report of the Bank. (For instance, Mr. vom Hofe said that this information was given on a purely confidential and personal basis.)

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Asian Development Bank

Discussed in the days of the early formation of the Bank that in forming his own economic staff use would be made of our economic reports.

Discussed with President Watanabe of the Asian Development Bank, who said that they were making extensive use of our economic reports and hoped to continue to do so. Would appreciate if even further use of our economic reports was possible .

African Development Bank

Spoke to President Beheiri when he was here recently who said they make full use of these reports. They had deliberately not built up an economic staff for this purpose as assuming from previous conversations with me would continue to rely on availability of our economic reports and related material.

This is aside from the use made in consultative groups and the Executive Directors and their work but rather the extent to which these are being used by bilateral donors and regional banks, to my knowledge.

It ~~is~~ has also been reported to me that at a recent meeting of the EEC a number of representatives spoke up and indicated that in their countries they were relying greatly on our country economic work ~~and that~~ and as reported to me these views were generally endorsed by all present.

INTERNATIONAL BANK FOR
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INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

June 6 1969

On use of Bank economic reports speak to:

Mr. Maude -- extensive use of documents but would know more after speaking to London.

Mr. Reid -- extensive use of them made in Canada, but not as much as IMF reports.

Germans -- extensive use made of documents in Germany.

Paul Clark, AID -- used them extensively -- would need their own specialized staff to write the information if it weren't available in the Bank economic reports.

Mr. Karlsson --

away ~~Mr. Suzuki --~~

Mr. Carriere ~~or Plescoff~~ - to return call

Mr. Rota

Mr. Sedwitz - OAS - to return call

Plescoff - returned call

INTERNATIONAL BANK FOR
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Mr. Karlsson --

Mr. Suzuki --

Mr. Carriere or Plescoff

Mr. Rota

Mr. Sedwitz - OAS

June 6, 1969

Bank Economic Reports;

Pazos of Inter-American Bank: Used by the Economics Department and Country Desks, depending on the problem, but basically the Economics Department. As regards general countries they work with the Bank and CIAP, relying more on Bank reports for greater depth and CIAP reports for more regular reporting - 5 CIAP reports are got out as compared with 3 from the Bank on a country. They do not have sufficient staff to rely on their own reporting.

Karlsson: In Sweden reports are being sent to Central Banks, Ministry of Finance, Foreign Department and SIDA - will look into sending also to National Institute of Economic Research.

Lieftinck: Reports are used by Dutch Government in connection with consortium and bilateral aid.

Plescoff: Reports have not been used very extensively outside the Government of France, but he is now considering circulating them, with discretion, to Banks in France.

June 6, 1969

Bank Economic Reports;

Pazos of Inter-American Bank: Used by the Economics Department and Country Desks, depending on the problem, but basically the Economics Department. As regards general countries they work with the Bank and CIAP, relying more on Bank reports for greater depth and CIAP reports for more regular reporting - 5 CIAP reports are got out as compared with 3 from the Bank on a country. They do not have sufficient staff to rely on their own reporting.

Karlsson: In Sweden reports are being sent to Central Banks, Ministry of Finance, Foreign Department and SIDA - will look into sending also to National Institute of Economic Research.

Lieftinck: Reports are used by Dutch Government in connection with consortium and bilateral aid.

Plescoff: Reports have not been used very extensively outside the Government of France, but he is now considering circulating them, with discretion, to Banks in France.

April 9, 1969

SPECIAL STUDIES GROUP

The Special Studies Group has performed a great variety of functions, including preparation of papers for the Board. Example: "Preferences for Domestic Suppliers", and work on policy problems. At the same time, the Group, which consists of two people, has concentrated on:

(1) Helping to draft the action decisions on Commodities.

(2) Preparation of the first draft of the President's Report to the Board on Commodities.

(3) Outline of Economic Development Report.

(4) Had been doing some basic thinking on the lines that you and I discussed on the Third Replenishment but, for the timebeing, this has been suspended.

At present Budget for three persons, but would suggest four.

April 9, 1969

What we need in work on Development Strategy and Economic Performance

1. What is the philosophy of the Bank with respect to development strategy and implementing economic policy.

2. A critique of this philosophy, for example, is it realistic in application -- does it recognize differences among countries -- does it affect actual decisions by the Bank or IDA, etc.

3. How does the Bank philosophy compare with other approaches to the problem of development strategy and economic performance as in other institutions -- the OAS, IDB, the African Development Bank, the Asian Development Bank, or individuals.

4. What special problems have arisen in trying to develop a Bank philosophy in this field or in trying to apply it.

5. This is part of the process of becoming the world's leading experts in the field recognized as such by people both inside and outside the Bank.

6. What areas of research and thinking should be focused on first to help meet some of the problems identified above -- among those already identified are:

(i) Does the Bank have its own independent evaluation of countries development strategies and economic performance or are we guided by what we are told by the countries.

(ii) ~~Do we have~~ the development of our own criteria for judging country strategies and performance, including relastic and well conceived economic and social criteria.

(iii) In practice how do we relate our views on development strategy and economic and social performance to what the Bank actually does in operations and technical assistance.

(iv) How to improve the sections in our contemplated economic development reports in these fields and how to ensure their careful review when done.

(v) What methods, if any, do we have in bringing about a greater understanding by the Bank on what is or are appropriate development strategies -- how to help countries to adopt and maintain such strategies.

7. In terms of personnel it is proposed that the Development Program Group aim to build up a staff of six professionals in the coming fiscal year.

FORM NO. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date April 4, 1969

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

For your Monday morning meeting

From

S.K.Bhatia

Messrs. Andrew M. Kamarck
Alexander Stevenson

April 7, 1969

Samir K. Bhatia

Economics Department - Status of Recruitment - Week ending April 4,1969

Since the last report submitted to you on March 31, the following changes have taken place with regard to our recruitment drive:-

Professionals (84 authorized positions, 70 now filled)

Mr. Balassa and Miss Lovassy, who were working as consultants, both now occupy slots in the Office of the Director, however they are still classified as consultants.

In the course of the week, Mr. Ablasser (Sector and Projects Studies Division) and Mr. Joshi (Fiscal Policies of Developing Countries Division) joined the Department. Mr. Lowther accepted our offer to join the Office of the Director as a Staff Assistant and Mr. Bhatia will join the Urbanization Division.

A revised table showing these changes is attached.

Attachment:

cc: Mr. Friedman
Mr. Jeffries

S.K.Bhatia:rf

Samir K. Bhatia
April 7, 1969

ECONOMICS DEPARTMENT

Status of Recruitment as of April 4, 1969

Where changes have taken place, last week's figure appears in parentheses

	(1) Authorized positions	(2) Positions filled	(3) Offers accepted but not yet joined	(4) Offers made & under consideration	(5) Net vacancies [(1-2)-(3+4)]
Office of the Director	6 (4)	5 (4)	1 1/ (0)	0 1/(0)	0
Sector and Projects Studies	14	11 (10)	3 2/(4)	2 3/	-2
Industrialization	8	7	0	1 4/	0
Applied Quantitative Techniques *	5	4	1 5/	0	0
Comparative Data*	7	5	1 6/	0	1
Population Studies	4	2	1 7/	0	1
Trade Policies and Export Projections	10	9	0	0	1
Fiscal Policies	8	6 (5)	1 8/(2)	0	1
Urbanization	3	3 (2)	1 9/	0	-1 (0)
Statistical Services	19	18	0	0	1 10/
	84 (82)	70 (66)	9 (10)	3	2

* THESE UNITS TOGETHER FORM THE QUANTITATIVE TECHNIQUES AND ANLYSIS DIVISION

1/ Mr. Lowther
2/ Mr. Anderson, EOD 7/21/69; Messrs. Duane and Scherer.
3/ Messrs. Kawakatsu and Rado.
4/ Mr. Carmignani
5/ Mr. Cheetham, EOD 6/ /69.
6/ Mr. Leoni
7/ Mr. King.
8/ Mr. Gandhi, 8/ /69.
9/ Mr. Mera, EOD 6/1/69.
10/ Programmer Analyst.

Messrs. Andrew M. Kamarck
Alexander Stevenson

April 7, 1969

Samir K. Bhatia

Economics Department - Status of Recruitment - Week ending April 4,1969

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A revised table showing these changes is attached.

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Mr. Jeffries

S.K.Bhatia:rf

Samir K. Bhatia
April 7, 1969

ECONOMICS DEPARTMENT

Status of Recruitment as of April 4, 1969

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Industrialization	8	7	0	1 4/	0
Applied Quantitative Techniques *	5	4	1 5/	0	0
Comparative Data*	7	5	1 6/	0	1
Population Studies	4	2	1 7/	0	1
Trade Policies and Export Projections	10	9	0	0	1
Fiscal Policies	8	6 (5)	1 8/(2)	0	1
Urbanization	3	3 (2)	1 9/	0	-1 (0)
Statistical Services	19	18	0	0	1 10/
	84 (82)	70 (66)	9 (10)	3	2

* THESE UNITS TOGETHER FORM THE QUANTITATIVE TECHNIQUES AND ANLYSIS DIVISION

1/ Mr. Lowther
2/ Mr. Anderson, EOD 7/21/69; Messrs. Duane and Scherer.
3/ Messrs. Kawakatsu and Rado.
4/ Mr. Carmignani
5/ Mr. Cheetham, EOD 6/ /69.
6/ Mr. Leoni
7/ Mr. King.
8/ Mr. Gandhi, 8/ /69.
9/ Mr. Mera, EOD 6/1/69.
10/ Programmer Analyst.

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

OFFICE MEMORANDUM

TO: Directors, Study Groups, Mr. Kamarck,
Mr. Stevenson

DATE: April 4 1969

FROM: Irving S. Friedman

SUBJECT: Agenda for Meeting Monday April 7

I hope on Monday to have for discussion your proposed work plans and budget for the coming fiscal year.

I also presume that John Adler has talked to you about this. I have a memorandum from him on staff and recruitment which I am attaching.

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

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: April 3, 1969

APR 4 1969
9.45 a.m.

FROM: John H. Adler JHA

SUBJECT: Staffing and Recruitment Status, Economics Department and Study Units - March 31, 1969

This is in response to your request for a report on the staffing situation in the Economics Department and Study Units. It has been prepared by the Personnel Division and shows the position as of March 31, i.e. that the Economics group has a total of 3 positions to be filled.

Of the 84 authorized positions in the Economics Department, 67 were filled as of March 31, 10 offers had been accepted (2 of these staff members reported for duty April 1, and the others are expected to over the next several months). Against the remaining 7 vacancies, 4 offers are outstanding and 1 transfer has been arranged from outside the Department, leaving a net of 2 positions to be filled. We have 11 other candidates, whose references have been or are being checked, to whom offers could be made on short notice if vacancies existed.

Of the 36 authorized positions in the Study Units, 22 were filled as of March 31. Eight offers had been accepted and long-term commitments have been made with consultants for the Basic Research Center which are allocated to three positions. Three other offers are outstanding and 1 transfer has been arranged from outside the Study Units and 1 transfer out is expected. Taking into account expected terminations, 1 additional offer could be made for the Study Units. We are at the point of making offers to 7 additional candidates in the Study Units should there be additional positions authorized for them to fill or unexpected vacancies.

Details on the positions by Divisions of the Economics Department and by Study Units are given in the attachment.

The above recruitment position does not reflect the fact that the Economics group has, during the current fiscal year, lost 10 staff members to other Departments of the Bank: 6 to Area Departments, 1 to Projects, 2 to C.I.D. and 1 to E.D.I. Transfers into the group during this time have been 6 Young Professionals, 1 from Treasurer's and 1 from E.D.I. (Baranson, on a limited-term basis). Additional transfers of others to the Area Departments are under consideration but not yet arranged. Furthermore, a number of candidates initially recruited for the Economics group have been shifted to other departments for consideration, principally to Area. This procedure is continuing where candidates are qualified for other positions than those in the Economics group.

Attachment

ECONOMICS DEPARTMENT AND STUDY GROUPS

Status as of March 31, 1969

ECONOMICS DEPARTMENT	Authorized Positions	Incumbents	Transfers; Offers Accepted	Uncommitted Vacancies	Offers/Transfers(T) under Consideration	Expected Vacancies	Net Recruitmen Requirement
Office of the Director	6	6	0	0	1 - Lowther	1 - Bhatia (T)	0
Industrialization	8	7	0	1	1 - Carmignani	0	0
Urbanization	3	2	1 - Mera	0	1 - Bhatia (T)	0	(1)
Fiscal Policies	8	5	2 - Joshi Gandhi	1	0	0	1
Population	4	2	1 - King	1	0	0	1
Quantitative Techniques & Analysis	12	9	2 - Leoni Cheetham	1	0	0	1
Sector & Projects	14	10	4 - Ablasser Anderson Duane Scherer	0	2 - Rado Kawakatsu	0	(2)
Statistical Services	19	17	0	2	1 - Helne (T)	0	1
Trade Policies	10	9	0	1	0	0	1
	84	67	10	7	6	1	2

STUDY GROUPS	Authorized Positions	Incum-bents	Transfers; Offers Accepted	Uncommitted Vacancies	Offers/Transfers(T) under Consideration	Expected Vacancies	Net Recruitment Requirement
Basic Research	7	3	5 - Singh Norton Manne * Vietorisz * Lissak * Frank * Westphal *	(1)	1 - Bergsman	2 - Oury Sundrum	0
Commodity Stabilization	3	3	0	0	0	0	0
Creditworthiness	9	5	4 ~~3~~ - Landau Klein Condos Devaux	1	~~1 -~~ Devaux	1 - Maane (T)	1
Dev. Finance	9	6	2 ~~2~~ - Yudin Rau Vibert	1	~~1~~ - Vibert (T)	0	0
Dev. Programs	5	3	1 - Sakura	1	0	0	1
Special Studies	3	2	0	1	1 - Junz	0	0
To be specified	-	-	-	-	1 - Sundrum (T)	-	(1)
	36	22	~~11~~ 13	~~3~~ 1	~~5~~ 3	3	1
	~~120~~ 123	89	21	10	11	4	3

* Consultants equivalent to 3 positions

need vacancies?

1 pipeline – more efficient – higher standards

2

(1) Clearer definition of role of Functional Groups.
part of C.W. - Country Program and Special Studies (Absorption)

(2) Need for closer coordination of Area economists -
ex: lack of common standards seen in 5 yr. Program

Solution: Full time Deputy Chairman of Eco Committee

(3) Need for greater clarification on responsibility for hiring of economic personnel

(4) Personal Actions

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

(Mr. Reid may suggest at Seminar)

MCN folder

Walsh McM — want

Carefully discuss on

draft report — he

are repeated this

in connection but not

pursued

Could have seminar on

May 28 & — new version

of rest — draft of May 25

first Board — June 12

other "informal" soundage —

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

1) put rep doing two models now

2) Optional: 3 more

sel have to evaluate —

2 - Special studies —

3 - ~~model~~ "pilot" studies

2 - credit external debt studies and proposals

1 - statistical

3 - "Surge" technical work Area Dept on difficult cases needing special study

1 - Director

International Bank for Reconstruction and Development
International Finance Corporation International Development Association

ADMINISTRATIVE CIRCULAR

October 16, 1968

REORGANIZATION

On November 1, 1968, the following organizational units will be established and the staff assigned to them will report directly to The Economic Adviser to the President:

1. Special Studies. Mr. David Kochav will be Acting Special Studies Director. The functions of this unit are described in Annex I.

2. Basic Research Center. Mr. Louis Goreux will be the Director of the Center, the functions of which are described in Annex II.

3. Creditworthiness Studies. Mr. Barend de Vries will be Creditworthiness Studies Director. The functions to be performed by this unit are described in Annex III.

4. Development Finance Studies. Mr. Ugo Sacchetti will be Development Finance Studies Director and the functions to be performed by this unit are described in Annex IV.

5. Commodity Stabilization Studies. Mr. Dragoslav Avramovic will be Commodity Stabilization Studies Director. The functions to be performed are described in Annex V.

6. Development Programs Studies. The functions to be performed by this unit are described in Annex VI. Mr. Barend de Vries will serve as Director of this unit on an acting basis until a permanent Development Program Review Director is appointed.

The Economics Department, with Mr. Andrew Kamarck as Department Director and Mr. Alexander Stevenson as Deputy Department Director, will consist of eight divisions, the functions of which are described in Annexes VII through XIV. These divisions and the staff members who will serve as Division Chiefs are as follows:

1. Sector and Projects Studies (see Annex VII) - Mr. H. G. van der Tak

2. Quantitative Techniques and Analysis (see Annex VIII)- Mr. E. K. Hawkins

3. <u>Trade Policies and Export Projections</u> (see Annex IX)- Mr. A. J. Macone

4. <u>Fiscal Policies of Developing Countries</u> (see Annex X)- Mr. S. Please

5. <u>Economics of Industrialization</u> (see Annex XI)- Mr. G. Kalmanoff

6. <u>Polulation Studies</u> (see Annex XII)- Mr. E. K. Hawkins, Acting

7. <u>Economics of Urbanization</u> (see Annex XIII)- Mr. R. M. Westebbe

8. <u>Statistical Services</u> (see Annex XIV)- Mr. A. E. Tiemann

Robert S. McNamara

Robert S. McNamara
President

ANNEX I

Special Studies

The basic functions of the unit are to prepare papers for the President and the Board on policy questions (including but not confined to economic policy questions).

October 16, 1968

ANNEX II

Basic Research Center

The basic function of the Unit is to do long pay-off research. The Center is not to engage in applied or operational research but only on problems that need to take several years for fruition. The research is directed at providing the theoretical underpinnings of national and international economic policies pertaining to development with the emphasis on deriving new insights into key problems as a means of improving policy making by the Bank Group and their member countries or institutions therein. It is intended to establish an advisory group, consisting of some members from outside the Bank, and some members from various parts of the Bank, to advise on the program of studies to be carried out, and to review the resulting studies.

October 16, 1968

ANNEX III

Creditworthiness Studies

This unit is to provide advice and to make recommendations on creditworthiness policies. It will be concerned with the methods, standards and approaches of the Bank in dealing with the assessment of country creditworthiness, and review and evaluate for The Economic Adviser to the President the work done by the Area Departments on these matters. It will exercise functional control over the preparation of creditworthiness reports and, where appropriate, will prepare pilot studies. It will, where appropriate, make comparative studies of country creditworthiness as a basis for making over-all assessments and policy recommendations.

October 16, 1968

ANNEX IV

Development Finance Studies

The basic functions of this unit are: to provide advice and to make recommendations on the economic, financial and other developments that affect the availability, terms and flow of public and private capital from the developed countries to the developing countries. This unit will also provide background information for the Bank's borrowing activities and information and advice needed in the various negotiations with the developed countries on IDA replenishment and the like. In carrying out these functions, this unit will keep in close touch with the other institutions doing research on the developed countries to take full advantage of their work.

October 16, 1968

ANNEX V

Commodity Stabilization Studies

The basic function of this unit is to do research, to provide advice and to make recommendations on Bank action in the field of commodity problems, policies and organization.

October 16, 1968

ANNEX VI

Development Program Studies

This unit has two basic functions:

1. To assist in the Bank's five-year programs for its member countries by the establishment of consistent methodology, approaches and standards for the preparation of the economic sections of the five-year programs by the Area Departments. It will exercise functional control over the preparation of such sections and will coordinate and review the economic judgments, sector priorities and conclusions of such studies for submission to The Economic Adviser to the President. It will bring out the major economic issues of significance for Bank and IDA policy emerging from the analysis of the various five-year country programs.

2. To establish uniform approaches, standards and methodologies, and review the work done by the Area Departments on development strategies, programs and policies in order to advise The Economic Adviser to the President on its quality. It will prepare comparative studies of country programs, where necessary, to help establish such uniform approaches, standards and methodologies.

October 16, 1968

Sector and Projects Studies

The basic function of this division is to provide advice, to make recommendations, and to do operational research in the field of sector and project analysis, so as to provide a better basis for judgments on appropriate policies and investment priorities in the lending and other activities of the Bank.

This function is performed in two main ways by:

a) Undertaking general and methodological studies of sector and project policy problems, and developing better analytical techniques for arriving at resource allocation decisions; and

b) Providing advice on specific problems arising out of the work of the Bank on a sector or project in a particular country.

a) involves specifically:

(i) Development of methods and techniques for reaching investment decisions at the project and sector levels, by considering:

(a) General problems, such as, for example, optimum timing of investment, risk analysis, and complications due to inflation; and

(b) Problems specific to individual sectors. These concern primarily the definitions and evaluation of the relevant economic costs and benefits, and the development of techniques of project and sector analysis that properly consider relevant costs and benefits and relevant alternatives.

(ii) Research on sector policy issues such as pricing, and development of practical recommendations on them.

(iii) Collection and analysis of information pertaining to the relevant supply and demand functions with a view of devising operationally useful parameters.

b) comprises:

(i) Participation, where appropriate, in project and country missions, as well as separate field studies. This activity is coordinated with on-going research.

(ii) Advice and comment on project and sector work originating in the Project Department.

October 16, 1968

ANNEX VIII

Quantitative Techniques and Analysis

The basic functions of this division are:

1. to do operational research on the use of modern quantitative techniques of analysis and to apply it particularly in country economic work. This function is performed by:

(a) developing analytical techniques and models useful to understand and to help predict the behavior of particular types of economies;

(b) working on growth, planning and other models used for analyzing the economic development of member countries, advising other departments on the methodology used for such work, and reviewing such work done in such departments.

2. to provide the Bank a systematic compilation on a uniform comparative basis of the significant economic data on the developing countries and where appropriate to make an analytical evaluation of these statistics. At present, work is proceeding leading to the establishment of a computer country data bank. The division advises other departments on matters relating to national income accounting and macro-economic computations. In consultation with area departments, it evaluates and advises countries on improving their key economic development statistics.

October 16, 1968

ANNEX IX

Trade Policies and Export Projections

The basic function of this unit is to do research on the major commodities of interest to the developing countries in order to advise the Bank Group on the outlook for future demand, supply, trade and prices of these commodities. The unit studies the economic and other forces affecting some 40 important commodities so as to maintain up-to-date short and medium term projections for those commodities as well as follow the activities, policies and programs of the various international organizations and commodity groups involved in this field.

October 16, 1968

ANNEX X

Fiscal Policies of Developing Countries

The basic function of this division is to provide advice, and to make recommendations and to do operational research on problems relating to the mobilization by the developing countries of domestic resources for development so as to provide a basis for judgments as to the appropriateness of policies in the fields of taxation, private savings mobilization, money, credit, and financial institutions. The emphasis is on the general policy aspects of these problems rather than on the detailed technical aspects of tax administration, budgetary control, etc., or on the legal and administrative problems associated with the development of capital market institutions and instruments. This function is performed by:

(a) making recommendations on Bank policy in this field;

(b) advising other departments on specific problems in this field arising out of the work of the Bank and reviewing work in this field done elsewhere in the Bank; and

(c) undertaking comparative studies of these problems in selected countries.

October 16, 1968

Economics of Industrialization

The basic function of this division is to provide advice and to make recommendations on industrialization problems and policies and to do operational research in the field of industrialization so as to provide a better basis for judgments on appropriate policies and investment priorities, as reflected, for instance in country, sector (and project) reports, and in the lending and other activities of the Bank.

The function is performed in three main ways by:

(a) preparing recommendations on Bank policies in this field;

(b) undertaking studies of the process of industrialization and its relation to general economic and social development in individual countries, developing techniques for efficiently stimulating the process (e.g. protection against imports, subsidies, government sponsorship, providing a favorable climate for private investment and the like), and advising on the use of such techniques;

(c) providing advice on general and specific problems of industrialization arising out of the work of the Bank, and reviewing the economic analysis of industrialization carried out in other departments.

October 16, 1968

ANNEX XII

Population Studies

The basic function of this section is to prepare recommendations and to do operational research on problems, particularly economic problems, related to population growth and its control in the developing countries. This function is undertaken by:

(a) initiating recommendations on policies needed to accomplish Bank Group objectives in the developing countries;

(b) collecting information about research work in the field currently going on elsewhere;

(c) in collaboration with area departments stimulating the collection by developing countries of appropriate data required for the evaluation of demographic trends and family planning programs;

(d) providing advice to, and reviewing the economic aspects of work done in other departments, and providing direct assistance on specific problems in the population field where requested by area departments;

(e) conducting and stimulating studies of specific topics of particular interest to the Bank such as the measurement of the demographic and economic impact of birth control programs, practical problems of implementing such programs, and the effects of policies other than family planning that could affect the rate of population growth.

October 16, 1968

ANNEX XIV

Statistical Services

The basic function of this group is to provide the Bank with statistical services in the form of statistical analyses and advice, computations and tabulations, computer programming services and basic statistical reports. The group's work has the following four major sub-divisions:

External Debt and Capital Exports: Periodic reports are received from member countries on the status of their long-term external public debt. Data are obtained from this reporting system and provided to the Bank, and also to international organizations, regional development banks, individual countries and others requesting such information. Periodic reports of credits and grants made available to developing countries are received from the creditor countries through the Expanded Reporting System, operated jointly with OECD. In this fashion, by obtaining corresponding data from both debtor and creditor countries a more complete coverage of the external debt situation should be provided and the quality of debt statistics improved. For this purpose also technical assistance in the collection and processing of debt statistics is provided to developing countries as required.

Selected data are maintained on new foreign issues in major capital markets, and are made available twice a year to the Bank and IMF, OECD and other interested parties.

Statistical Techniques: Advice is given to Bank staff on statistical methodology and techniques. Manual tabulations and statistical checking services are provided for Bank staff.

Computer Programming: Computer programming requirements associated with external debt data are provided as are all the "scientific" programming needs of the Bank staff, including regression analysis, linear programming, Monte Carlo techniques, rate of return and discounting calculations.

Graphics: All charts, graphs and diagrams appearing in Bank, IDA and IFC reports are provided.

October 16, 1968

ANNEX XIII

Economics of Urbanization

The basic function of this division is to prepare recommendations, to do operational research, and to provide advice to the Bank on the problems of urbanization in developing countries so as to provide a better basis for judgments on appropriate policies and investment priorities in Bank lending and other activities.

The function is performed by:

(a) undertaking studies of the process of urbanization and its relation to general economic and social development, of different policies and approaches to it (e.g. satellite towns, etc.), and of special problems arising in connection with it (e.g. in the areas of transportation, town planning, financing, growth of slums, etc.);

(b) providing advice on general and specific urban problems arising out of the work of the Bank.

October 16, 1968

FORM No. 58

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 4 1969

FROM: Irving S. Friedman

SUBJECT: Letter from Secretary-General of UNCTAD

I believe that Mr. Perez-Guerrero would like you to be aware of the attached letter.

ISF

President has seen

JUN 9 1969 (Returned)

Copy sent to Messrs. Kamarck & Macone 6/3/69

UNITED NATIONS

CONFERENCE ON TRADE AND DEVELOPMENT

OFFICE OF THE SECRETARY-GENERAL OF UNCTAD

NATIONS UNIES

CONFÉRENCE SUR LE COMMERCE ET LE DÉVELOPPEMENT

BUREAU DU SECRÉTAIRE-GÉNÉRAL DE L'UNCTAD

Télégrammes : UNATIONS, GENÈVE
Télex : 22.212 ou 22.344
Téléphone : 34 60 11 33 40 00 33 20 00 33 10 00

Palais des Nations
1211 GENÈVE 10

REF. Nº :

27 May 1969

JUN 3 1969
4 pm

Dear Mr. Friedman,

I was pleased to receive your letter of 9 May 1969 concerning the proposed visit to Washington by the Director of my Commodities Division for consultations with Bank officials in connexion with the Study on Rubber.

Mr. Chidzero, the Director of the Commodities Division, will communicate directly with Mr. Macone as suggested in your letter. I should mention, however, that in view of his commitments related to the Preparatory Meeting on Cocoa, scheduled for 16 - 27 June, it will not be possible for Mr. Chidzero himself to visit Washington at this stage. Instead, I am sending Mr. A. Maizels, Assistant Director in the Division, who will be accompanied by Mrs. 't Hooft-Welvaars, our Consultant on Rubber.

Please convey to Mr. McNamara my sincerest appreciation of the Bank's ready co-operation in this matter.

Yours sincerely,

Manuel Pérez-Guerrero
Secretary-General of UNCTAD

Mr. Irving S. Friedman
Economic Adviser to the President
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U. S. A.

1969 JUN -2 AM 10:04

GENERAL FILES
RECEIVED

President has seen

UNITED NATIONS

CONFERENCE ON TRADE AND DEVELOPMENT

OFFICE OF THE SECRETARY-GENERAL OF UNCTAD

NATIONS UNIES

CONFÉRENCE SUR LE COMMERCE ET LE DÉVELOPPEMENT

BUREAU DU SECRÉTAIRE-GÉNÉRAL DE L'UNCTAD

Télégrammes : UNATIONS, GENÈVE
Télex : 22.212 ou 22.344
Téléphone : 34 60 11 33 40 00 33 20 00 33 10 00

Palais des Nations
1211 GENÈVE 10

REF. No :

27 May 1969

JUN 9 1969

Dear Mr. Friedman,

I was pleased to receive your letter of 9 May 1969 concerning the proposed visit to Washington by the Director of my Commodities Division for consultations with Bank officials in connexion with the Study on Rubber.

Mr. Chidzero, the Director of the Commodities Division, will communicate directly with Mr. Macone as suggested in your letter. I should mention, however, that in view of his commitments related to the Preparatory Meeting on Cocoa, scheduled for 16 - 27 June, it will not be possible for Mr. Chidzero himself to visit Washington at this stage. Instead, I am sending Mr. A. Maizels, Assistant Director in the Division, who will be accompanied by Mrs. 't Hooft-Welvaars, our Consultant on Rubber.

Please convey to Mr. McNamara my sincerest appreciation of the Bank's ready co-operation in this matter.

Yours sincerely,

Manuel Pérez-Guerrero
Secretary-General of UNCTAD

Mr. Irving S. Friedman
Economic Adviser to the President
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U. S. A.

1969 JUN -5 AM 10:40

GENERAL FILES
RECEIVED

President has seen

Mr. Michael L. Hoffman June 4 1969

Irving S. Friedman

Bond Club Speech

Thanks for the copy of your memorandum of May 29.

I think we ought to try to invent words other than "grant element" or "hard" or "soft". It is all kind of colorful but misleading.

Until we have better words perhaps we had better just say what we are doing, using words like "no interest rate but small interest charge about 3/4 of 1%", or "~~small~~ interest rate of 6¾%", etc.

Mr Friedman
Any support
from your quarter?

MICHAEL L. HOFFMAN

Mr. William Clark May 29, 1969

Michael L. Hoffman

JUN 2 1969
5 p.m.

Bond Club Speech

I am still unhappy about the use of the term "concessional" to describe Bank lending rates in the President's Bond Club speech (bottom of page 7), especially when, in earlier paragraphs, he stresses that Bank loans are hard loans (pages 2 and 3). I know what we mean; and I am not trying to reopen the argument, which I lost, to the effect that, properly viewed, there is no true subsidy element in Bank loans as long as we earn a profit and maintain adequate reserves. But I do think we can make our point in language that is both more correct and less dangerous.

The word "concessional" as applied to development finance in international discourse has come to mean 3%, 25 years, with a long grace period, or better, ranging all the way to grants. This is what we ourselves mean by it when we recommend to our consortia or consultative groups that the country should have assistance on concessional or soft terms. We certainly do not mean Bank terms. To say, at least in the same speech, that our lending rates are both "hard" and "concessional" is simply a contradiction in terms in the light of currently accepted usage. To refer to a "grant element" in our loans (top of page 8) without explaining what is meant by this abstruse and debatable concept -- an explanation that would be otiose in a speech to the Bond Club -- seems to me even more unnecessary and dangerous.

Why can't we simply say, when we want to make this point:

(1) That though Bank loans are hard loans by current international standards for development assistance, our terms are better than our borrowers could get elsewhere, usually very much better. (The generalization is probably not strictly true. Some of our project loans are on harder terms than the same borrower can now get from hard bilateral lenders. But it is close enough for the bond clubs of the world.)

(2) That they are even better than they would be if we had to charge borrowers entirely on the basis of what we currently have to pay for our own borrowings, and that we can do this because the Bank's own paid-in capital and accumulated earnings enable us to cushion the rate in periods of very tight money and <u>still</u> earn a profit and maintain more than adequate reserves.

I have often heard Mr. McNamara describe the position more or less in this language and it seems to me we should carry it over into his speeches and avoid using "concessional" and "grant element". Semantics, perhaps, but important semantics.

cc: Mr. Demuth
Mr. Friedman

MLH:ap

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 4 1969

FROM: Irving S. Friedman

SUBJECT: Sterling Area Arrangements

I believe you will find the attached memorandum of interest.

Att:

ISF

President has seen

JUN 17 1969

10.30 —, (Returned)

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

OFFICE MEMORANDUM

JUN 3 1969

TO: Mr. Irving S. Friedman

DATE: May 29, 1969

FROM: Ugo Sacchetti U.S.

SUBJECT: Sterling Area Arrangements

In September 1968 a network of arrangements came into effect between the Government of the United Kingdom, the central banks of twelve industrial countries (Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland and the United States of America), the Governments of sterling area countries and the Bank of International Settlements (BIS). Although the ultimate purpose of these arrangements is to minimize the effect on the external reserves of the United Kingdom of withdrawals of sterling balances by overseas sterling area countries, their effects on the availability and composition of reserve assets of sterling area countries are important for the IBRD.

In essence, these arrangements involve the following: 1/

1. Drawing facilities are available to the United Kingdom from the BIS, for an amount of up to $2,000 million which can be utilized to finance reductions in sterling balances of sterling area countries below an agreed level. This facility is based on a contribution of the BIS itself and on a stand-by facility provided by the twelve countries mentioned above.

2. To assure that the above facility would be amply sufficient to cover any prospective run-down on the sterling balances during the next three to five years, arrangements have been made between the United Kingdom and each individual sterling area country to the effect that the latter would maintain at all times a minimum proportion of its reserves in sterling.

3. The sterling area countries, for their part, have received from the United Kingdom a dollar guarantee of their sterling holdings in excess of 10 percent of total reserves as the latter are defined in the agreements.

4. The sterling area countries have also agreed to deposit some part of their reserves in non-sterling currencies with the BIS on normal banking terms. These amounts will be available to the BIS to finance drawings by the United Kingdom. This, however, "will in no way restrict the freedom of these countries to withdraw their deposits as and when they wish". (Cmnd 3787, para. 15, p. 5).

1/ This memorandum and the attachment are essentially based on the following U.K. Government publications: Cmnd 3787, Cmnd 3834 and Cmnd 3835.

Data and information on the following aspects could not be secured: (i) the exact level of the agreed minimum sterling proportion for each country; (ii) the amounts deposited, or agreed to be deposited, by sterling area countries with the BIS; and (iii) the absolute amounts of the sterling balances covered by the guarantee.

It is felt that the above is useful to the Area Departments as it affects the availability and composition of external reserves of the sterling area countries covered by them. It has also a bearing on the ability of the central banks of those countries to subscribe IBRD bonds.

A more detailed description of the above arrangements and additional considerations are included in the attachment. Questions may be addressed to Mr. Patrick de Fontenay.

Attachment

cc: Messrs. Knapp, Aldewereld, Sir Denis Rickett,
Shoaib and Rotberg
Chief Economists, Area Departments

The Basle Facility and Related Agreements

The so-called "Basle Facility" announced on September 9, 1968 consists of:

(a) The "Basle Facility" proper, that is the provision by twelve industrial countries and the Bank for International Settlements of a $2,000 million facility on which the United Kingdom can draw to offset withdrawals in the sterling balances of sterling area countries.

(b) Agreements between the United Kingdom and the overseas sterling area countries under the terms of which the latter undertake to hold specific proportions of their reserves in sterling, and the former guarantees in terms of U.S. dollars the official sterling holdings of the overseas sterling area countries, up to a certain limit.

1. The Basle Facility

The countries participating in the "Basle Facility", together with the B.I.S., are: Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland and the United States of America. Under the facility, which became available after the announcement of September 9, 1968, the United Kingdom is able to draw U.S. dollars or other foreign currencies from the B.I.S. as and to the extent that the sterling balances of the overseas sterling area fall below an agreed starting level. The facility will be usable to meet withdrawals in both official and private balances. It will not be available, however, to finance a deficit in the U.K. balance of payments.

The facility will be administered by the B.I.S. which will be able to draw on three sources of finance to meet any U.K. drawings, namely:

(i) Borrowings at short- and medium-term in international markets.

(ii) Deposits placed with the B.I.S. by overseas sterling area central banks.

(iii) Stand-by facilities with the twelve countries, totalling, together with a contribution by the B.I.S. itself, $2,000 million

The contribution from the first two sources to the financing of the facility is intended to reduce or delay direct calls on the twelve lending countries and the B.I.S. which carry the ultimate liability to provide funds for drawings by the Bank of England up to the total of $2,000 million.

2. <u>The Agreements between the United Kingdom and the Overseas Sterling Area Countries</u> 1/

These Agreements were requested by the Basle group of countries as they were concerned that the $2,000 million facility should be sufficient to cover any prospective rundown of sterling balances, and also anxious that the sterling area itself should make a contribution to the financing of the facility.

The main elements in these Agreements are uniform for all sterling area countries, although there are certain differences in form, in particular in the agreements with Australia and Malaysia. The United Kingdom's guarantee to maintain the dollar value of eligible official sterling reserves of sterling area countries is matched by undertakings by those countries to maintain not less than an agreed proportion of their total reserves in sterling during the life of the Agreements. The guarantee applies to that part of each country's official sterling reserves which exceeds 10% of its total reserves. Reserves are defined as the sum of specified foreign assets which include the holdings of gold, foreign exchange, sterling and non-sterling securities held in the name or to the order of the Central Bank, the Government, its agencies or other official institutions, and the super-gold tranche position in the Fund, (but not the gold-tranche).

The guarantee in terms of U.S. dollars means that in the event of any devaluation of sterling against the U.S. dollar the United Kingdom would make payments in sterling to each country to restore the dollar value of the guaranteed portion of sterling reserves. It does not extend to private holdings or to equities held in official reserves.

The guarantee is conditional on each country maintaining at all times a Minimum Sterling Proportion in its reserves. The precise proportions have been arrived at in bilateral consultations with each country, and they broadly reflect the sterling proportions at the time when negotiations began. 2/

The Agreements, which are in the form of exchange of letters, came into force on September 25, 1968, and will remain in force for three years with a provision for extension for a further two years by mutual agreement, except for a few Governments which have chosen instead an agreement remaining in force for five years. It is provided that the Agreements may be reviewed at any time by agreement between both parties and they will be reviewed during the last six months of a three-year period from the date of entry into force (whether the Agreements run for three or five years), i.e., between March and September 1971.

1/ Australia, Ceylon, Cyprus, Gambia, Ghana, Guyana, Iceland, India, Ireland, Jamaica, Jordan, Kenya, Kuwait, Libya, Malawi, Malaysia, Malta, Mauritius, New Zealand, Nigeria, Pakistan, Sierra Leone, Singapore, Tanzania, Trinidad and Tobago, Uganda, Zambia, Abu Dhabi, Bahamas, Bahrein, Barbados, Bermuda, British Honduras, Brunei, Dubai, East Caribbean Currency Authority, Fiji, Gibraltar, Hong Kong, Qatar, Qatar and Dubai Currency Board, St. Vincent, Seychelles, Tristan da Cunha, and Tonga.

2/ The Minimum Sterling Proportion is 40% for Australia and Malaysia.

3. Implications of the New Arrangements

In general, the arrangements should safeguard the position of the pound sterling as a reserve currency and give to overseas sterling area countries reassurance as to the maintenance of value of a large part of their sterling assets.

One implication of the new arrangements which may be of importance to the Bank is the restriction placed on the freedom of the overseas sterling area countries to rearrange the composition of their reserves. The Minimum Sterling Proportion is to be maintained at all times. This means that countries which usually experience fluctuations in their sterling reserves larger than in total reserves may have to hold, on average, more than the agreed minimum proportion. Some countries have also indicated their intention to maintain substantially higher sterling proportions in practice.

Another limitation results from the agreements of the overseas sterling area countries with the B.I.S. regarding the depositing of a proportion of their non-sterling reserves with the latter. While such agreements provide that the use by the B.I.S. of these deposits to meet drawings by the United Kingdom will in no way restrict the freedom of the sterling area countries to use their deposits as and when they wish, such agreements restrict the choice of sterling area countries as to possible short-term investments of their non-sterling reserves, such as the Bank's two-year bonds.

P. de Fontenay
Development Finance Studies
May 27, 1969

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** June 2, 1969

FROM: Irving S. Friedman

SUBJECT: Bangkok Meeting: U.N. Committee on Development Planning

I think you will be interested in seeing the attached report on the meeting in Bangkok of the U.N. Committee on Development Planning.

I find myself somewhat mistified by the suggestion made on page 3 of the attached agenda that there should be "a comprehensive world report for submission to some body or bodies" for political review, accompanied by the advice of a independent committee of experts. I would have thought that the moment an independent committee of experts was included that we would be back to a technical or professional review, which would, presumably, already have been done. Perhaps I am "institutionally" minded, but when Prebisch during the early days of Supplementary Financial Measures suggested such an independent body to review questions of economic performance and other aspects of our so-called "policy package" I did my best to persuade him that this was unnecessary if the World Bank did its job properly in the first place and impossible to do by outside experts if it did not do its job properly. He was persuaded to drop the idea.

The World Bank and the other U.N. agencies are "specialized" but their governing bodies are political in that they represent governments. After our Executive Directors, or their equivalents in other bodies, have taken positions on such comprehensive questions of development strategy, economic and social performance, creditworthiness, etc., are these same governments then to review these decisions in another forum.

I know that the idea of some kind of worldwide development council or agency is becoming rather fashionable, but I would like to have the opportunity to chat with you about this some time when your calendar permits.

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

OFFICE MEMORANDUM

TO: Files

DATE: May 23, 1969

FROM: Andrew M. Kamarck

MAY 26 1969
10 am

SUBJECT: Bangkok Meeting: U.N. Committee on Development Planning

This committee met in Bangkok on May 7-16, 1969. I attended the meetings May 7 through May 10. Mr. Palmer of the Fund attended the meetings May 12-16.

The Committee spent the bulk of its time working on a draft paper outlining a proposed strategy for Development Decade II. At the end of the meeting, the Secretary was to spend a week trying to produce a draft from the points that had been made in the discussion. This is to be circulated to the members of the Committee for their comments and the Secretary is then to produce a revised draft sometime in September. This revised draft is to be circulated to the specialized agencies for their comments. Based on these, another revision may be produced which will be discussed by the Committee meeting in Geneva in January 1970. At this meeting the Committee is supposed to agree on the final text.

The first draft is likely to be a catalogue of many pet ideas of various members of the Committee on different aspects of development, trade and aid policy. In form, the Committee essentially agreed that one could not impose the same set of targets on every developing country. Each developing country with appropriate help has to work out whatever set of targets and policies would best fit its situation. However, at the same time the Committee felt that there should be international norms or averages for the developing countries as a whole.

Among the interesting points that came up in the course of the discussions were the following:

1. The Committee's relationship to the U.N. Preparatory Committee on the Second Development Decade was agreed to be one of complete independence.

2. There was a split in the Committee on whether the Committee should take a stand against reverse preferences for the developing countries.

3. On the question whether the centrally planned economies should also be asked to commit themselves to provide flows of capital equivalent to 1% of GNP, interestingly enough, the Czech member, Mr. Vergner (in the absence of the Russian, Mr. Efimov), felt that the centrally planned economies should make such a commitment.

4. The Millikan proposal for setting up a development council of independent experts to make an appraisal of progress is to be included in the report. Something of the Bank's proposal on this is also to be included.

5. The Committee approved the proposed IMF/IBRD aid to commodity stabilization.

6. The Committee spent less than a day discussing the ECAFE paper on planning in Asia; in substance approving it.

Some sidelights on the meeting may also be of interest. The attendance was quite good. The following attended the meeting:

Paul Kaya, Secretaire Administratif, Fonds d'Entraide et de Garantie des Emprunts du Conseil de l'Entente
(Mr. Kaya said very little.)

J.A. Lacarte, Ambassador of Uruguay, Argentina
(Mr. Lacarte impressed me with his realism and ability to articulate clearly his point of view.)

T.J. Mboya, Minister of Economic Planning and Development, Kenya
(Mr. Mboya spoke frequently, mostly as an advocate of the developing countries and an attacker on the developed countries, quite in contrast to Mr. Lacarte.)

Max F. Millikan, Director, Center for International Studies, Massachusetts Institute of Technology

Saburo Okita, President, Japan Economic Research Center, Japan

M.L. Qureshi, Member, Planning Commission, Pakistan, and Special Adviser, African Development Bank
(Mr. Qureshi spoke a good deal, with realism most of the time. He defended the Bank against K.N. Raj, who accused it for being ideologically biased.)

K.N. Raj, Professor of Economics, University of Delhi, India

W.B. Reddaway, Professor of Political Economy, University of Cambridge, U.K.

Jean Ripert, Director-General, Institut National de la Statistique et des Etudes Economique, France

Jakov Sirotkovic, Professor of Economics, University of Zagreb, Yugoslavia
(He may not have spoken even once.)

Jan Tinbergen, Professor of Development Planning, Netherlands Economic Institute, Netherlands
(As usual, he largely dominated the Committee.)

Zdenek Vergner, Deputy Secretary-General, National Economic Council, Czechoslovakia

I pointed out to Mr. de Seynes and Mr. Mosak that the paper they had produced for the meeting, E/AC.56/L.2, Second U.N. Development Decade, Preliminary Framework for International Development Strategy, was remarkable for the way in which it avoided any mention of the World Bank Group; e.g. it talked about Consultative Groups without mentioning the fact that the World Bank organized and ran most of them; it talked about the need for high priority to be given to the financing of regional development banks with no mention of IDA, etc. Both of them were upset about this. Mr. Mosak spent about two hours trying to make me feel better.

In the discussions, I made statements on the program and progress of the Bank; the process of country economic appraisal with the emphasis on economic performance and creditworthiness; and the Commodity Stabilization Study. I took advantage of a discussion on population policy to make clear the approach of the World Bank as being one of: analysis of the population situation in relation to development; trying to convince governments to provide the knowledge, the opportunity and the facilities so that individuals could make a rational and free choice on the size of their families. This approach, as contrasted to government population "control", went over extremely well with the members of the Committee from the developing countries who made a special point of saying so. They, and especially Mboya, had taken a strong stand against any mention of the population problem since they said it had all the implications of rich countries trying to cut down on the numbers in the poor countries.

Attached is a copy of the note that I submitted in relation to the reporting and reviewing system.

cc: Messrs. Demuth
Friedman
Hoffman

AMK/vhw

Distr.
RESTRICTED

Conference Room Paper No. 5
8 May 1969

ORIGINAL : ENGLISH

COMMITTEE FOR DEVELOPMENT PLANNING

Fifth Session
Bangkok, Thailand
7-16 May 1969

Item 3 of the agenda

COMMENT IN RELATION TO THE NOTE "THE SECOND DEVELOPMENT DECADE. PROGRESS APPRAISAL: PURPOSES AND MECHANISMS" (CONFERENCE ROOM PAPER NO. 3)

Note submitted by the representative of the International Bank for Reconstruction and Development

The World Bank group recognizes that if the whole DD2 exercise is to make any sense, there has to be some system of reporting, evaluating and reviewing the progress toward whatever objectives are set. We feel that one cannot assume that the whole job can be done by one organization. There is not now in existence a single organization that is capable of: (a) reviewing and evaluating the progress made by 90 or so developing countries, even if all of them had coherent development plans (which is not the case); (b) reviewing and evaluating the efforts made by the more developed countries to assist the LDC's through provision of capital and technical assistance, and changes in trade and domestic policies; (c) synthesizing all the material prepared in the (a) and (b) phases into a single world picture of progress or lack of progress; and (d) a review by governments of this material in some world body that would focus world opinion on the progress or problems brought out.

The Bank and Fund have, for many years, been reviewing and evaluating the progress of their member countries. While I speak only for the Bank, I may say that today the results of the Fund's consultations and analyses are regularly and thoroughly built into all our country reviews. On the technical level, the knowledge and experience of the Fund staff is fully contributed to the Bank country appraisals through the Fund staff participation in the Bank's Economic Committee at which the final technical judgments and Bank's policy recommendation are formulated. The chances of a different

/view being

view being taken by the Bank and the Fund on the kind of issues arising in any review of country performance with relation to any targets accepted by the countries in connexion with DD2 are, consequently, remote.

Our practice has been that over a period of three years we normally would have sent economic missions to, and prepared reports on, all our developing member countries at least once - oftener for the countries in which the Bank Group is more active. We have been far from doing an optimum job, in spite of having at present about 160 country functional, sectoral and other specialized economists involved in this work, as well as being able to draw on the staff resources of the Fund and other specialized agencies with which we have arrangements. We are currently building up our staff by about 50 per cent in this field so that we will be able by 1971 to make an annual review of each of our LDC member countries in greater or lesser intensity and depth as currently required.

To try to build up another organization to duplicate this system would be probably impossible, in view of the shortage of qualified and experienced economists and other experts, and certainly wasteful. This is a system which the Bank must maintain and improve for the requirements of its own operations. It would seem only sensible that it should be related to the "measurement, review and appraisal" part of the DD2.

On the side of the developed countries outside the Soviet group, there exists a mechanism in DAC for reviewing and evaluating their performance in providing development assistance. For the Soviet group, Comecon might be, or might become, such a mechanism. We think DAC does as thorough and objective a job as can be done in this kind of evaluation; we have no information on how the CMEA functions.

We feel, therefore, that we should proceed by building on existing organizations, so far as possible. In this context, if we agree that the goals of DD2 are not arbitrary and are in reasonable relation to what the developing countries can realistically be expected to achieve, we would be prepared to recommend to our Executive Directors that the Bank undertake to co-operate in a programme somewhat as follows:

/The World

The World Bank would take a principal part in the task of analysing and evaluating progress by each developing country in achieving its goals set under DD2. This would mean that as part of our regular economic work on a country we would specifically include an evaluation of the progress of that country measured against its goals and its commitments. In reviewing this progress the Bank would try to make full use of the work done by other international organizations in their fields of competence. As I think you all know, we already have very close relations with several of these agencies, not only with the IMF but also with FAO and UNESCO where we help to finance special staffs to work with us. The information that emerged from this process could be reviewed and evaluated by other organs in the UN system, including the regional commissions, some of which already make periodic evaluations of the progress of countries in their regions. They could also review the progress of countries not covered by Bank reports; that is, countries not members of the Bank.

All of these reports - from the Bank, the regional commissions, DAC, Comecon - could then be pulled together into a comprehensive world report for submission to some body or bodies in which a political, as opposed to a professional, review would take place. We think that the only possible place in which the comprehensive report can be produced is the UN Secretariat. The Bank has no position as to the body in which the final review by governments should take place or as to whether or how such a body should be advised in the review by an independent committee of experts (along the lines of Prof. Millikan's proposal).

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP	Date June 9 1969

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. McNamara	
Mr. Knapp	
Sir Denis Rickett	

President has seen
JUN 12 1969
(Returned)
11 a.m.

	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 believe you will find this of interest.

IsF

From
Irving S. Friedman

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

OFFICE MEMORANDUM

TO: Files

DATE: June 2, 1969

FROM: Barend A. de Vries BdV

JUN 5 1969
10:30 a.m.

SUBJECT: Talks with Netherlands and U.K. Officials on Creditworthiness Studies.

While in the Netherlands and the U.K. I called on a few officials to discuss informally certain questions arising in creditworthiness studies. Attached are some notes on my conversations. I was very much impressed with the keen interest in the subject. Many of the views expressed were quite useful for our own studies. Furthermore it was quite clear that the Bank's work in this field is closely followed and meets needs well beyond our own institutional requirements.

Attachments:

c.c. Messrs Friedman
Hoffman
Karasz
Sacchetti
Saxe.

NOTES ON CONVERSATION WITH S. BOOMSTRA,
INTERNATIONAL FINANCIAL RELATIONS, MINISTRY
OF FINANCE, NETHERLANDS (MAY 23, 1969)

1. Dutch aid is rising from less than f. 700 million in '68 to f. 980 millions in '70 and rising thereafter with the GDP of which it will be at least 1%. (These are rough and unchecked figures).

2. Netherlands aid terms are pragmatically determined, e.g. Indonesia gets grants simply because its present situation calls for it.

3. Netherlands refinancing of debt entails no particular problems since the consequences for the current government budget are small and the Min. of Finance has little concern with consequences for future budgets.

4. However, Boomstra feels strongly that new aid and refinancing of old loans should be treated separately, in part because some countries (e.g. Italy) have much refinancing to do but have no genuine aid program. He believes new aid should be provided on terms appropriate to the Country's prospects, while refinancing terms should be geared to the current BoP situation.

5. Boomstra feels that in short-term debt crises, which require mostly refinancing of commercial credits, the Bank should receive "preference". But when long-term loans must be refinanced (e.g. India) the Bank should participate and reschedule its own loans. (Moreover, he feels the Bank had to reschedule in this case because it shares some of the guilt: it should have called alarm earlier about supplier credits to India and some of its own loans were too hard.)

6. Boomstra felt that the concept of net aid -- as used in the India debt rescheduling -- was misleading. Old debts should be serviced on the terms originally granted as long as they had been suitable for the project and the macro-situation. If these conditions no longer held, the terms of old debts should be altered. New lending should be on appropriate terms but it was entirely possible that the reflux of payments would exceed the influx of new funds -- and this should not upset the aid givers.

7. He recognized that macro-economic conditions could alter the terms suggested as suitable on project grounds. Turkey was mentioned as an example.

8. Boomstra welcomed the Bank chairing new groups -- he mentioned Ghana -- since under Dutch policy this meant they could participate fully.

Meeting with Mr. A. MacKay (U.K. Treasury), May 27, 1969.

Also present:

Mr. C.C. Lucas	- Treasury
Mr. D.W. Spiers, Mr. Lewis	- Bank of England
Mr. D.L. Pearson, Mr. J.P. Hayes, Mr. M. Smith	- Ministry of Overseas Development
Mr. Don Wright	- Foreign Office.

1. There is widespread interest in problems of lending terms and credit-worthiness, as witnessed by the number of agencies represented at the meeting. The session was entirely informal, each one reflecting his ministry's viewpoint, without attempting an 'agreed' position.

2. The U.K. borrows short and lends long. Its aid program suffers from its aBOP problem. Prospects of increasing aid are slim. Yet there has been no pressure for hardening terms.

3. M.O.D. looks at refinancing (rescheduling) and the provision of new aid as one problem. Yet it recognizes that there are obvious limits to increasing bilateral gross flows so that there is a case for rescheduling bilateral medium-term debt. Rescheduling terms are different, especially depending on whether or not the country is a recipient of long-term U.K. aid. For example in Brazil, which does not receive U.K. aid, the U.K. will seek to obtain the hardest possible terms. On the other hand, in India, it will not provide new commercial loans and reschedule them on soft terms.

4. Should the Bank reschedule its own loans in a debt crisis? Generally the attitude among the participants in the meeting was that if the rescheduling was limited to short- and medium-term debt, the Bank could stay out. If, on the other hand, the problem was sufficiently serious that long-term debt needed to be rescheduled, the Bank should, in principle, reschedule its own loans. However, the Treasury felt that if the Bank felt / rescheduling would endanger its position in the capital market, it would be sympathetic to the Bank staying out even in the longer term cases.

5. Mr. Lucas felt that the Bank's loans were, in terms, very similar to supplier credits and that consequently one could not draw an easy dividing line between short and long-term cases as suggested in par.4.

6. U.K. terms are set on country grounds. The Bank's practice of frequently determining terms on project ground obviously tends to confuse some U.K. officials.

7. The Treasury and the Bank of England greatly welcome the role of the Bank and IMF in disseminating information on medium- and short-term debt developments. They would welcome more effective control on the build-up of debt in such situations as Brazil and Korea. The Bank's advice on the appropriateness of terms and its analysis of the international debt problem are sought eagerly.

NOTES ON DISCUSSION WITH R. RADFORD, M.O.D. (May 27, 1969)

1. There is a B.O.P. constraint on increasing the U.K. aid program beyond its present level of £205 million. Furthermore, little can be done to shift country shares in the U.K. air program. The M.O.D. keeps the export credit flow separate from official aid, but where it extends aid, export credits are usually limited because of weak economic prospects in the recipient country.

2. The U.K. Government sets terms on country grounds.(about 90% of its £205 million aid program is interest free). Project considerations enter, however, The question comes up whether a non-creditworthy country should nevertheless receive medium credits for self-liquidating projects. The Indians want supplier crdits for ships, planes, and other projects which on the margin add to B.O.P. strength. If the U.K. does not go along, the French and Italians will "benefit" -- they extend export credits but no aid.

3. The M.O.D. is interested in disbursing by the end of the fiscal year (March 31) its budgeted funds. It has problems matching disbursement with commitments. Program loans are handled quite easily in this respect and, for this reason, are preferred. However, it is felt that project loans ~~xxixtxxmxxxx~~ create more follow-up business and, consequently, are preferred by some quarters in the Government. Project loan terms are set on country grounds (but see para. 2 above).

4. Repayment of U.K. Loans accrues to a general fund outside the aid program budget. (This would imply that rescheduling raises little problems as far as the aid program is concerned).

5. In his personal view, U.K. BoP considerations make it advisable not to publicize the aid program, although there are quite a few sympathetic M.P.s.

6. In his personal view, IDA's existence should facilitate the Bank's operations -- suggesting that the IDA takes over where the Bank can't lend because of creditworthiness reasons.

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** May 29, 1969

FROM: Irving S. Friedman

SUBJECT: RAND Family Planning Research Proposal

There seems to have been a breakdown of communications on this subject. The way we understand the position is: the RAND research proposal was turned down by the Ford Foundation and by you on the grounds that RAND's image in the developing countries is too much that of a rich-donor-country-military-related research organization for it to be able to carry out effectively the proposed research project in such a sensitive field. On the other hand, the research proposal is a good one. The question then is can this proposal be carried out by some institution other than RAND?

Professor Ronald Freedman, our consultant, advised us that: "I think that if anyone is going to do a systems-comparative analysis of family planning programs (along the lines of the RAND proposal) that it should be the Bank. I think that you are the best equipped to do it in terms of staff with training in econometrics and model building and in terms of the likelihood that other agencies and individuals will be likely to cooperate with you. Apart from the desirability of finding the right home for this important enterprise, I think that doing this job would advance the interests of the Bank in this field. You could serve many countries in this way; you could begin on the research and evaluation side where action and policy are still in the future; you could in this way keep track of what is going on and where some inputs from you might be feasible. It would equip the Bank with the means of giving meaningful advice to its own staff as well as to the member countries."

An alternative might be to try to get some University to sponsor the study. The California Institute of Technology, we know, is planning to get into the field of population economics and their ideas on what they should do are still in the malleable stage. They are using Paul Schultz of RAND as a consultant (and he is at present RAND's best single argument for their doing the study). I would expect that Ford and we could work closely with Caltech with little embarrassment if Caltech were willing to take on the study. But, of course, we are not sure Caltech would be willing to do this and it might take a considerable effort of persuasion.

The original RAND proposal envisaged 15 professional man-years at a cost of $750,000, to which was added $100,000 for establishing a cooperative three-year program between RAND and the Taiwan Population Studies Center. The five professionals proposed over a three-year period would consist of economists, sociologists, statisticians and demographers.

Our impression, subject to further definition of the coverage of the project, is that if it were to be carried out by the Bank the personnel needs for the study could be reduced by one professional over the three-year period, provided that statistical services and some demographic assistance could be obtained from our present and prospective staff. The additional staff we would need would then consist of two economists and two demographers. Sociological assistance could probably be obtained by contract on a short-term basis, and statistical and computing services would come from the present divisions concerned, although it would be necessary to estimate the additional load that the project would incur. The proposed cooperative program between the Taiwan Population Studies and RAND might not be necessary if the Bank sponsored the project. (Professor Freedman is the authority on work in Taiwan and could advise us on this aspect of the project.)

Under this way of proceeding, the detailed country work required would be closely integrated with work that will be needed in any case over the next 3-5 years to provide the Bank with the detailed knowledge of family planning programs in member countries. The project would provide the methodological framework in which this knowledge would be acquired and organized. The justification for the Bank sponsoring the project would rest partly on the fact that we need to cover much of this ground in any case, and partly on the expectation that both RAND and the individuals concerned might find it more acceptable in the long run to cooperate with the Bank, by seconding staff for this purpose, than through any arrangement with another institution.

As you can see, we lean in the direction of the Bank's taking the project on. However, there is no provision made in the Budget for it, either in money or staff, and the Economics Department is going to be hard-pressed in any case so we would not be too unhappy to let Caltech or some other university carry the ball. May I have your views as to how you wish to proceed?

Mr. Hawkins May 23 1969

Irving S. Friedman

RAND Family Planning Research Proposal

Please prepare for me your comments on the questions raised by Mr. McNamara on the attached memorandum.

Att:

5/15 To Mr. Friedman

FORM NO. 57

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

OFFICE MEMORANDUM

(1) [illegible] "and trained" [illegible] the Bank [illegible] the project. (2) Would Rand be content with its [illegible]

TO: Mr. Robert S. McNamara

DATE: May 7 1969

FROM: Irving S. Friedman

SUBJECT: RAND Family Planning Research Proposal

I am attaching a memorandum on the RAND family planning research proposal.

In response to my request for an estimate of what would be the manpower and the cost involved to the Bank in carrying out this proposal, Mr. Hawkins informs me that he believes that if the project were carried out within the Population Studies Division it could be done with the addition of one economist and two demographers, or the reverse. Sociological assistance could be obtained by contract on a short-term basis. There would, of course, be some additional workload for the statistics and computer services.

The detailed country work required would be closely integrated with the work that the Bank would need to do in any case over the next five years to provide the Bank with detailed knowledge of family planning programs of member countries. The proposed project would provide the methodological framework in which this knowledge would be acquired and organized.

The justification for the Bank sponsoring the project would be provided by the fact that we need to cover some of this ground in any case and partly that RAND and individuals concerned would find it easier to work with the Bank than any arrangements with another institution. However, I am also informed by Mr. Hawkins that in a recent telephone conversation with Mr. Charles Wolf, the latter indicated an unwillingness to consider an arrangement which divorces RAND as an institution from the project. Mr. Wolf argues that the ability of RAND to bring their experience in systems analysis to bear on the project would be lost if the staff concerned did not actually work for RAND.

I would agree with Mr. Hawkins that we could create the conditions under which the work could be done in the Bank.

Would you wish us to contact RAND further to know whether they are prepared to consider an arrangement divorcing RAND as an institution from the project, or perhaps you may wish to speak to Mr. Rowan about this.

156

(3) What are Ford Foundation's latest thoughts on the subject. (4) [illegible] "our" project [illegible] Ford [illegible] "steering" committee [illegible]

cc: Mr. Stevenson
Mr. Hawkins

MAY 16 1969
8 pm.
(Returned)

Form No. 57

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

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: April 25, 1969

FROM: Andrew M. Kamarck AMK

APR 25 1969
6.30 pm.

SUBJECT: The RAND Family Planning Research Proposal (see attached memo)

Do you know whether Mr. McNamara has heard further from Mr. Rowan on this subject? Does he want us to hold up or can we take the initiative? If you and he approve, I would like us to get together with RAND and try to work out an agreement for us to take over and carry out the RAND proposal to do a systems comparative analysis of family planning programs.

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

OFFICE MEMORANDUM

TO: Mr. Andrew M. Kamarck

DATE: April 23, 1969

FROM: E.K. Hawkins EKH

SUBJECT: RAND Proposal - Research in Systems Analysis

You will recall the extensive discussions that took place on the proposal initiated by Mr. McNamara and General William Draper that RAND be asked to carry out a study on the application of systems analysis to population and family planning. The last action taken that I am aware of was a letter from Mr. McNamara to Mr. Rowan, stating that it would not be possible for this project to be carried out if RAND were to be involved in it in a public manner. The question was left open as to whether some other sponsorship could not be found which would not be subject to this objection.

I received a call yesterday from General Draper asking me for information concerning a proposal that this sponsorship might be Population Crisis Committee, of which he is Chairman. He stated that Mr. McNamara had approved of such an idea and wished to know the status of the project within the Bank. I told General Draper that I knew of no such proposal having been discussed by Bank staff, and undertook to enquire what the position was.

It may be that this matter has been discussed at a higher level in the Bank. If so, I hope that we shall get a chance to comment upon it. Obviously much will depend on the details of such a proposal, but it is not immediately obvious that the Population Crisis Committee would be a suitable host for a research project of this kind. The Committee is essentially a fund-raising and propaganda body closely associated with official U.S. government activities in the field of population. It is possible that it would be more acceptable in some countries than RAND, but I think that many people would regard it as a surprising choice to be the home of a large-scale sophisticated piece of research of the kind envisaged. There is also the question as to whether the RAND staff who would be carrying out this work would be personally willing to entertain such a proposal. (It is also worth repeating that the only proposals that can be seriously considered will involve the complete secondment of such staff in order that no lingering connection with RAND remains.)

It may be worth recalling at this point the comments of our consultant on population, Professor Ronald Freedman, in a letter recently written to the Bank.

"I have no major new bright ideas about what the Bank should do, but I would endorse one idea that must be floating around. I think that if anyone is going to do a systems-comparative analysis of family planning programs (along the lines of the RAND proposal) that it should be the Bank. I think that you are the best equipped to do it in terms of staff with training "in econometrics and model building and in terms of the likelihood that other agencies and individuals will be likely to cooperate with you. Apart from the desirability of finding the right home for this important enterprise, I think that doing this job would advance the interests of the Bank in this field. You could serve many countries in this way; you could begin on the research and evaluation side where action and policy are still in the future; you could in this way keep track of what is going on and where some inputs from you might be feasible. It would equip the Bank with the means of giving meaningful advice to its own staff as well as to the member countries."

EKHawkins/gah

cc: Messrs. Friedman, W. Clark (through Mr. Kamarck)
Stevenson

May 14, 1969

MAY 15 1969

9 am

Dear Mr. Harrison:

Thank you for your letter of May 6, 1969 addressed to Mr. McNamara, in which you inquired about the possibility of the International Development Association financing your proposed research project on the coffee bean.

As Mr. Kamarck explained to you in his letter of February 24, 1969, in reply to your earlier letter on the same subject, the Bank and IDA are not in a position to evaluate the scientific merits of new-product research projects; nor are they in a position to finance such research. If you would like to discuss the various aspects of the coffee situation, including its relation to the research you have in mind, I would be happy, as already offered, to put you in touch with the appropriate commodity economists in the Bank.

Sincerely yours,

Alexander Stevenson
Deputy Director
Economics Department

Mr. R. E. W. Harrison
President
Harrison Engineering Services
P.O. Box 5510
Friendship Station
Washington, D.C. 20016

cc: Mr. Friedman
Mr. Kamarck

AJMacone/hl

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 14, 1969

FROM: Irving S. Friedman

SUBJECT: Address to the University of Notre Dame

Mr. Claxton of the State Department telephoned to make some suggestions on the further distribution of your Notre Dame speech. He hopes that you will send copies to certain people, with personal notes. (I told him that I did not know to what extent actions of this kind had been taken or were contemplated.)

Among those he suggested were Tinbergen and Max Millikan, because of their participation in the U.N. Second Development Decade Committee, as he feels that they are not giving enough emphasis to the population problem. He also suggested that a note go to U. Thant expressing appreciation for what he has done, as well as to Prof. Carroll L. Wilson. He went on to suggest that similar messages might be sent to heads of the U.N. agencies particularly interested.

I told him about the discussions on population at the last meeting of the A.C.C. He thought any note might be related to this.

Mr. Claxton's suggestion seems meritorious.

ISF

President has seen

MAY 15 1969
3.40 p.m.

HOLD FOR RELEASE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WORLD BANK

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

MAY 8 1969
9.30 am.

Hold for Release against Delivery
expected at 2:00 PM EDT
May 14, 1969

ADDRESS TO THE BOND CLUB OF NEW YORK
by
ROBERT S. McNAMARA, PRESIDENT, WORLD BANK GROUP
May 14, 1969

Because this is the center of the financial community of a nation which holds nearly 50% of the funded debt of the World Bank, I am delighted to have this opportunity to discuss with you our plans for the future lending operations of the Bank, and the relationship between those plans and our borrowing program.

I want to begin by emphasizing a point that my predecessors Eugene Black and George Woods made over and over again: the World Bank is not only a financial institution -- it is a development agency. I accepted my present position with the Bank because I believe that the development of the emerging world is one of the biggest and the most important tasks confronting mankind in this century.

But having said that, I must make equally clear that the World Bank is a development investment institution, not a philanthropic organization and not a social welfare agency.

Our lending policy is founded on two basic principles: the project must be sound; and the borrower must be creditworthy.

We simply will not make a loan unless both these criteria can be met -- and met completely.

We insist that the investment project itself have a demonstrably high economic return and be directly related to the development of the country in which it is located. And we insist further that the total economy of the borrowing nation be capable of repaying our loan, and meeting the interest and other charges -- on schedule, and in full.

These have been the World Bank's criteria from the very beginning. They are its criteria today. They are going to remain its criteria in the future.

The fact is that with more than twenty years of accumulated experience, the Bank's appraisal of the technological feasibility and the economic value of new investment projects is today more sound, more searching, and more sophisticated than it has ever been.

As for the creditworthiness of our clients, I am fully aware that certain countries face mounting problems of debt management. Past burdens can tend to depress future ability to meet new obligations. We have initiated, therefore, a special study of this problem to ensure that we lend only where there is a firm basis for repayment.

Our studies of creditworthiness are not just passive examinations of how a country is managing its economic affairs. They are increasingly designed to make specific suggestions on how policies and programs can be improved. As you well know, changes in economic policies -- once accomplished -- can work near miracles in improving the creditworthiness of a country.

But although the World Bank will continue to lend only on the financial principles of sound projects and creditworthy clients, I am convinced that within the limits of those principles we can and should greatly expand our lending program, if we are to fulfill our obligations to our member states.

Let me explain why.

First, I want to emphasize that what I am discussing here is the IBRD arm of the World Bank Group. It is essentially a "hard lender." There are, of course, countries that are in desperate need of developmental capital, but which simply cannot qualify for "hard" loans. As far as the World Bank Group is concerned, their capital requirements must be met by our International Development Association.

But that is not what I am describing here.

I am talking about our "hard-loan" operations and the issue is this: do the developing countries need more of these hard loans, and is the Bank able to make them?

Based on the most careful analysis, my colleagues and I are convinced the answer to both questions is yes.

If one looks around the globe today, it is obvious the world is characterized by an expanding economy. The industrially advanced nations are, of course, the leading edge of this surge of progress. But there are a number of developing nations as well -- countries such as Malaysia and Mexico, for example -- which are experiencing dramatic economic growth under the infusion of modern management, new technology, and development capital.

In the field of agriculture, we have the beginnings of a revolutionary breakthrough on our hands. The massive improvement in wheat and rice cultivation in Southeast Asia is momentous. It is no mere freak of good weather or lucky conditions. It is a carefully planned program of new seeds, intensive use of fertilizer, and modern soil and water management. The green revolution is not simply a grab bag of miscellaneous farm techniques. It is a complete and coordinated agricultural technology. If we can succeed in marrying this technology to new programs of agricultural credit and marketing, we can definitely arrest the spread of famine that threatens the world's exploding population.

Nor is it in agriculture alone that economic opportunity is strong. Both Taiwan and Korea, for example, have recently achieved annual increases in industrial production of 15%, and in industrial exports of 25%. This is economic expansion at an extraordinary rate, and suggests that the modernization of Japan over a few decades may not have been an isolated phenomenon.

These nations, and many others like them, all require development capital: capital to expand the irrigation systems, capital to build the fertilizer plants, capital to construct the storage facilities -- capital to turn the immense agricultural potential into a self-sustaining reality. And they require comparable capital to stimulate and bring to the takeoff point their indigenous industrial production.

The facts, then, are clear. Capital requirements throughout the developing world have not diminished; they have expanded. The opportunities for high-return investment have mounted almost everywhere. As in the past, 85% of the new capital required will come out of the savings of the developing countries themselves. But that 85% will remain ineffectual without the other 15%, which is the irreducible foreign-exchange component these countries must borrow from abroad.

The irony is that just at the very moment when the opportunities for productive investment of external capital are expanding, the flow of that capital -- particularly from the United States -- has begun to shrink.

Why it is shrinking is a complicated story which we need not pursue today, beyond noting that there are two important assumptions at work here which are clearly erroneous. One is that the richer countries can no longer afford to supply capital abroad; and the second is that even if they could afford it, it would be unwise, since the overall record of developmental investment is a dismal picture of waste, incompetence, and failure.

These popular conceptions are simply not factual. But the more important point is this: how can we deal with a paradoxical situation in which significant opportunities for prudent investment in the developing world have increased, and yet in which the flow of investment funds has flagged rather than quickened.

The World Bank, just over a year ago, initiated a series of studies to determine what ought to be done about that paradox. When all the data had been sifted and thoroughly examined, the conclusion was compelling.

Our studies demonstrated beyond any question that over the next five years the demand of the developing countries for hard loans -- on standards as high, or even higher than in the past -- would expand substantially.

Though one could not predict with absolute precision what the new investment opportunities -- when matched against the Bank's lending criteria -- would justify in total lending year by year, the estimate was that it would warrant an increase, for a five-year period, of at least 100%. It seemed reasonable that the Bank could and should embark on such a course.

This is a lending program which is specifically designed to help countries improve their economic performance. Indeed, it is a program designed to improve the economic performance of the world as a whole.

But the lending program is, of course, only one side of the coin. If we were to double our lending, we clearly had to borrow more. Further, we wanted to try to improve our liquidity. In recent years the Bank's balances of cash and liquid securities had been drawn down by about $400 million, because of the difficulties of borrowing in world capital markets. To increase the flexibility of our operations, we needed to reverse that process if possible.

Was the five-year target of a 100% increase in loans, plus the desired increase in liquidity, practical in terms of our bond sales?

In broad terms, what we were proposing to do was to increase the lending of the IBRD from an annual average of some $800 million to over twice that amount, and add, in addition, a half billion dollars to our cash reserves. This would require net borrowing of about $600 million a year, which -- even if it were all in long-term securities, and it is not -- would amount to less than 1% of the long-term funds raised in the capital markets of the industrialized countries.

That did not seem to us then -- nor does it seem to us now -- an unrealistically large amount of borrowing on the worldwide capital market.

What is important to remember is that one of the principal advantages of the World Bank is that it can raise money in any member country which can provide convertible currency. This means the Bank can spread its financing throughout a large number of nations.

What we have done in recent months is to look for new sources of funds. And we have found them. We have found them, for instance, in Saudi Arabia and Kuwait. Even more importantly, we have found them in the one country with a burgeoning balance of payments surplus: The Federal Republic of Germany.

Within Germany, we have tapped a totally new source of finance for the IBRD. It is the Westdeutsche Landesbank, a clearing institution for more than 250 savings banks, with nearly 3000 branches. This is now the largest bank in the Federal Republic. It has assets of approximately $7 billion. Moreover, this institution places our bonds in other savings banks in Germany. The deposits of all these institutions total some $26 billion. During the last nine months we have placed $200 million of our bonds through the Westdeutsche Landesbank while continuing to market public issues through the syndicate managed by our long-time underwriters, the Deutsche Bank.

In the same period we have made increased use of the Central Banks of the world. Sixty-five of these institutions hold over $1 billion of our debt -- approximately 25% of the total. They have increased their holdings during the current fiscal year, and there is every indication that they will continue to increase them in the future.

It should not be surprising that our securities enjoy so high a rating. The combination of assets and guarantees which provides their intrinsic strength is wholly unique:

. A portfolio of loans for projects which bring high economic returns to the borrower -- returns which can run as high as 100% and which average well over 10% per year;

. A guarantee of 100% repayment of each loan by the government of the country in which the project is located;

. Cash and liquid security balances, in fully convertible currencies, equal to about 45% of the outstanding Bank debt;

. Paid-in capital and retained earnings amounting to 90% of our debt;

. All this, plus uncalled capital subscriptions backing the debt and equal to some 500% of the amount outstanding.

No other bond in the world offers that kind of security. And it is precisely because of the strength of that security -- and our stated determination to maintain that strength -- that we have been able to place our recent bond issues at extremely favorable rates. An issue of World Bank bonds, with 8 to 15 year maturities, was sold in Germany a few months ago at a cost to us of 6.52%. By comparison, an issue guaranteed by a major European government, of comparable maturities, was sold in the same market at a cost of 6.92%.

In essence, World Bank bonds are backed by the full faith and credit of the strongest industrial nations on earth. And yet, we have always proceeded as if this outside protection of our bonds did not in fact exist. We have sought so to conduct our business that the Bank need never call on that security -- and we have succeeded.

In my view, the most persuasive guarantee of our bonds is the day-to-day prudent operation of the Bank by its experienced and expert staff. I am determined to make certain that this guarantee is the only one we will ever have to exercise.

The record of the Bank's operations under my predecessors is excellent by any standards. Profits have been good and have risen steadily in recent years. In fiscal 1969, they will approximate $170 million, compared to average annual profits during the past five years of $145 million. We fully expect them to continue to rise in the future. This is true even though Bank interest rates in the future will be set at concessionary levels as they are at present.

Today a typical 24-year Bank loan, which carries an interest rate of 6.5%, contains a grant element of approximately 20% of the face value of the loan. The combination of concessionary interest rates to our borrowers and operating profits to our stockholders is made possible by our high ratio of interest-free capital to funded debt -- a ratio at present of nearly one-to-one.

Currently, the average cost to the Bank for all its funds -- that is, its total funded debt, plus its paid-in capital and retained earnings -- is only 3.1%. Essentially, it is the difference between this 3.1% and the Bank's lending rate, now 6.5%, which enables us to cover all our administrative costs, grant reasonable concessions to our borrowers, and continue to earn substantial profits.

But, though profits have been good, there is a far more fundamental basis on which our reputation rests. And that, of course, is the choice and supervision of our overseas investments.

I have been immensely impressed by the professional competence with which our staff analyzes both the specific project and the economy of the borrowing country, before a loan is made -- and by the careful scrutiny and supervision of the project, after the loan is made.

Such deep involvement in the domestic economies of independent -- often newly independent -- countries is possible only because the borrowing nation understands and appreciates our genuine dedication to its development. They see us for what we in fact are: an international agency, specializing in development, with no political axe to grind. The security of our investment depends on our borrowers' development and hence their interests and ours coincide.

It is on these strict standards of appraisal and supervision that the reputation of the Bank rests. And these standards will be continued in full force during our projected expansion. That is possible simply because in twenty-two years of experience we have learned a great deal about the techniques of realistic development planning, and the successful supervision of projects in distant and often primitive surroundings.

This accumulated experience now allows us to cope efficiently with a much larger volume of work. It is, however, clear that if our work is to increase, our staff must increase. Consequently, we have set in motion a worldwide recruiting drive to find and hire economists, engineers, financial analysts, and other specialists in our field. We plan to expand our staff by about 20% this fiscal year. This will not be easy since our standards are very high. But the Bank's reputation is equally high, and this attracts the caliber of professionals we need. Our results in recruitment so far have been very promising.

As we expand, we must remain sufficiently flexible to change our emphasis as the needs of development itself change. It is no longer enough to invest in traditional infrastructure: in power, transport, and communications. Both the needs and the opportunities in the developing world now point unmistakably to such fields as agriculture, education, and population planning. But let me make it clear that in these relatively new areas we will apply the same rigorous standards of both economic profitability of the project itself, and creditworthiness of the country in question.

It is not as easy to quantify the economic benefits of a technical school as of a hydroelectric plant. Similarly, on the surface, it may appear that you have something more impressive and solid to show when you build a highway than when you simply sink a lot of tubewells. But the whole point is that a surface impression is not a sound economic analysis. A good irrigation system, for example, when combined with the use of new strains of seeds, can result in an economic return of 100% a year. That is in fact an actual case that occurred in Pakistan.

And when you reflect that the less developed countries now require $4 billion a year of food imports, it is obvious that a broad expansion of their agricultural production can have an immensely beneficial effect on their balance of payments situation -- and thus enhance their overall creditworthiness.

The economists at the Bank have been working on methods for quantifying the economic returns derived from social investment -- such as education. Their conclusions demonstrate that the benefits can vary enormously. A liberal arts college in a primitive underdeveloped area, can be a dead loss. But a technical high school -- in an expanding economy where the available capital is not matched by the requisite skilled manpower -- can pay huge dividends. One such project in Latin America brought an annual return of 50%. It is the World Bank's task to determine, in a given situation, precisely what sort of education contributes most to solid economic growth, and to invest accordingly. We have not financed in the past, and we will not finance in the future, any education project that is not directly related to that economic growth.

In developing countries with excessive birth rates, loans in the field of population planning have perhaps the highest economic benefits of all. The blunt fact is that unless the rampant rate of population growth is reasonably moderated in many of these nations, not only will their developmental projects be finally overwhelmed, but their capability of repaying foreign loans will simply be eroded within a decade or two.

Gentlemen, let me summarize the World Bank's situation.

As I have said, we conduct our affairs as though the only security behind our bonds were the technical and financial soundness of the projects themselves in our loan portfolio. But the fact remains that behind that assurance stands our very favorable ratio of equity to debt. Last month our total debt amounted to some $4 billion, compared to paid-in capital and retained earnings of roughly the same amount.

And beyond that lie two further assurances: two unique guarantees by the governments of the world. First, that each loan is the primary or guarantee obligation of the country in which the Bank's investment is made. And second, that the total of all Bank debt is backed by the uncalled capital subscriptions of the member governments -- capital which can be used for no other purpose.

In the twenty-two year history of the Bank, there have been no losses on its loans -- no government has failed to honor its obligations The Bank has not been a target for debt repudiation as have bilateral aid agencies and private credit corporations. The reason is obvious. Developing nations are convinced that it is in their own best interest to keep impeccable relations with the Bank.

Even in extreme situations, such as the latter years of the Nkrumah regime in Ghana, or in the period when the U.A.R. defaulted on obligations to bilateral creditors, neither of these governments defaulted on World Bank loans. As we expand our operations and become a more and more important source of development capital, the advantage to borrowing countries of continuing to meet their obligations to us will increase.

The final security behind our bonds is represented by the uncalled subscriptions to Bank capital. These amount at present to $20.7 billion -- roughly five times the total of our funded debt. That $20.7 billion includes a U.S. share of $5.7 billion and a Common Market, U.K. and Canadian share of $6.6 billion.

The guarantee represented by the uncalled subscriptions cannot be eroded. By the provisions of our charter, these uncalled subscriptions may not be drawn upon for loans or administrative expenses. They can be used solely as a protection for the obligations of the Bank.

Moreover, the uncalled subscriptions are expressed in U.S. dollars, of the weight and fineness in effect on July 1, 1944. Thus they are not subject to deterioration as a result of changes in the value of currencies.

Similarly, because the loans of the Bank, made out of borrowed funds, are disbursed and repaid in the same currencies, the Bank faces no devaluation risks on its borrowed funds: its obligations to its creditors are matched by the repayments due from the borrowers.

It is, then, not too much to say that the World Bank is an entirely unique financial institution.

It is unique in its security and strength.

And it is unique in its purpose and program.

The World Bank was founded twenty-three years ago to reconstruct and develop a smashed, war-ravaged world. The reconstruction was a success. In the years since then it has turned increasingly to the developing world. And there the task is changing. What I have described to you today is our response to that change.

Our new program has begun well. It is on schedule. To date in this fiscal year we have borrowed more than in any previous year of the Bank's history. Two-thirds of that borrowing has been outside the U.S. market. Our lending operations, both in number and in amount, are up substantially over last year. And, at the same time, our cash and liquid security balance has increased. It now stands at $1.7 billion -- up $400 million over the level at the beginning of the year.

I believe you will agree these are signs of a vigorous and expanding organization -- strong and secure in its financial base, prudent and precise in its decisions, and realistic in its goals.

In the business of development, hardheaded realism must be the guide. Neither a naive optimism, nor a despondent pessimism will do.

The simple fact is that in the last third of the twentieth century the underdeveloped world will either develop -- or it will be caught up in catastrophe.

The one thing it will not do is stand still and wait.

You gentlemen -- at the center of the most enormous and active capital market in the world -- are not accustomed to standing still.

You act.

We at the World Bank propose to do the same.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

To Mr. Clark

(1) Ask Irving & Cargill & Goodman
to review.

(2) On the whole excellent

(3) May I review a redraft

1/4.

RMcN

End of year Article for NYT.
(to concentrate on Asia).

NEW YORK TIMES ARTICLE

One of my priorities on taking up the presidency of the World Bank in April was to visit some of our member countries, to see for myself what was being done in the field of development and what needed to be done. Asia, the continent to which the Bank has lent the most money ($3.7 billion, closely followed by Latin America, with $3.2 billion of Bank investment) was a natural first choice. Of the three trips I have made during the last nine months, the first and the third have been to Asia: I went to Indonesia in June, and to Afghanistan, Pakistan and India in November.

In Indonesia ~~my first port of call,~~ I found a large country with a population of over 100 million which has recently begun to make determined efforts to deal with the enormous problems it faces. The Bank had not up to that time ever approved a loan to ~~assisted~~ Indonesia; I was very conscious that there was much to be said against our involving ourselves in a country whose economy, political institutions and administration had been shaken to their foundations again and again over a long period of time. Indonesia's process of recovery would necessarily be slow and painful, and would require firm and politically unpopular government decisions. Nevertheless, here if ever there was one, was a case where the need both for reconstruction and for development was desperate. Could the Bank Group help, and if so how? This was what I went to find out.

I found a small group of able and dedicated administrators and political leaders, well aware of the difficulties they faced but

 Private conferences also

determined to surmount them. I found several other international organizations already at work in Indonesia, including the United Nations Development Programme and our own sister organization, the International Monetary Fund. Their representatives felt that the Indonesians were making an impressive effort to cope with their problems. I met the Ambassadors of the IGGI (Inter Governmental Group on Indonesia) countries -- which include France, Germany, the United Kingdom and the United States. I found that they too had a high regard for what the Indonesians were trying to do, and high hopes for their success.

It was impossible to ignore the fact that investment in Indonesia carried some degree of risk. There was no certainty that the people would follow their Government's lead, and accept the discipline, austerity and hard work which were essential if the country's problems were to be solved. But the risk seemed worthwhile, because one thing was very clear: without outside financial support, Indonesia could not hope to survive. The alternative to assistance, therefore, was simply to wash our hands of ~~110~~ 115 million people, of a country with vast natural resources and tremendous development potential. This was not a prospect which appealed to me.

But what policy could the Bank follow in its efforts to help Indonesia? There was clearly little point in lending the Indonesians large sums of money at our lending rate of 6-1/2% -- a rate of interest which the country could not possibly have afforded. It was doubtful even whether we should start by ~~it was worth~~ pouring ~~any~~ large amounts of money into Indonesia, in ~~view of the great shortage of trained~~

~~experts, both on the~~ technical and the administrative ~~levels.~~ What in fact seemed to be most necessary as a first step was help in the form of technical assistance -- advice on how to run agricultural and industrial development programs. There were plenty of opportunities for profitable investment in Indonesia for example, the investment the Bank ultimately made in irrigation, which may yield a return of as much as 50% per annum. What we decided to do, therefore, was to set up a local office in Indonesia, to give technical assistance in their planning, and to begin to inject into the economy concessionary loans ~~relatively small sums~~ from the very limited IDA (International Development Association) resources at our disposal. This we are now in the process of doing.

The physical amount of the help we have been able to give to Indonesia so far has been small. But the fact of the Bank's involvement in Indonesia's recovery has provided a tremendous psychological boost to the process of recovery itself and ultimately should translate into a major flow of development capital. The very existence of the Bank's resident mission in Indonesia is a guarantee of our concern, and of our commitment to the progress of Indonesia. On my way back to the United States, I visited Japan, for consultations with the Japanese Government. One Minister described Japan to me as "one of the first graduates of the Bank's development school". It is indeed a most impressive example of what can be achieved. Subsequently I was pleased to hear Japan announced a massive increase in the assistance it was giving to Indonesia.

My second Asian journey in November contrasted sharply in many ways with my first. India, the country in which I spent the most time, is one of the Bank's most important members, and it has been a major recipient of Bank aid for ten years -- although it is worth remembering that for all the aid it has received in absolute terms, India still receives a relatively small amount of aid per capita compared to other parts of the world. My main purpose in going to India was to see what opportunities existed for further assistance to India's development program. Throughout my visit I found evidence of vigor, determination, self-confidence and -- despite the widely reported events in Calcutta -- great goodwill towards the Bank. In many ways India presents the greatest single opportunity for development in the world today. Progress to date has been remarkable, and the prospects for the future should be bright. Much remains to be done, and India's heavy debt burden makes it necessary for any new development loans to be made on concessionary terms. It is particularly unfortunate that the Bank finds it difficult to make such loans at this time because of the long standing delay in the replenishment of our soft loan affiliate, the International Development Association.

The dramatic new breakthrough in the agricultural sector in India -- and in Pakistan where I spent a few days before my arrival in India -- offers great hope for the future. In Bihar state in India I saw peasants who now for the first time had before them the real possibility of some degree of prosperity. But this bright hope is conditional on the availability of a small but crucial amount of foreign exchange on concessionary terms to finance the import content of India's agricultural expansion program -- especially in the area of fertilizers and irrigation. The success of this program is essential for the overall progress of India's economy. During my visit I realized that the future industrial development of India depended on two factors: first, an expansion of India's export markets; and second, a sustained and rising domestic demand, based on a prosperous agriculture, both for consumer goods, and for the tools of agricultural production. The mood of India today is one of self-reliance and determination: I believe she is poised on the edge of a dramatic developmental breakthrough based on agriculture; in its own self-interest the world cannot afford to let her fail.

During my travels, I was impressed by the extent to which the Indian and the Pakistani Governments have committed themselves to population control policies, and the extent to which these policies have become politically & socially acceptable throughout both countries. Serious difficulties, of course still exist in this sector -- notably the lack of any really ~~effective~~ satisfactory contraceptive device, and the inadequacy of existing programs of research all over the world. If effective population control is to become a reality by the 1970's, when it will be needed even more urgently than it is today, a sustained program of research and development in this field is absolutely essential.

Afghanistan, which I visited all too briefly on my way to Pakistan and India, is one of the most beautiful countries in the world; to have flown over the Hindu Kush is an experience I shall never forget. Afghanistan has some of the best roads in Asia -- on one of which we drove from Kabul through the Khyber Pass to Peshawar. In time I am convinced there is an immense potential for tourism here, as in many parts of Asia.

But Afghanistan is at the beginning of its long road to modern development, and I am aware that it will need help in formulating both its plans and its requests for external assistance. Here I hope the Bank Group will be able to help at the technical and the financial level.

I have tended to concentrate on the opportunities I have seen in Asia for future World Bank assistance to the countries I have visited. At the same time, however, I must stress how impressed I was by the progress that these Asian countries had themselves already made -- and by the success of the World Bank's own efforts in these countries under the wise leadership of my predecessors. My experiences during my visits have impressed upon me a great sense of challenge -- but also a great feeling of hope. I have seen that development can and does work, that well conceived investment programs do pay off, and that while much remains to be done, much has already been achieved. This is heartening, and important, for Asia is in many ways the heartland of development; if development cannot succeed in Asia it will not succeed in the world at large.

change word

I also believe that while the problems of individual developing countries differ greatly in detail, development is, fundamentally, a unitary process. The lessons I have learned as a result of my journeys in Asia can, I think, be applied to the developing world as a whole. While I naturally intend to see for myself the problems of the other major developing areas as soon as possible -- I have not yet been to Africa, but hope to do so in the near future, and have only had one brief trip so far to Latin America -- I believe that the fundamental problems of development remain similar throughout the world. The crying need for education, the new urgency and opportunity of agricultural investment, the fundamental importance of developing population control policies in countries with population growth rates which erode their economic growth -- all these are common to the developing world as a whole.

Above all, my travels have reinforced my belief that no country is beyond help; where the real will for development exists, real progress can be made. The determination, the dedication and the energy are certainly very evident in the developing countries; I believe, too, that they exist in the developed world as well. Today, because of short term economic difficulties in many developed countries, the will to help is weakened in some of them. But I am confident that humane and intelligent people all over the world realize the absurdity of the existing imbalance between the rich and the poor nations, and that the combined energies of the developed and the developing world must, can and will be harnessed for a joint assault on the fundamental problem facing the whole world in the last third of this twentieth century -- the bridging of the gap between rich and poor, and the achievement of rapid and orderly world economic growth.

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

OFFICE MEMORANDUM

TO: Distribution Below DATE: May 2, 1969

FROM: Robert S. McNamara

MAY 7 1969
11.45

SUBJECT: Improving Data on Agriculture, Education, Nutrition, and Population

You have recently received copies of tables, prepared at my request, giving data for less developed countries on the above subjects. The Comparative Data Unit of the Economics Department prepared these tables and will update and improve them from time to time. In order to help the Data Unit, I would like the chiefs of economic missions, before their departure, to discuss with Mr. Levy the possibility of the mission's obtaining better data in one or more of these areas. This practice should also be observed by other missions (e.g., agricultural and education projects) when they can obtain useful information without diverting a major part of their efforts to this purpose.

Robert S. McNamara

Distribution:

Mr. Knapp
Mr. Aldewereld
Mr. Broches
Mr. Demuth
Mr. Friedman
Mr. Rickett
Mr. Shoaib
Mr. Alter
Mr. Ballantine
Mr. Baum
Mr. Cargill
Mr. Chadenet
Mr. Chaufournier
Mr. Diamond
Mr. El Emary
Mr. Evans
Mr. Goodman
Mr. Kamarck
Mr. Knox
Mr. Lejeune
Mr. Sadove

FORM NO. 57

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

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: April 30, 1969

FROM: Irving S. Friedman

SUBJECT: Allotment of Budgeted Personnel

1. In your memorandum of April 21 you requested me to develop for your review on your return the distribution of a total budget strength of 123 for June 30, 1970, among the divisions of the Economics Department and the Economics Study Groups. The memorandum stated that I should allot 18 from the total strength to the Sector and Project Studies Division.

2. In accordance with these instructions I have carefully reviewed the projected work programs and personnel availability of the different divisions of the Economics Department and the Economics Study Groups. As a result of this review I suggest the allotment contained in Table I.

3. The allotment shown in Table I assumes that the Development Finance Studies Group will provide the economic staff for the basic economic work necessary for the next IDA replenishment. (The likely work program for the IDA replenishment and my attached recommendation on personnel has been discussed with Sir Denis Rickett.)

4. The proposed allotment also assumes that the Creditworthiness Studies Group will not do any special creditworthiness studies in the field beyond the "pilot" study now being done on Kenya. Instead this Group will confine itself to studies dealing with various policy issues, a number of which have already been identified, and special analytical studies relating to creditworthiness and the external debt problem. It would also assist me in reviewing the work done on creditworthiness in the country economic reports. Special creditworthiness studies on Colombia, Ghana, Korea, Pakistan and Turkey had been agreed with the Directors of the Area Departments concerned. However, Mr. Knapp's view is that such studies need not be done by the Creditworthiness Studies Group. His view is essentially that creditworthiness work on countries should be done by the Area Department economists. I have accepted this viewpoint for the purpose of the proposed staff allotment. This approach makes it necessary to ensure careful review of the work done in judging the creditworthiness of individual countries, otherwise there is the risk that creditworthiness judgments will be unduly influenced by the eagerness to make loans and credits as indicators of the "success", "importance" or "activity" of the Area Departments.

5. The Economics Department allotment essentially reflects the decision to increase the Sector and Project Studies Group by 4. Otherwise all other authorized allotments remain the same. The 4 positions were found by transferring the 3 positions from Commodity Stabilization Studies Group and reducing the Creditworthiness Studies Group by 1. The 2 positions for the increase in the Development Finance Studies Group were found by decreasing the Special Studies Group by 1 and decreasing the Development Program Studies Group by 1.

6. I appreciate that you may not be willing to consider any increase in budgetary allotments at this time for the general economic staff, even an increase that is much less than the original proposal referred to in your memorandum of April 21. However, I would like to report that after careful review of available staff already on duty, the specialized experience and character of the people who are being hired and the high priority work load which is already awaiting new people, I believe that it would be possible to have a small increase in the total budgeted numbers and still meet the criteria of your memorandum of April 21, namely to administer the resultant group in such a way as to make the maximum contribution to the operations of the Bank. I completely agree that this should be our objective for the economic staff during the coming period. It is for this reason that I am not trying to urge on you an even larger increase in staff. The expressed need for the support of the general economic staff, from the rest of the Bank is larger than the proposed numbers reflect. I am trying to stay within the spirit of your memorandum.

7. On the basis of the review, I would request your considering the possibility of an increase in total budgeted staff from 123 to 131. Table II summarizes the resulting allotment of staff and compares with the staff on duty on April 27 and the staff on duty and committed as of April 27, as well as with the budget for fiscal 1969. As in the case of the allotment of the 123 the supporting material for this small increment is available for your review if you so desire. For convenience on Table II, I have called the allotment of 123 "Alternative A" and the allotment of 131 "Alternative B".

cc: Mr. Ripman

Attachments(2)

CONFIDENTIAL

TABLE I

	Present Allotment	Proposed Allotment FY 1970
ECONOMICS DEPARTMENT		
Office of the Director	6	6
Economics of Industrialization	8	8
Economics of Urbanization	3	3
Fiscal Policies of Developing Countries	8	8
Population Studies	4	4
Quantitative Techniques and Analysis*	12	12
Sector and Projects Studies	14	18
Statistical Services	22	22
Trade Policies and Export Projections	10	10
TOTAL ECONOMICS DEPARTMENT	87	91
ECONOMIC STUDY GROUPS		
Basic Research Center	7	7
Commodity Stabilization Studies	3	-
Creditworthiness Studies	9	8
Development Finance Studies	9	11***
Development Programs Studies	5	4
Special Studies	3	2
TOTAL ECONOMIC STUDY GROUPS	36	32
GRAND TOTAL ECONOMIC COMPLEX	123	123

*This consists of the Basic Data Unit and Quantitative Techniques Unit.
***Provides staff for IDA Replenishment.

April 30, 1969

CONFIDENTIAL

TABLE II

ECONOMICS DEPARTMENT	April 27 (on duty)	April 27 (on duty and committed)	FY 1969 Authorized	FY 1970 Alternative A	FY 1970 Alternative B
Office of the Director	6	6	6	6	6
Economics of Industrialization	7	7	8	8	8
Economics of Urbanization	3	4	3	3	3
Fiscal Policies of Developing Countries	6	7	8	8	9
Population Studies	2	3	4	4	5
Quantitative Techniques & Analysis*	9	11	12	12	12
Sector & Project Studies	11	14	14	18	18
Statistical Services	21	22	22	22	23
Trade Policies & Export Projections	9	10	10	10	10
TOTAL ECONOMICS DEPARTMENT	74	84	87	91	94
ECONOMIC STUDY GROUPS					
Basic Research Center	5	7	7	7	8
Commodity Stabilization Studies	3	3	3	-	-
Creditworthiness Studies	5	9	9	8	9
Development Finance Studies	7	8	9	11***	12***
Development Programs Studies	4	5	5	4	5
Special Studies	2	2	3	2	3
TOTAL ECONOMIC STUDY GROUPS	26	34	36	32	37
GRAND TOTAL ECONOMIC COMPLEX	100	118	123	123	131

*This consists of the Basic Data Unit and Quantitative Techniques Unit.
**This includes transfer of Miss White from Commodity Stabilization Staff.
***Provides staff for IDA Replenishment.

April 30, 1969

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** April 18, 1969

FROM: Irving S. Friedman

SUBJECT: Bank/IDA Eligibility Table

I thought you might like to see this further revision. Work is going ahead on this, particularly in light of our recent review of the Five-Year Program.

President has seen

MAY 1 1969

10 a.m.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

3/12

To Mr. Friedman

Irving is there anywhere in the Bank a capability to deal with matters such as these (I would call them "Agricultural Economics").

If not should there be.

Bob

MAR 12 1969
2 p.m.

SEEDS OF CHANGE

1. The Backdrop

I. Introduction

II. Global Backdrop
- Reviewing the Record
- Agriculture & Economic Growth
- The Changing U.S. Strategy
- The Swinging Pendulum
- Economic Policies & Agric. Growth
- Innovation Becomes Profitable

2. The Breakthrough

III. New Era in World Agriculture

IV. The High-Yielding Cereal Varieties
- Nature and Genesis
- Spread
- Engines of Change

V. Multiple Cropping
- The Potential
- Altering the Seasonal Rhythm
- Discovering the Dry Season

VI. Two Fertilizer Breakthroughs
- The Biological Breakthrough
- The Engineering Breakthrough
- Reducing the Cost of Food

VII. Revising Irrigation Strategies
- Toward Intensive Systems
- The Payoff on Small-scale Projects
- More Efficient Water Use

VIII. Mechanization: Pros and Cons
- The Economic Evidence
- Formulating a Policy

IX. The Yield Takeoff

X. The U.S. Contribution
- Public and Private
- Lessons Learned

3. Second Generation Problems

XI. Distributing the Gains

XII. The Production-Marketing Imbalance
- The Marketing Gap
- The Missing Link
- Access to Markets
- Improving Marketing Systems

XIII. Agribusiness Investment Needs & Oppor.
- Supplying Farm Inputs
- Processing Farm Products
- The R & E Contribution

XIV. Clouds on the Horizon
- The Threat of Disease
- Consumer Acceptability
- Credit Shortages
- Foreign Exchange Shortages
- Declining Cereal Prices

4. Some Related Issues

XV. Investment in Agricultural Research
- Return on Investment
- Need for an Integrated Research Effort
- Emerging Global Research Network

XVI. Land Distribution & Agric. Modernization
- Size of Holdings
- Ownership Patterns
- The Need for Reform

XVII. Keeping Them on the Farm
- Farm Population Trends
- Technol. Advances & Farm Employment
- Creating Non-farm Jobs

XVIII. The Population Side of the Equation
- The Ecology of Over-population
- The Economics of Over-population
- Prospects for Slowing Population Growth

5. Hunger in Perspective

XIX. The Demand for Food
- Population0Generated Demand
- Income-Generated Demand
- The Effect of Price on Demand
- Future Demand Trends

XX. The Status of Nutrition
- The Cost of Malnutrition
- Nutritional Trends

XXI. Technologies to Improve Diets
- Genetic Improvements in Cereal Protein
- A High-Protein Food Industry
- Fortifying Protein
- Shortening the Livestock Cycle
- Feeding Cattle Fertilizer
- Other Protein Sources

XXII. Prospects for Alleviating Hunger

6. Looking Ahead

XXIII. After Self-sufficiency
- Self-suff. Prospects: Key Countries
- Access to World Markets
- Identifying Production Alternatives
- Developing a Livestock Industry
- The Diversification Spinoff

XXIV. Some Global Effects of New Technology
- Reducing Food Aid
- Reodering World Production Patterns
- Adjusting World Trade Patterns
- U.S. Export Prospects

XXV. Agenda for the Seventies
- Developing Marketing Systems
- Rationalizing World Production Patterns
- Utilizing Advances in Food Technology
- Redefining the Population Problem

7. Toward a Brighter Future

XXVI. Significance of Breakthrough
- Source of Change
- Accelerating Economic Growth
- Raising Living Levels
- Impact on World Economy
- Confidence in Technology

XXVII. Building on the Breakthrough

3/3/69

FORM No. 89
(2.(.))

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP	Date April 30, 1969

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Knapp Mr. Aldewereld	
Mr. Broches Mr. Demuth	
Mr. Friedman Sir Denis Rickett	
Mr. Shoaib Mr. H. Hoffman	

	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

RBS
R.B. Steckhan

From

Viet-Nam

APR 30 REC'D

THE SECRETARY-GENERAL

28 April 1969

APR 30 1969
2:30 pm

Dear Mr. McNamara,

As you know, for many years the United Nations has actively supported the cooperative endeavors of the governments of Cambodia, Laos, Thailand and the Republic of Viet-Nam to develop the resources of the Lower Mekong Basin for the benefit of all the people of the riparian states. Under the aegis of the Economic Commission for Asia and the Far East, the four governments, in 1957, formed the Committee for Coordination of Investigations of the Lower Mekong Basin. The Committee has continued to function actively despite the trying period through which the region has been passing, and is widely regarded as an outstanding example of international cooperation for economic development.

The Mekong Committee has built up a small professional staff, as well as continuing to draw on the staff resources of ECAFE; has produced a series of studies that provide a useful foundation for future planning; and has brought to the stage of realization, under its sponsorship, several important projects on the tributaries of the Mekong.

The Bank, of course, is well informed as to the progress to date of the various aspects of this work so I need not go into detail. I do feel that it is important to note that to date 25 governments, in addition to the riparian states, have demonstrated their support for the broad objectives the four governments are seeking to obtain through the Committee, by contributing in some form to the implementation of projects in the Basin. Most of those governments are members of the World Bank.

While there is much that can still be done by the Committee, and its supporting organizations, working along present lines, it

.../2

Mr. Robert S. McNamara
President, International Bank for Reconstruction and Development
1818 H. Street, N.W.
Washington, N.W. 20433
U.S.A.

seems to me that the cooperative effort for the development of the Mekong Basin is entering a new and critical phase in which it would be in the interests of the governments which are members of the Committee, the other governments that have supported projects in the Basin, and the world community generally, that the World Bank should become more closely associated with the whole effort for the development of the Mekong Basin. Decisions about main stream projects which would require the commitment of very large resources will soon need to be made. It seems to me that it would be in the interest of all concerned that these decisions should be made, so far as possible, in the context of a careful review of investment priorities for the Basin as a whole and for the general development programmes of the riparian states with reference, inter alia, to the amplified basin plan which the Committee and its Advisory Board expect soon to be studying. Analyses of the economic and technical aspects of alternative uses for the water and other resources of the Basin will need to be carried out.

At a period perhaps no longer very far in the future, it will be necessary to mobilize substantial amounts of international capital to help finance some of these large main stream projects and other projects in or closely related to Basin development. Such large projects will present problems of implementation and management to the solution of which competent external assistance could make a very important contribution.

These are all matters in which the Bank has wide experience and in which I believe your collaboration with the United Nations and the Mekong Committee would be most valuable. I would appreciate it if, when you have had time to consider this letter, you would let me know whether, in principle, you would be prepared to support our efforts and those of the Mekong Committee along the lines which I have suggested, and perhaps in other ways, and, if so, how you would propose to proceed.

For your information, I have consulted the Members of the Mekong Committee concerning this approach to you and they have encouraged me to seek your cooperation.

Yours sincerely,

U Thant
Secretary-General

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 18 1969

FROM: Irving S. Friedman

ISF

SUBJECT: Long-Term Interest Rate Trends

1. The announcement of a change in the U.S. prime rate to 7½% tempts me to restate briefly views which I have expressed previously to you on my attitude on long-term trend in interest rates.

2. For many years, indeed since 1946, I have held the view and written to the effect that our generation was in for a period of high interest rates and the chronic problem of fighting off inflationary pressures while trying to maintain a low level of unemployment which involves finding opportunities for a steadily increasing labor force.

3. The principal reasons I have felt, and still feel that we are in this kind of secular trend, are:

(a) the revolution in consumption habits which came about during World War II -- for example, the shift from light consumer goods to consumer durables and the new role of marketing of consumer goods through the mass media of communication;

(b) the consumer revolution means great difficulties in increasing voluntary savings throwing the burden on the tax structure to reduce consumption to make room for public investments and other expenditures; the inevitability of reaching a level of personal income and corporate taxation which would become counter-productive and the need to fall back on outmoded regressive excise taxes which meet public resistance and lag behind needs. Similarly the resentment of home owners to high property taxes.

(c) the revolution in public consumption -- e.g., schools, welfare, medical expenses -- these eventually pay off in increased productivity but for a number of years are very costly, again at the expense of savings, and remain costly if population rises or standards of public consumption rise.

(d) the spread of the American consumption revolution to Europe bringing about a change there in the traditional savings habits. The possible exceptions, early in the 1950's, seemed to me to be Germany and Japan because of their particular historical background of having been defeated in war, as well as a deep-seated tradition of savings.

(e) the industrial investment boom and technological revolution which has taken place in many areas, private and public -- e.g., chemical, electronic, management, etc. resulting in large capital investments and need for much more rapid replacement of capital equipment.

President has seen

(f) the continuation of very high defense expenditures, which inevitably means a high level of public expenditures, made more important in practice by the outbreak of open hostilities from time to time. War economies have always been known as economies of scarcity whether in real terms or monetary terms. High defense expenditures are of course not the same as large scale hostilities but have lesser though similar important economic effects. (Needless to say the arithmetic is not the obvious one that all military expenditures are to be subtracted from all available resources as a drain on savings.)

(g) the development of new countries means a constant demand for capital abroad. Nation creation is very costly in terms of real resources or their monetary equivalent, coupled with the revolution of rising expectations in the consumption field and the development of a new or larger industrial group in the private sector, creates in these countries the same bias towards inflation. However, because of their relatively small weight in the total world economy this is not as important for the over-all picture as the bias towards inflation in the developed countries.

(h) the mistaken and chronic concern with the problem of recession in the United States, which was a nightmare to deal with in the late '40's and '50's particularly. This meant that governments tended to react too quickly to the threats of recession and the role of economists was that of professional Jeremiahs always seeing recession around the corner. It is always safer to predict recession and not have it happen than be in the reverse position.

(i) the tendency of financial institutional groups to lag behind the technological and economic revolution. Capital markets remain relatively backward as collectors of savings. It has, of course, meant tremendous opportunities for ingenious people in starting new financial institutions and prospering thereby, and introducing new instruments.

(j) the chronic unwillingness of governments to face up to the problem of national priorities and decide on the strategy of expenditure over time has meant repeated large budgetary deficits, rationalized by economists as necessary for the maintenance of employment, but in effect strengthening the underlying inflationary trends in the economy. This has thrown the burden of fighting inflation onto monetary policy. The alternatives became one of raising interest rates or greatly reducing the availability of credit. The latter is frightening for anyone trying to manage a booming economy and worried about bringing a sudden decline in income and employment.

(k) finally, the tax structures of the U.S. and other countries simply mean that the effective rate of interest is much lower for large corporations and middle to upper income people than is reflected in the interest rates. Modern technology gives many inducements to proceed with investment expenditures despite seemingly high rates of interest because of the great increases in productivity and the need to remain competitive. Similarly the consumer in terms of particular costs has to be confronted with interest rates which are much higher than anything which has prevailed heretofore before he really decides not to buy, given our credit structure and his keen desire to improve his standard of living, particularly under the pressure of the new marketing situation referred to above. Indeed, the restraint is exercised by the lender, not by the consumer.

4. This is one of the major reasons why I feel that the Bank must not be "frightened off" from borrowing by high interest rates. A decision to postpone borrowing may well prove to be a decision to borrow at a higher interest rate. We cannot avoid the situation that the World Bank, like other international borrowers, is competing with other corporate borrowers able to deduct interest payments from taxable income.

Mr. Robert S. McNamara   March 20, 1969

Irving S. Friedman

Bond Issue in the U.S.

Attached is a draft letter from you to Secretary Kennedy seeking reconfirmation of the unused approval for a bond issue which Secretary Fowler gave us in December. Such a letter might be useful now as a way of maintaining the validity of the earlier approval in light of the recent and prospective delay in making the bond issue. It might make unnecessary a complete new negotiation when and if the issue takes place, say this summer. (This is written on the assumption that you have not already achieved the desired objective in oral conversation with Secretary Kennedy.)

If you wish, I would be happy, as in the past, to discuss the draft with the Under-Secretary and others in the Treasury to seek their informal reactions and explain our purposes.

DRAFT
March 20, 1969

CONFIDENTIAL

Dear Mr. Secretary:

U.S. official approval of an IBRD bond issue in the U.S. in the amount of $250 million was sought and obtained in an exchange of letters dated December 16 and 19, 1968. At that time we furnished to the Treasury Department a file of data on our financial position, our borrowing operations, the estimated effects thereof on the U.S. balance of payments and their relation to borrowing operations of the U.S. Government and its agencies. In the light of developments in the bond market we have since then been delaying a decision on the timing of the proposed issue and may do so for some months more. However, it would be most helpful to me in planning the Bank's finances to have confirmation that the proposed issue is still in accordance with the policies of the U.S. Government. We are ready to update or amplify the information which we have already provided to the U.S. Treasury, if this is desired.

There are a few points relating to the balance of payments effects, which I think deserve special emphasis. Overall the Bank's activities have resulted in significant benefit to the U.S. balance of payments, both in recent years and historically. Our estimate for the last fiscal year ending June 30, 1968, shows a net of plus $140 million in this connection, and, taking into account our prospective borrowings outside of the United States, it is likely that this favorable factor for the U.S. balance of payments will exceed $200 million in fiscal year 1969.

In this connection, let me assure you of my intention to continue the Bank's policy of cooperation with the U.S. balance of payments program. The Bank is prepared, if you so wish, to invest the full proceeds of the new borrowing in a manner that will have no adverse effect on the U.S. balance of payments this year and will keep such funds so invested in the United States through calendar 1970 and for as long thereafter as practicable.

My predecessor, Mr. George D. Woods, in a letter of April 18, 1966, stated that the proceeds raised in the United States from World Bank bond issues made in January 1965 and June 1966 would be invested so as to prevent any adverse effect from the borrowings on the U.S. balance of payments until December 31, 1967. The Bank still holds these proceeds so invested. In his letter of February 17, 1967 he stated his intention to so invest the proceeds of the March 1967 bond issue as to prevent any adverse effect on the U.S. balance of payments, at least until mid-January 1969. On March 11, 1968 he stated his intention to so invest the proceeds of an issue made later that month as to avoid any adverse effect on the U.S. balance of payments at least until mid-January 1970. In my letter of July 26, 1968, I stated my intention to so invest the proceeds of the September 1968 bond issue as to prevent any adverse effect on the U.S. balance of payments, at least through fiscal year 1970. I can assure you of my willingness to continue to hold such proceeds of these previously issued bonds in such investments so as to avoid adverse effects on the U.S. balance of payments for as long as practicable, at least through calendar 1970. Similarly, if you so desired, I would plan to hold other assets now so invested by the Bank for as long as practicable.

I am also prepared to time our borrowing operations to avoid any obstacles resulting therefrom for Treasury debt operations; this has not been a significant factor in the past, however. In this connection, consultation with the U.S. Treasury on the investments from time to time should be mutually beneficial, and I am sure that you will find it helpful to receive timely information on them. I have instructed my staff accordingly.

The proceeds of a bond issue in the U.S. will provide what I believe to be a necessary increase in the Bank's cash and securities position in light of the very substantial present and prospective size of our lending operations and continued uncertainties in various capital markets. It is my hope to maintain at least this level of cash and securities over the years ahead and this should facilitate the achievement of the objectives described in the three preceding paragraphs.

The Bank has made an extensive effort to raise needed substantial amounts of new capital and also to spread reliance on the capital markets of as many of the Bank's members as practical. At the same time, I am mindful that this has an important bearing on the U.S. balance of payments position now and over the longer run. Accordingly, I am prepared to confirm my intention that the Bank make its best efforts, looking to FY 1970 and subsequent years, to increase its borrowings outside the U.S. so that the net borrowings in such areas would at least match in amounts any bond issues in the U.S. net of that year's contractual repayments. Indeed there are good prospects that our net borrowings outside the U.S. will greatly exceed those inside the U.S. this year, i.e. in FY 1969.

Sincerely,

Robert S. McNamara

The Honorable
David M. Kennedy
Secretary of the Treasury
The Treasury
Washington, D.C. 20220

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date MAR 14 1969 Mar. 14/69 10.30

NAME	ROOM NO.
Mr. S. Aldewereld	A1226
Mr. A. Broches	A813
Mr. R. Demuth	C808
Mr. I. S. Friedman ✓	A1221
Mr. H. Ripman	C1203

	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

These are attachments to the March 10/69 letter addressed to Mr. McNamara from Mr. Tom Coughran of Bank of America.

From Eugene H. Rotberg

M E M O R A N D U M

TO: Tom B. Coughran

FROM: August Maffry

SUBJECT: Use of Guarantee Powers of IBRD and IFC

DATE: March 10, 1969

1. The IBRD has clearly defined guarantee powers, although circumscribed as indicated below. They have not to my knowledge been used.

2. IBRD may guarantee loans to any member or any political sub-division thereof and any business, industrial and agricultural enterprise in the territories of a member

a) provided that, when the member in whose territories the project is located is not itself the borrower, the member of the central bank or some comparable agency of the member which is acceptable to IBRD fully guarantees the repayment of the principal and the payment of interest and other charges on the loan and

b) provided that IBRD may guarantee loans only with the approval of a member in whose markets the funds are raised and the member in whose currency the loan is denominated and only if those members agree that the proceeds may be exchanged for the currency of any other member without restriction and

c) provided that IBRD receives a suitable guarantee commission for its risk to be paid directly to the bank by the borrower.

3. The guarantee powers of IFC are less well defined but are clearly contemplated by its Articles of Agreement. Of the three conditions affecting guarantees extended by IBRD, the first does not apply; the second applies only in part in that IFC may not finance an enterprise in the territories of any member if the member objects to such financing; and the third, although not explicitly set forth in the Articles of Agreement, would seem to apply as a matter of course.

4. To make use of these guarantee powers, the IBRD or the IFC, but preferably the latter because of the greater flexibility allowed, should select a pending loan or pending loans which would appeal in principle to private capital (i.e., good borrower, good country, good purpose) and offer participations to banks and institutional

investors through intermediaries such as Bank of America either on a best efforts basis or conceivably on an underwriting basis.

5. Participations should carry the full guarantee of IBRD or IFC, as the case may be, at rates scaled according to maturities and related to yields on comparable direct obligations of IBRD.

6. If the IBRD is guarantor and if the borrower is not a member, a counter-guarantee of the member involved would have to be obtained as required by the statutes of the IBRD.

7. Bank of America will undertake the placing of participations in a pilot loan under IBRD or IFC guarantee:

a) within its own organization

b) with banks and institutional investors in the country concerned (if the IBRD is guarantor, the approval of the country of the borrower would be required, but this would be implicit in such member's guarantee of the loan).

c) with banks and institutional investors in other markets (if IBRD is guarantor, this would require the approval of the member in whose markets the funds are raised, but participations paid for in Eurodollars would appear to be exempt from this requirement).

8. The Bank of America will be compensated on an agreed fee basis for participations placed within its own organization or with others.

[illegible]

August Maffry

favor extension of credits
(a) non-US banks in creditor countries
(b) local banks in LDC's

M E M O R A N D U M

TO: Tom B. Coughran

FROM: August Maffry

DATE: March 10, 1969

SUBJECT: Sale by IBRD/IFC of Participations in Loans in Portfolio

I think we should pursue at the next opportunity our idea of the sale by IBRD/IFC of participations in selected groups of loans in portfolio. The advantages of this technique of mobilizing private funds for IBRD/IFC operations are three-fold:

1) Participations in a selected group of loans should be more attractive in principle than participations in individual loans.

2) Participations in a group of loans identified with a particular geographic area may have special appeal to investors in that area.

3) The rate allowed on participations can be divorced more easily from the rates on the underlying loans.

As a pilot project, IBRD or IFC should select a group of loans to borrowers in a geographic area such as Latin America and offer participation certificates through an intermediary such as Bank of America. These certificates should have a special appeal to individuals identified with Latin America, and their sale would have the effect of recapturing for purposes of economic development funds which flow steadily out of Latin America for investment in hard-currency obligations.

As a matter of collateral interest, I show below guaranteed portfolio participations sold by the Export-Import Bank between 1962 and 1968:

(As of 1/31/69; in millions)

	Authorized	Outstanding
Sold to U.S. banks and other domestic investors*	\$ 3,533.	\$ 1,529.
Sold to official institutions in Germany, Israel, and Spain	474.	391.
	\$ 4,007.	\$ 1,920.

* Including small amount sold to foreign banks.

[signature]

August Maffry

Mr. Rotberg
March 12, 1969

Cable address BANKAMERICA

A wholly owned subsidiary of
Bank of America
NATIONAL SAVINGS ASSOCIATION

BANK OF AMERICA

41 BROAD STREET • NEW YORK, N. Y. 10004 • USA

TOM B. COUGHRAN
EXECUTIVE VICE PRESIDENT

March 10, 1969

The Hon. Robert S. McNamara
President
International Bank for Reconstruction
and Development
Washington, D.C. 20433

MAR 13 1969
4 p.m.

Dear Mr. McNamara:

It is reasonably clear from our two discussions that there are at least four areas of possible cooperation that we should explore fully. As we see it, they are the following:

1) Identification of, and assistance in developing, new sources of funds for your bank

2) Project identification

3) Expanded use of your guarantee powers and development of our catalyst role

4) Expanded sales from your portfolio with our assistance.

We are prepared to implement points one and two by the issuance of appropriate instructions and guidelines to our overseas units. Also, we propose to take advantage of the opportunity to talk directly to the heads of all of our overseas units when they are here in October for a worldwide conference. In the meantime, we would like to develop with you the criteria to be used in identifying both the sources of funds and loan projects. We might do so at our next meeting with a view to issuing the initial set of instructions to our overseas organization at the earliest practicable date.

Non-US banks

Point three offers broad opportunities in our opinion. Since our last meeting, we have prepared a working paper on this subject which is attached. We might use it as the basis for our next discussion.

We recognize that you foresee obstacles to the development of point four. The opportunities are so attractive, however, that it is our hope to explore them further with you. We have, therefore, prepared a second working paper on this subject, which is also attached.

We are looking forward to seeing you and your colleagues on March 21. I understand that we have an appointment at 3:30.

Sincerely,

Tom B. Coughran
by Louise Francese

FORM No. 57

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

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: March 14, 1969

FROM: William Diamond

DECLASSIFIED
SEP 12 2012
WBG ARCHIVES

SUBJECT: Development Finance Companies

1. During preparation of the five-year forecast, attention was directed to the fact that some development finance companies were being dealt with by other departments and were not included in my forecast. Subsequently, you asked my views on who should deal with "specialized development finance companies", such as hotel-financing companies, the "off-shore Yugoslav company", etc.

2. "Development finance companies" have not been defined either in the Administrative Circulars creating this Department (January 8 and February 2, 1962) or in the Circular transferring the Department to the Bank (October 31, 1968), or elsewhere. Early documentation referred to "industrial development banks", and the dfc's we deal with in fact focus primarily on manufacturing industry. But they have tended (and we have encouraged them) to go into other lines of investment, including tourism, livestock, large-scale agriculture and services; and some have effectively combined investment banking with commercial banking, in the European tradition. Furthermore, although their bread-and-butter has been relending borrowed funds, we have urged them to direct their attention to mobilization of domestic capital, promotion of new enterprises, investment in equities, underwriting, distribution of securities, etc.; and we have tended to measure their performance and economic impact in part by the degree to which they engage in such activities. Thus in practice the term development finance company has come to mean to us an intermediary financial institution specializing in providing or finding medium- and long-term finance for useful investment to the private sector. On that central theme, the companies we have financed show many variations.

3. Your November 1, 1968 memorandum to the Board on development finance company policies forecast an even greater diversity among the development finance companies with which we will deal in the future. You referred to the prospect, in appropriate circumstances, of organizing and supporting new financial intermediaries, such as hotel-financing companies and mutual funds, and institutions providing finance in new, as well as traditional, fields, such as housing and consumer credit. The examples reflected differences less in kind than in emphasis; for all the examples involved mobilization of capital for, and promotion and financing of, developmental investment, and carried forward one or another of the aspects of investment banking which we have tried to stress.

4. Until recently, the DFC Department handled all work with intermediary financial institutions -- except where agricultural credit was concerned, i.e., except for credits to purely agricultural financing institutions and

credits specifically earmarked for agricultural purposes. Since mid-1968, a number of non-agricultural institutions (and credits) have been in process of promotion and study by other departments. For instance, the Tourism Projects Department is preparing a loan to Compagnie d'Investissement Hotelier (CIH) in Morocco to finance hotels, and is studying another such loan in East Africa to an institution yet to be identified; and IFC is promoting a hotel-financing company in Tunisia. IFC is also promoting a "merchant bank" in India, and a company to finance investment in Yugoslavia. IFC is discussing with a Philippine group the establishment of a Utilities Development Finance Company to finance private power development. (This is the only case predating mid-1968; although handled by DFC until 1966-67, it was then transferred to an IFC Investment Department.)

5. Is there a rationale which justifies dealing with such cases elsewhere than in DFC and which provides a guide for the future, when more types of institutions are likely to be financed by the Bank Group? None of the companies appears to me to be essentially different from those we have previously sought to promote and finance.

a. The Indian and Yugoslav companies are financial institutions, designed to engage in diversified investment banking operations. They would do relatively little, if any, straight lending. The difference between this concept and that of the institutions we have promoted and supported is one of degree rather than kind.

b. The hotel and utilities companies differ in that they are concerned with a single economic sector, rather than with several sectors. It may be argued that a considerable knowledge of the particular sectors is desirable in managing them; but that is also true of the industrial sector for most of our development finance companies. It appears to me that expertise in dealing with financial institutions is the critical need because they are essentially financial institutions. (A distinction should be drawn between the proposed Tunisian hotel company and the Promotional Company for the Development of Tourism in which IFC has invested in Colombia. In the latter case, the Company is <u>not</u> a financial institution.) Nor does there appear to be any evident advantage in having DFC deal with SNI in Tunisia, 47% of whose portfolio is in hotels; the Tourism Projects Department deal with CIH, 36% of whose portfolio is in hotels; and IFC deal with the proposed new

Tunisian company, which will be devoted exclusively to hotel financing.

6. It may be argued that IFC should alone deal with companies in which it invests, without a Bank loan. Administrative expediency might indeed commend this line. However, it is never certain how long such a situation will prevail (e.g., NIBID and NIDB, starting with IFC investments, shortly came for Bank loans). Even if it is assumed that a Bank loan will never be needed, wanted or granted, the risk exists that IFC and the Bank will follow different policies towards essentially similar institutions. Moreover, the argument for separate handling is no more valid than it was before November 1, when no one seriously questioned IFC's dealing with development finance companies in which IFC had no investment and in which the prospect of an IFC investment was slim or nil. Effective coordination, not direct interest, was the argument.

7. My conclusion is the following:-

a. At the least, an effective mechanism is needed to assure that all departments of the Bank dealing with development finance companies, i.e. financial intermediaries, coordinate their thinking and activity, not necessarily to assure uniformity, but to avoid conflict and inconsistency in dealing with essentially similar institutions and problems. The mechanism need be no more than distributing information and providing an opportunity to comment, neither of which now occurs uniformly or systematically.

b. At best -- and for the time being (see paragraph 9 below) -- primary responsibility for technical handling of such institutions should rest with DFC, as was planned when the Department was created, except agricultural institutions (on which, see paragraph 8 below). DFC would, of course, call on other departments, as it does now, for technical services as needed.

8. The argument for excluding purely agricultural lending from DFC is that such loans are fundamentally social in character, are closely linked to government services and require specialized technical personnel who are better located in the Agriculture Projects Department than in DFC. Even for such loans, however, the coordination previously referred to is desirable. For instance, a difficult situation might have arisen from the fact that the Agriculture Projects Department assessed COFIEC in connection with the fisheries loan, while DFC did so for the IFC investment and will do so for the Bank credit. (In fact, a discrepancy did occur but was accidentally caught in time.) There

are many multipurpose institutions in Africa and Latin America which we might want to finance in future and in which such a situation might occur.

9. Over the long run, I can foresee that several new types of companies might loom large in our operations -- such as mutual funds, purely investment banking companies, housing finance companies. It might then be desirable to split DFC, while retaining overall coordination.

10. If you should decide to continue unified technical responsibility (as in paragraph 7 above), I would not recommend immediately shifting responsibility for the operations which IFC has already taken hold of alone, e.g., the off-shore Yugoslav investment company, the Tunisian hotel-financing company, the Indian "merchant bank". IFC has gone a considerable distance with these, both in the countries concerned and with possible foreign partners; a shift would complicate the situation, if not upset it. Furthermore, from the little I know of the status of the proposals, which Mr. Raj has been directing, I have no criticism to make of them. I also feel the proposed CIH loan should be allowed to run its course, for the same reason. But in all these cases, steps should be taken to assure uniformity of approach and policy.

3/13 To Mr. Fieldman
Irving, please read & then discuss with me. Bob

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 12, 1969

FROM: John H. Adler JHA

MAR 13 1969
3 pm

SUBJECT: Monthly Report on Economic Documents

This is in response to your request to suggest a program for the economic mission work of the Area Departments and to devise a system for monitoring the program.

As you indicated, the monthly report on economic documents, which the Economic Committee Secretariat prepares for inclusion in our monthly report to you, does not serve a useful purpose at present. In its present form it is nothing but a highly uncertain schedule for the preparation of economic documents of all sorts. The major Economic Reports, which bear the title of "The Economy of ____," or "Current Conditions and Prospects of the Economy of ____" are the record of the work of economic missions of various sizes and varying "depth." Updating Memoranda on the other hand, which are occasionally produced as desk studies but in most instances also require a visit to the country in question, are prepared whenever an economic report is out of date and the necessity arises of providing the Board with up to date information in connection with a lending operation. Other forms of Economic Reports are either produced with a special purpose in mind (e.g. report for Consultative Groups or Consortia), or on special subjects (e.g. Private Investment, sector studies). The major Economic Reports, and occasionally Updating Memoranda, form the information basis for the performance and creditworthiness evaluation of borrowing countries. They are also used as a device of informing the country of the Bank's evaluation of its performance and as an instrument of leverage, i.e. to urge, or suggest, policy changes which in the Bank's opinion are considered important (and occasionally a prerequisite for Bank or IDA lending).

Perhaps send ... from ... team ... we need ... schedule

As to the relation of economic missions to lending operations, the practice varies among Area Departments and even within Area Departments. In many cases economic missions, and their subsequent reports, focus on macro-economic policies and policy performance and are not directly concerned with lending operations. Until now the separation of economic intelligence from lending activities probably has not had any adverse effect on Bank/IDA operations. But in view of the expansion in lending activities which has already taken place and which, as the projections for FY1970 and FY1971 indicate, will continue, it has become essential that the economic analysis be more closely related to lending activities. The objectives of the economic missions should be expanded to include, as an integral part of their assignment, (a) the identification of projects, (if necessary with the assistance of sector or functional specialists from the Projects Departments); and (b) the determination as to how these projects fit into the country's development and development strategy and how they

Instructions on: The country's devel. strategy, devel. plans & goals, planning organization
Perf.
The invest. program
Credit worthiness

Issue new instructions by 4/15 (after participation by Fraser etc.)
Include FY70 plan in 5 yr Plan to be approved by 5/15

relate to projects or programs financed from other sources. In addition, the increase in lending by the Bank and IDA (together with the continued limitation on IDA resources) makes it essential that the Bank's economic work must be concerned, on a regular and systematic basis, with the borrowing countries' creditworthiness and the factors, including economic policies and development strategy, which determine creditworthiness. In other words, the objective of economic work should be to update periodically the country statements which serve as a basis, (or at least are supposed to serve as a basis) for the preparation and revision of the Five Year Lending Program.

In order to put the economic work on a systematic basis, I recommend that Area Departments be asked to prepare once a year (say in April/May) a plan of economic missions to be undertaken in the course of the following fiscal year. The plan should be summarized in a table (sample form attached) giving the completion date of the last economic report and the estimated completion date for the next.

X The objective of the plan should be to schedule a regular economic mission once a year, ~~preferably~~ every year in the same months, for all "major" countries (population over 10 million) ~~or 5-year lending program over $100 million)~~, and less frequently, say once every ~~18 or~~ 24 months, for the remaining "minor" countries. If in the course of the period between missions significant changes in the economic (or political) situation takes place, an updating mission, usually consisting of not more than two staff members, should be sent out. Occasionally it may also be necessary to send missions to follow up, or check up, on policy understandings, or to discuss policy issues. Depending on the nature of the assignment, these missions may or may not produce a formal up-dating report. Their findings would be reflected, however, in the President's Report prepared in connection with a lending operation, or in periodic revisions of Country Statements.

In preparing the schedule of missions the Area Departments should coordinate it with other Departments to the extent that these will be expected to provide manpower. If the manpower or expertise is not available in the Bank, the Administration Department should be apprised regarding the need for outside consultants. Once agreement is reached the schedule would become the approved mission plan for the fiscal year + tentatively for the following FYs. Changes should be reported to the Programming and Budgeting Department. The Department would maintain a current status list of economic missions, which would be included in its monthly report to you.

You may wish to take up the suggested expansion in the terms of reference for economic missions and country economic work with Messrs. Knapp, Friedman and Aldewereld. If you approve my recommendation, the relevant operational memorandum should be revised accordingly.

Attachment (Sample Table)

HEschenberg/JHAdler:mwm

34 annual missions
33 biennial.
60 per yr. possible?

FY70 - PROGRAM OF ECONOMIC MISSIONS - MARCH 31/69

	Date of last Econ. Report (Green)	Schedule for FY70 Econ. Reports				Remarks
		Original Schedule		Actual or Revised Dates for		
		Original Schedule Departure of Mission	Date of Report (Green)	Departure of Mission	Report (Green)	
EASTERN AFRICA						
Major Countries:						
Ethiopia			Aug.69			
Kenya	Aug.67		Aug.69			
Sudan	Sept.68					
Uganda	Aug.67		Mar.69			
Congo (K)	Oct.68					
Tanzania	Apr.67		Dec.69			
Zambia	Aug.68		Jul.69			
Other Countries:						
Burundi	Jan.69		Jan.69			
Mauritius	Jan.68					
Rwanda	June 68					
Somalia	Aug.67		Sept.69			
Malagasy	Sept.68					
Botswana	-		Apr.69			
Lesotho	Dec.67					
Malawi	Nov.67					
Swaziland	Oct.66					

FY70 - PROGRAM OF ECONOMIC MISSIONS - MARCH 31/69

	Date of last Econ. Report (Green)	Schedule for FY70 Econ. Reports: Original Schedule		Actual or Revised Dates for		Remarks
		Original Schedule Departure of Mission	Date of Report (Green)	Departure of Mission	Report (Green)	
WESTERN AFRICA						
Major Countries:						
Nigeria	Oct.68		Apr. 69			
Ghana	May 68		Mar. 69			
? Ivory Coast	June 68		Nov. 69			
Other Countries:						
Cameroon	July 68		Jan. 70			
Senegal	Feb.68		Jan. 70			
Dahomey	~~Jan.68~~		~~June 67 (UM)~~			
C.A.R	Feb.69		Sept. 69			
Mali	Sept.66		Jul. 69			
Niger	June 68					
Chad	Feb.68		May 69			
Gambia	Mar.69					
Sierra Leone	Dec.68					
Mauritania	Sept.68					
Gabon	Oct.67		Feb. 70			
Togo	~~Oct.67~~		~~Jul. 69 (UM)~~			
Liberia	Mar.69					
Guinea	June 67		Dec. 69			
Upper Volta	Nov. 68					
Congo (B)	Nov. 66		Mar. 69			

FY70 - PROGRAM OF ECONOMIC MISSIONS - MARCH 31/69

	Date of last Econ. Report (Green)	Schedule for FY70 Econ. Reports				Remarks
		Original Schedule		Actual or Revised Dates for		
		Original Schedule Departure of Mission	Date of Report (Green)	Departure of Mission	Report (Green)	
EAST ASIA & PACIFIC						
Major Countries:						
China	Aug.68					
Malaysia	Dec.68		Jan.70			
Thailand	Jan.69		Dec.69			
Korea	Feb.69					
Philippines	May 68		June 69			
Indonesia	Jan.68		Sept. 69			
Other Countries:						
Singapore	May 68		~~Sept.69 (UM)~~			
Hong Kong	Apr.67					
British Sol.	Jan.69		Feb.69			
Papua & New Guinea	Jul.67		June 69			
Fiji	May 68					
New Zealand	Jan.68		May 69			

FY70 - PROGRAM OF ECONOMIC MISSIONS - MARCH 31/69

	Date of last Econ. Report (Green)	Schedule for FY70 Econ. Reports				Remarks
		Original Schedule		Actual or Revised Dates for		
		Original Schedule Departure of Mission	Date of Report (Green)	Departure of Mission	Report (Green)	
SOUTH ASIA						
Major Countries:						
Afghanistan	Jan. 67		Apr. 69			
India	Oct. 67		Apr. 69			
Pakistan	Apr. 68		Apr. 69			
Ceylon	Jan. 69					
Iran	Dec. 68					
Other Countries:						
Nepal	Feb.64		May 69			

FY70 - PROGRAM OF ECONOMIC MISSIONS - MARCH 31/69

	Date of last Econ. Report (Green)	Schedule for FY70 Econ. Reports				Remarks
		Original Schedule		Actual or Revised Dates for		
		Original Schedule Departure of Mission	Date of Report (Green)	Departure of Mission	Report (Green)	
EUROPE, MIDDLE EAST & N. AFRICA						
Major Countries:						
Greece	Mar.69					
? Tunisia	Jan.68		~~Sept.69/Feb.69(UM)~~			
Turkey	Jan.69					
Yugoslavia	Jul.68		~~Apr.69 (UM)~~			
U.A.R.	May 68		Apr. 69			
Morocco	May 68		~~June 69 (UM)~~			
Spain	Nov.66		May 69			
Other Countries:						
Syria	-		Apr. 69			
Lebanon	Feb.69					
Jordan	Oct.66		June 69			
Iraq	Sept.68					
Iceland	Apr.66					
Ireland	Oct.68					
Israel	Feb.69		~~Dec.69 (UM)~~			
Portugal	Apr.68					
Finland	Oct.68		~~Dec.69 (UM)~~			
Algeria	Aug.66					
Cyprus	Sept.68		~~Apr.69 (UM)~~			

FY70 - PROGRAM OF ECONOMIC MISSIONS - MARCH 31/69

	Date of last Econ. Report (Green)	Schedule for FY70 Econ. Reports — Original Schedule: Original Schedule Departure of Mission	Original Schedule: Date of Report (Green)	Actual or Revised Dates for: Departure of Mission	Actual or Revised Dates for: Report (Green)	Remarks
WESTERN HEMISPHERE						
Major Countries:						
Mexico	June 68		Sept. 69			
Peru	May 61	~~(incomplete rep.)~~	~~Mar.69(UM)Postponed~~			
Brazil	Jul. 68		Nov.69			
Argentina	May 68		~~Mar.69(UM)~~			
Chile	Aug. 68		~~Jan.70 (UM)~~			
Colombia	Dec. 68		~~Oct.69(UM)~~			
Other Countries:						
Venezuela	Jul. 65		~~May 69 (UM)~~			
Dominican Rep.	Jan. 68		~~Aug.69 (UM)~~			
Guyana	Feb.67		~~Mar.70 (UM)~~			
Jamaica	Oct. 68					
Trinidad & Tobago	May 68		Aug.69			
Bolivia	Jan. 69		Feb.70			
Paraguay	Nov. 65		~~Mar.69/Jan.70(UM)~~			
Central America	Apr. 67					
Ecuador	May 68		~~Mar.69(UM)~~			
Uruguay	Sept. 66		~~Oct.69(UM)~~			

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP	Date Feb. 25, 1969

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

RBS
R. Steckhan

From

FORM No. 57

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: February 18, 1969

FROM: Arthur Karasz

FEB 25 1969

SUBJECT: Meeting with Ministers Debré and Ortoli, Paris, February 17, 1969. 5:30 p.m.

CONFIDENTIAL

1. On February 17, Mr. Michel Debré, Minister of Foreign Affairs of France, offered a luncheon to Mr. McNamara at the Quai d'Orsay. Present were on the French side: Mr. François Ortoli, French Minister of Finance and Messrs. Pierre Esteva and Jean-Yves Haberer, Chiefs of Cabinet of the two ministers. Mr. William Clark and I were invited. Translation was done by Mr. Andronikos.

2. The meeting was characterized by a completely new attitude displayed by the French towards the Bank and Fund, especially the Bank. Minister Debré emphasized the French Government's appreciation of Bank policies and mentioned several times the "moral authority" of all the pronouncements the Bank makes. In this respect, Mr. Debré insisted that he was speaking in the name of the "entire French Government".

The main reason for the French Government's satisfaction seems to be the expansion of Bank activities in French speaking Africa.

3. Mr. McNamara described briefly his visits to Senegal and the Ivory Coast. Thereafter followed a discussion about French projects, particularly education projects in the former French territories. The ministers share the Bank's doubts about educational TV projects which are considered as too ambitious.

4. Mr. McNamara referred to Mr. Ortoli's statement at the OECD Ministerial Meeting about the commodity study being prepared by the Bank/Fund. He asked the ministers' opinion about what the study should consist of.

Mr. Debré answered that he did not expect a policy paper on the problem. While the Rio resolution spelled out an agreement in form on the need for a study concerning basic commodities, this agreement was in reality a cover for a basic disagreement on the subject: the Anglo-Saxons in particular have never had a high opinion of the whole project. Thus, when putting forward the Rio resolution, the French Government did not have in mind a study of policies from the Bank or the Fund; its basic intention was to ask the two institutions to give general guidance and proposals. The policies will eventually have to be evolved by the member governments. Thus, what the French wish the study to contain is:

(a) are there steps that can be taken to stabilize world prices of primary products;
(b) the conditions under which such stabilization can be achieved and the means at disposal to do the job.

If the Bank/Fund can supply answers to the above points, they should submit them to the member countries under their authority.

Mr. McNamara replied that from a theoretical point of view these points can certainly be answered. However, before the findings can be enforced, they have to be endorsed by the member governments. The Bank has already developed a scheme, on supplementary finance, which would at least in part answer one of the points but the governments refused to endorse it. Therefore, the problem is primarily a political one and only thereafter becomes economical.

Mr. Debré agreed, but added that we should not underestimate the moral authority attached to Bank studies. It is true that a decision will eventually have to be taken by the member governments, but the weapons to force such a decision are in the hands of the Bank and Fund.

5. Finally, Mr. McNamara brought up the question of IDA. He said that thanks to voluntary contributions there are some funds available at present, but if the U.S. do not act IDA will soon be in trouble. He pointed out that our future loans to French Africa would not depend on French ratification of IDA, nevertheless it would be helpful if the French Government explained the importance of U.S. participation in IDA to President Nixon during his forthcoming visit to Paris.

Both Debré and Ortoli were attracted by this suggestion. Debré promised that they would discuss the matter with President Nixon. In addition, he seemed to indicate that there might eventually be a change of mind on the part of the French Government concerning voluntary contributions to IDA.

cc: Mr. McNamara

AK:mcl

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: January 31 1969

FROM: Irving S. Friedman

SUBJECT: Ambassador Goldschmidt - Former U.S. Ambassador to the UN

Ambassador "Tex" Goldschmidt, whom I gather you know, has inquired about the possibility of doing some work for the Bank in the future. He says that Paul Hoffman has asked him to do a number of things, but he wondered whether the Bank might be interested in using his services in one way or another, or perhaps the Pearson Commission. He asked me to bring this to your attention.

He is coming in on Tuesday for a debriefing with the State Department. He said that he would call Tuesday morning to see whether there was any point in dropping by the Bank on Tuesday afternoon. He wished to stress that he was in no sense pushing himself on the Bank.

I am taking the opportunity of sending copies of this memorandum to those in the Bank who perhaps know his technical competency better than I do.

cc: Mr. Knapp
Mr. Ripman
Mr. Demuth
Mr. Hoffman

ISF

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

OFFICE MEMORANDUM

TO: All Departments Bank and IFC

DATE: January 28, 1969

FROM: Robert S. McNamara

SUBJECT: Procedure for Approval of Personnel Requirements

Staff Appointments

1. The number of authorized professional and non-professional staff positions for the Bank Group will be established each year as part of the preparation and approval of the administrative budgets. Bank Departments should estimate their staff needs on the basis of the workload they have projected in the Five Year Program. The Programming and Budgeting Department will provide instructions as to the procedure to be followed in the preparation of the estimates.

2. The Programming and Budgeting Department will review these staff requests and advise me whether they are justified in the light of projected workloads. The Department will maintain a list of authorized positions for the current fiscal year.

3. When assessing the staff requests, the Programming and Budgeting Department will take into account the views of the Administration Department as to efficiency of manpower use, and manpower implication of changes in the organization.

4. Aside from annual requests there may be requests for additional staff between annual budgets, but these should result only from major changes in the expected workload, reorganizations or other changes not anticipated in the Budgets. Such requests should be sent to the Programming and Budgeting Department with copies to the Personnel Division and the Organization and Procedures Division of the Administration Department. They should include a detailed justification for the request, including a job description when a new type of position is proposed. The Programming and Budgeting Department will review the requests and present them to me for approval.

5. Requests should also indicate whether the new positions required would create the need for more office space or office equipment.

6. Temporary Appointments - The above procedures do not apply in the case of temporary appointments for periods of up to six months, (a) to meet unforeseen or seasonal workloads, (b) to allow for overlap in the positions of regular staff, and (c) for replacements of regular staff absent for extended periods because of illness, leave without pay or home leave. Requests for temporary appointments required in these circumstances will be addressed directly to the Assistant Director of Administration for Personnel. No such requests will be accepted, without my approval, unless they can be accommodated within the approved financial budget.

JAN 31 1969

1 p.m.

Consultant Appointments

7. Individuals serving on consultant appointments of the following types must be held against normal authorized budget positions, or if no position is available specific authorization should be requested as described above for:

(a) Consultants who in every respect except the form of their appointment work as regular staff members;

(b) Consultants who are on trial for a regular or fixed-term appointment;

(c) Consultants whose appointments are full-time for a term of six months or more;

(d) Consultants serving under a part-time or a retainer arrangement where there is a reasonable assumption (irrespective of the minimum period prescribed by the retainer agreement) that they will be on duty for 50% or more of the year.

8. For other consultant requirements Departments will submit requests each year for inclusion in the administrative budgets. These requests will be reviewed by the Programming and Budgeting Department and departmental ceilings will be established. During the year the only additional approval required is for proposed commitments in excess of the ceilings.

9. This memorandum supersedes Mr. Woods' memorandum of April 24, 1967.

Robert S. McNamara

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 24, 1969

FROM: Irving S. Friedman

SUBJECT: Monsignor Gremillion

Monsignor Gremillion, who is Secretary to the Pontificia Commissio Justitia et Pax in The Vatican, is coming down to have lunch with me on Monday at 12.30.

I know that he would be terribly pleased to have the opportunity to meet you, if only to shake hands. He is not expecting this but I was wondering whether it was possible for you to find the time to do so?

I have a special personal relationship with him because he was the first to get me interested a number of years ago in the relation between the work done by the various churches and the field of development.

ISF

JAN 27 1969
1.45 pm

President has seen

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP

Date
Jan. 8 1969

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. McNamara	A1230

	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 believe you will find the attached table to be of interest.

ISF

From Irving S. Friedman

Preliminary Estimates of World (Ex-Bloc)
Export Trade Prospects for 1969

	1967 Value Billion $	% Change from Preceding Year			
		1966	1967	1968	1969
World (Ex Bloc)	189.5	9.5	5.0	11.4 a/	7.3 a/
Developed Countries	149.5	10.4	5.5	12.0 b/	8.0 b/
LDC	40.0	6.3	3.4	9.1 c/	4.5- 5.0 d/
OECD GNP		(5.1)	3.5	5.0 e/	4.0 e/

a/ Weighted average.

b/ OECD growth rate as forecast by OECD and reported by press; actual growth rate for developed countries may be fractionally lower.

c/ Increase in first 9 months of 1968 as compared to the corresponding period in 1967.

d/ A quick commodity by commodity review by staff resulted in a projected growth of 4.5% in 1969. The 5% growth rate is derived from estimated imports by OECD countries.

e/ Estimate and forecast by OECD.

Economics Department
24 December 1968

President has seen

Jan. 8 1969

Mr. McNamara A1230

I believe you will find the attached table to be of interest.

JSK

FORM NO. 58

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

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: December 24, 1968

FROM: A. J. Macone AJM

SUBJECT: World Trade Outlook for 1969

1. The attached table summarizes our estimates, and I think the footnotes are self-explanatory. We can supply additional information orally if you wish.

2. The LDC export forecast was done very hastily and our commodity economists were handicapped by the fact that little or no data exist on trade in individual commodities for 1968. While we believe the forecast is fairly sound, it should be treated with caution.

Attachment

cc: Mr. Kamarck

approved /

A. M. Kamarck

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 6, 1969

FROM: Irving S. Friedman

SUBJECT: Eximbank's Activities

Apropos our discussion the other morning I believe you will find the attached memorandum of interest, particularly the table.

cc: Mr. Knapp
Mr. Broches

President has seen

Mr. Macone December 19 1968

Irving S. Friedman

<u>World trade outlook for 1969</u>

I would like to have, in writing or orally, your thoughts on the world trade outlook for 1969. I would appreciate this early next week. Thanks.

ISF

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

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: January 3, 1969

FROM: A. Nespoulous-Neuville A. N. N.

SUBJECT: Eximbank's Activities

1. Eximbank fosters US exports through various forms of loans, guarantees to banks, and insurance granted to exporters in conjunction with the Foreign Credit Insurance Association (FCIA). The breakdown of the authorizations given by Eximbank since fiscal 1964 is given in the annexed table. Authorizations for fiscal 1968 are detailed below. Figures are in terms of liabilities for Eximbank and not in terms of export amounts.

	$Million	
Loans		
Long-term loans	1,719	
of which : Capital equipment and services		891
Military articles and services		828
Commodity Credits	75	
Exporter Credits	4	
Special Foreign Trade Credits	525 1/	
Discount loans	203	
Export guarantees	290	
Export Insurance	718	
of which : Short-term		619
Medium-term		97
Consignment		2
Total authorizations	3,534	

The various schemes operated by Eximbank are summarily described below.

2. Long-term loans

By far the main activity of Eximbank is direct lending to foreign importers to finance up to 100 percent of the US equipment required for projects, and of large-scale supply contracts of goods such as aircraft and locomotives.2/ Terms to maturity vary usually between 5 and 15 years of repayment period, plus sometimes a grace period. Seventeen years is now practically the maximum for the repayment period. The longest terms for fiscal 1968 were 6 years of grace plus 15 years of repayment for the Bandama power project in the Ivory Coast. Terms to maturity are closely related to the revenue-earning capacity of the projects financed. However, average

1/ Of which a stand-by credit to Canada, in the amount of $500 million, under which no drawings were made.

2/ Items financed in fiscal 1968 include commercial jet aircraft, diesel locomotives, electric generating equipment, equipment and services for the Bandama Dam in the Ivory Coast and the Tarbela Dam in Pakistan, nuclear research equipment (Mexico), satellite ground stations (Brazil, Chile, Pakistan), and equipment for hotel construction.

terms were reduced substantially in the past few years, mainly for balance of payment reasons. The interest rate has been raised from 5-1/2 percent to 6 percent on September 1, 1966.

The authorizations given during the recent years are in the following amounts:

	Fiscal 1966	Fiscal 1967	Fiscal 1968	First five months of fiscal 1969
Capital equipment and services	447	1,572	891	361
Military articles and services	497	798 1/	828	75
Total long-term loans	944	2,370	1,719	436

Financing of capital equipment exports was exceptionally large in fiscal 1967, partly due to credit stringencies in the U.S. A large part of the decrease between 1967 and 1968 is due to commercial aircrafts, for which loans declined from $775 million in fiscal 1967 to $275 million in fiscal 1968. Loans for military equipment to developing countries were curbed by law in March 1968.

3. Commodity credits

The $15 million figure in the fiscal 1968 table concerns a one-year credit for export of raw cotton to Japan.

4. Exporter credits

Eximbank may participate directly with an exporter in financing exports, when the exporter is unable to obtain finances from other sources. This facility is now rarely used.

5. Special Foreign Trade Credits

These are medium-term,inter-governmental balance of payments loans. This facility was used in 1967 for a military credit of $175 million to the United Kingdom. The $525 million item of fiscal 1968 includes a stand-by credit of $500 million to Canada, under which no drawings were made, and which was cancelled in September 1968.

6. Discount loans

Under the so-called "Discount Loan Program" established in September 1966, Eximbank makes two kinds of loans to commercial banks against their holdings of export debt obligations with an original maturity in excess of 180 days. Current Discount Loans are based upon the commercial bank's holdings of certain export debt

1/ Also a $175 million loan to the UK figures under the heading "Special Foreign Trade Credit".

obligations; Net Increase Loans are based upon a bank's increase over its prior year's holdings of export debt obligations. There are no restrictions as to the type of commodities covered by this scheme. The discount loans amounted to \$71 million in fiscal 1967, \$203 million in fiscal 1968, and \$21 million for the first five months of fiscal 1969. This latter amount does not mean that the 1969 figure will be lower than the 1968 figure. Foreseeable credit stringencies may increase such loans considerably during the remaining of fiscal 1969.

7. Export Guarantees

Export guarantees are given to commercial banks under the three different following programs, of which the first one is the most widely used:

i) Under the medium-term bank guarantee program, Eximbank guarantees up to 90 percent of medium-term credits extended by commercial banks to the exporters. The commercial bank receives a guarantee for political risks in respect of all maturities, and for commercial risk in respect of the later maturities (generally over 18 months).

ii) Under a "financial guarantee" initiated in 1962, Eximbank in the past extended a full cover to direct lending by commercial banks to foreign importers. These guarantees were generally related to transactions brought directly to Eximbank by a borrower, and turned over to commercial banks with a split of interest. This system fell into disuse when market rates rose, while Eximbank increased its own rates by only one-half percent.

iii) As an alternative, Eximbank established in April 1966 a new system of financial guarantees for direct bank lending to borrowers abroad. Under this scheme, the commercial bank must carry the early instalments up to 30 percent for its own account, without either a political or a commercial risk guarantee from Eximbank or the FCIA on those instalments. It receives an unconditional guarantee on all later instalments, the rate being covered only up to six percent.

In recent months a further rise in interest rates has necessitated a new modification of the Eximbank financial guarantee system. Lending banks are no longer required to carry some portion of the loan without an Eximbank guarantee. The rate of interest guaranteed is no longer limited to six percent, but may be fluctuating in relation to the prime rate of the lending bank. The split of interest device has been reinstalled.

Export guarantees cover bank credits from 180 days to five years. They apply exceptionally to credits over five years with a practical maximum of seven years.

The annual level of bank guarantees fluctuates between \$200 million and \$300 million. The latest available figure is \$187 million for the first five months of fiscal 1969. This tends to indicate that the facility will be increasingly used.

8. Export Insurance

Under this scheme, Eximbank assumes the full political risk of insurance policies, and, in excess of certain limits,[1] shares the commercial risk with the Foreign Credit Insurance Association (FCIA), which groups 60 of the principal US insurance companies.

For medium-term transactions, exporters have the choice between this facility and the bank guarantee program described above, which are mutually exclusive.

The yearly amount of authorization for medium-term export insurance has been stable since fiscal 1966, at a level of around $100 million.

9. New laws relating to Eximbank activities

Two important laws related to Eximbank activities were passed in 1968, in March and in July, respectively.

The first law in particular increased by 50 percent, from $9 billion to $13.5 billion, the amount of loans, guarantees and insurance which the Bank might have outstanding; and by 75 percent, from $2 billion to $3.5 billion, the amount of guarantees and insurances which may be charged against the $13.5 billion commitment ceiling at the rate of 25 percent of the Eximbank's related obligations. It limited the sale of defense articles to developing countries and prohibited participation in financing exports to or for use in Communist countries (unless the President determines it to be in the national interest). It also prohibited participation in financing any exports to or for use in any nation engaged in armed conflict with the U.S. forces, or any nation whose government furnishes goods and supplies to a nation so engaged. In compliance with the amendment relating to exports to countries trading with North Vietnam, Eximbank has terminated its support of exports to or for use in all Communist countries other than Yugoslavia, or to or for use in Cambodia.

The second law authorized the Bank to use up to $500 million of its $13.5 billion ceiling to support exports which would not meet the "reasonable assurance of repayment" criterion applicable to the Eximbank regular operations under the Act of 1945. Guarantees and insurances may be charged against the $500 million ceiling at the rate of 25 percent of the related Eximbank liability. Losses, if any, are to be borne first by the Bank to the extent of $100 million, then by the Treasury to the extent of an additional $100 million, and thereafter by the Bank if losses should exceed $200 million. The new authority will enable Eximbank to take on new commitments in countries where it is already heavily committed, and to support exports to private buyers who are not as creditworthy as are those under the Bank's regular programs.

1/ Eximbank takes the commercial risk in excess of $150,000 in each transaction, and reinsures the whole of the business underwritten by FCIA, should net losses in any one year exceed $2.5 million.

EXIMBANK AUTHORIZATIONS

	Fiscal Years 1964	1965	1966	1967	1968	July 1 to November 30 1968 (5 months)
Loans						
Long-Term Loans	570.2	435.2	944.2	2,369.5	1,719.0	436
Commodity Credits	177.2	76.3	76.0	76.0	75.0	
Exporter Credits	30.9	-	6.6	31.6	4.2	
Special Foreign Trade Credits	-	340.0	122.2	175.0	525.0	
Discount Loans	-	-	-	71.5	203.1	20.7
Export Guarantees	216.8	282.9	300.1	193.0	290.1	186.7
Export Insurance of	747.4	724.6	692.9	690.7	717.7	88.0)
which : Short-term	683.4	666.2	589.5	599.2	619.0	60.0)
Medium-term	61.1	55.3	103.3	91.0	96.8	28.0)1/
Consignment	2.9	3.1	0.1	0.5	1.9	
Total Authorizations	1,742.5	1,859.0	2,142.0	3,607.3	3,534.1	

1/ Three months only.