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**Folder Title:** Ernest Stern Chronological files (Development Policy) - Correspondence  
1974 - Volume 2

**Folder ID:** 1850306

**Series:** Economic Advisory and Development Policy chronological files

**Dates:** 07/01/1974 - 08/31/1974

**Fonds:** Records of Individual Staff Members

**ISAD Reference Code:** WB IBRD/IDA STAFF-10-05

**Digitized:** 6/22/2020

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ERNEST STERN FILES

The World Bank Group  
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STERN - CHRONOLOGICAL

1974

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Box Number  
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WBG Archives

August

Mr. Robert S. McNamara, President

August 1, 1974

Ernest Stern, Director, Development Policy

Annual Meeting Speech

1. Attached is a line in/line out revision of the draft Annual Speech. Since the suggested changes in the first and penultimate part are substantial, the line in/line out format makes for a certain untidiness. Mr. Chenery had some minor changes in addition to those which he gave you earlier, and these have been incorporated.

2. As I mentioned to you, my principal interest was to include more of the concepts in the summary section into the body of the text. Essentially, the summary section makes two vital points: (a) nothing that has happened reduces either the responsibility or the capacity of the rich to assist the developing countries and (b) the impact of the changes in the world economy is greatest on the poorest countries which already had limited prospects of being able to improve life for their citizens. Strengthening the text along these lines accounts for the changes in the Introduction (pp. 1-2) and in Section III (pp. 7-12). The addition on Page 24 is for the same purpose. (The Section on pp. 10-11, which I propose be deleted, is covered by the insert on p. 9. As it now stands, it is unduly repetitive.)

3. The thrust of the changes in Section II, particularly pp. 6a and 7 is to reiterate that Bank projects by themselves cannot achieve the Nairobi target -- it requires national commitments and appropriate national policies. I consider these changes essential on substantive grounds, and they also provide important support to your plea that the current crisis not divert attention from the problems of the poor. That plea surely cannot be aimed only at aid agencies and donor governments.

4. Other points, which are more specific, but to which I want to draw your attention:

- (a) The figures on p. 4 seem suspect. Two billion dollars of investments benefitted 12 million people in FY1974, or an investment of \$166 per person. Yet the per person investment cost for the next five years is \$150 (\$15 billion for 100 million people). Given rising costs, increasing complexity, and growing technological sophistication, a decline in the per person investment figure does not seem reasonable.

August 1, 1974

- (b) On p. 8 no constructive purpose is served by referring to the "bombed action of the members of OPEC", and it is likely to be offensive. If we must refer to them, you could just say "OPEC countries raised the price ...".
- (c) The change on p. 13 is important since (i) it is far from clear that the supply of capital on market terms will be inadequate (this is hardly consistent with the OPEC liquidity position), (ii) I know of no measures under consideration to increase the supply of capital on commercial terms, (iii) if we believe our estimates, the problem, if any, will arise because of creditworthiness problems and not because of competition.
- (d) The deletion on p. 20 is essential. As it stands, it is meaningless. Special provisions for all who need capital are not "special". It is, in any event, unclear what measures could be intended.
- (e) Two semantic points: I have struck out "Green Revolution" in several places. The phrase is a bit of an anachronism now and has some controversial connotations. It did not seem essential in any of the cases to the point being made. Secondly, I propose the deletion of the phrase "previously associated only with major wars and depressions." It sets a poor tone in the opening paragraph of the speech, and it is likely to be offensive to the OPEC countries and countries which have actually experienced war devastation. If you do not accept these semantic arguments, you should recognize that the phrase is thoroughly inconsistent with your concluding section which argues that the rich are still rich and that their capacity to give is unimpaired. Cataclysmic upheavals associated with major wars and depressions lead to major shifts in the distribution of economic power and to a substantially diminished capacity to export capital, technology and skills.

Attachment  
cc: Mr. Chenery  
ESTern/lm

Mr. Robert S. McNamara, President

August 2, 1974

Ernest Stern, Director, Development Policy

"The Social Sciences and Development"

Attached, for your information and bookcase, is the printed version of the papers prepared for our Bellagio Conference on Research, last February. Over a thousand copies are being distributed by the OECD Development Centre and the other sponsoring agencies to research institutions and individuals around the world.

Attachment  
EStern/lm

Mr. W. Rayfield, Deputy Director, CAD

August 2, 1974

Ernest Stern, Director, Development Policy

Computer Facilities

I have been apprised of the discussion between Mr. Muller and EPD regarding the timing of the conversion from the B5700 to the B6700 and the possible need to provide for both a timing and financial contingency in the release of the B5700. Since Mr. Muller is away and Mr. Tims is away until mid-August and Mr. McPheeters is about to go on leave, it will obviously not be possible to resolve this issue until the latter part of the month. However, in the meantime I wish to be sure that no steps are taken which would preclude adequate testing time for the new facilities before the present one is relinquished. Therefore, in our planning we should:

- (a) Assume that the space utilized by the B5700 will not be relinquished until February 1975 and advise the space planning office accordingly. I have asked Mr. Smith to talk to them.
- (b) To set aside from the Departmental resources available to the DPS the indicated \$22,500 which may be necessary to retain the B5700 for an additional period. Since it is early in the fiscal year, I am for the time being placing this amount in escrow from the discretionary resources which have been allocated by us to the CAD.

Neither of these two interim decisions is based on any prejudgement of the merits of the argument or the ultimate decision on whether it will be necessary to retain the B5700 beyond the present planned date or for what period. The decisions are purely to guide you in your planning until such time as we can meet with the principals concerned to resolve the issue.

cc: Messrs. Muller o/r  
Tims o/r  
McPheeters  
Smith

EStern/ln

August 2, 1974

Dr. Raul Prebisch  
Special Representative  
for Emergency Measures  
United Nations  
New York, New York 10017

Dear Dr. Prebisch:

Upon my return from my vacation, Mr. McNamara gave me a copy of your note to him which indicates that the two staff members I had mentioned at our earlier meeting had not yet come to New York on a full-time basis. The reason for this is that in his letter of July 19 Mr. Dell indicated that the two staff members should be available to join his staff beginning on Monday, August 19. Until now, as I am sure you are aware, there was little work which could fruitfully be done at the technical level in New York since the country submissions are only now being received. Instead, we used our staff in Washington in collaboration with the IMF to prepare more than two dozen country studies and to work on the preparation of the list of most seriously affected countries. This has taken much more than the full time of two staff members.

You may be assured that Mr. Nusbaumer and Mr. Shilling (in place of Mr. Hicks) will be in New York August 14-16 to participate in the inter-agency technical level meeting and will report to Mr. Dell on Monday, August 19, to work with him as members of his staff.

With best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy

bcc: Mr. Chenery  
EStern/lm



Mr. Robert S. McNamara, President

August 5, 1974

Ernest Stern, Director, Development Policy

IMF Survey

The attached copies of the IMF Survey contain articles which will be of interest to you (good for reading on the plane). The July 8 issue has an article on the valuation of the SDR basket and the SDR cross rates and a second article on the growth of the Eurocurrency market. The July 22 issue has an article on developments in the Eurobond market (derived from International Finance Division material) and a second article which contrasts the latest DAC report on aid flows with the requirements estimated by us in the March energy paper.

EStern/lm

August 5, 1974

Mr. Robert J. Muscat  
PPC/PDA 3947  
Agency for International  
Development  
Washington, D.C. 20523

Dear Mr. Muscat:

I have sent today, under separate cover, 200 copies of the final version of the papers prepared for the Bellagio Conference on Social Science Research. Two hundred copies have been sent to each of the other sponsoring institutions, ten copies to each author, a copy to each participant in the Conference, and over 800 copies were mailed to individuals and research institutions throughout the world dealing with social science research. Sixty copies will also be available at the Abidjan Conference of Directors of Research and Training Institutes. For the distribution of the 800-plus copies, the OECD Development Centre mailing list and a smaller IBRD mailing list were used, copies of which are attached for your reference.

Sincerely,

Lynne M. Money  
Secretary to Mr. Stern

Attachments

cc: Messrs. Chenery, King/Rao

Same letter sent to Mr. Ralph K. Davidson, Rockefeller Foundation; Mr. Edgar O. Edwards, Ford Foundation, and Mr. Daniel de Maret, IDRC.

LMoney

Mr. P. N. Damry, Secretary

August 5, 1974

Ernest Stern, Director, Development Policy

Information for Directors: Solar Energy  
Your Memorandum of July 10, 1974

I assume you will advise me if any other Directors express an interest in this subject. Unless I hear from you further, we will schedule no work on the subject.

cc: Mr. Weiss o/r

EStern/lm

Mr. J. Nusbaumer, EPDCE  
Mr. J. Shilling, EPDCA  
Ernest Stern, Director, Development Policy

August 5, 1974

UN Country Studies

I should like to meet with you at 3 p.m. on Friday afternoon to go over the material we have prepared for the UN since the original 15 country studies. It would be helpful if I could have the material by close of business on Thursday.

I should also like to review Mr. Quirk's allocative formula. Testing it against the first 15 country studies shows little since the financing gap is based essentially on terms of trade changes and the three adjustment factors (GDP per capita, debt service, and importance of trade) all are virtually unity for the group. It would be useful if you could allocate the \$1925 on the basis of size and poverty to give us a basis for comparison. (The size factor has to be adjusted for the small country effect.)

EStern/lm

August 5, 1974

Dr. Rolf Luders  
Organization of  
American States  
1735 I Street, N.W.  
Washington, D.C. 20006

Dear Dr. Luders:

I have mailed to you under separate cover ten copies of the final publication relating to the Bellagio Conference on Social Science Research. Based on the OECD Development Centre mailing list and a smaller list used by the World Bank, I have sent nearly 800 copies to individuals and research institutions throughout the world, obviously reaching the majority of those people dealing with the subject of social science research. However, a modest number of additional copies are available for your use if necessary. Please let me know if you require additional copies, and I will be glad to forward them.

Sincerely,

Lynne M. Money  
Secretary to Mr. Stern

cc: Messrs. Chenery, King/Rao

Same letter sent to Professor Paul Streeten, Oxford University; Professor Dharam Ghai, University of Nairobi; Mrs. Gelia Castillo, University of the Philippines; and Mr. Raj Krishna, IBRD.

LMoney

Mr. G. Tannous, PDP

August 5, 1974

Ernest Stern, Director, Development Policy

CONFIDENTIAL

Mr. R. G. Nayak

I talked to Mr. Nayak, and I rather doubt that he would fit into either ECD or EPR -- the only two possibilities. Since Mr. Bell suggested we pursue this, you might arrange one interview each in the two Departments. You might also get a reading on his IMF evaluations.

Attachment

cc: Mr. Chenery

EStern/lm

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**AUG 14 2020**

**WBG ARCHIVES**

August 7, 1974

Mr. Roger C. Lawrence  
Acting Chief  
External Financing and  
Development Branch  
United Nations Conference  
on Trade and Development  
United Nations  
New York, New York 10017

Dear Mr. Lawrence:

I am sorry I had left on leave just a few days before your letter of July 16 arrived. I appreciate your sending me a copy of the UNCTAD paper on promoting exports which I shall read with interest. I enclose for your information a draft copy of our paper which, as you indicate, should still be treated as a confidential document. We expect to be able to circulate it to our Board before too long, but until that time, it should not be released or otherwise used by you.

Sincerely,

Ernest Stern  
Director  
Development Policy

Enclosure

bcc: Mr. Chenery  
EStern/lm

Ms. A. C. Blitte, PDP

August 7, 1974

Ernest Stern, Director, Development Policy

Course in Forecasting Techniques

I would like to nominate two members of the Development Policy Staff to participate in the seminar course on Forecasting Techniques to be held at George Washington University, August 19-23.

- 1) Mr. Arun Shourie  
Program Review Division  
Policy Planning and Program Review Department
- 2) Mr. W. S. Kee  
Public Finance Division  
Development Economics Department

cc: Messrs. Gulhati  
Haq

LMoney



August 8, 1974

Mr. Arnold H. Weiss  
General Counsel  
Inter-American Development Bank  
801 17th Street, N.W.  
Washington, D.C. 20577

Dear Arnold,

Burke asked me to send you the background material relating to the establishment of the Joint Ministerial Committee of the Fund and the Bank. I understand he already explained some of the background to you on the phone.

Attached is the communique released on June 13 by the Committee of Twenty, which in Paragraph 3(k) announces the establishment of the Joint Committee (The Development Council). Attached to the communique is the excerpt of the explanatory document which described in just slightly more detail the functions of the Development Council and assigns the responsibility for drafting a Joint Resolution to the Managing Director of the Fund and the President of the Bank.

Since neither of these documents makes reference to the scope of work of the Ministerial Committee, I also attach an earlier document which shows the basis for the decision to establish the Development Council. The report of the Technical Group on the Transfer of Real Resources discusses the institutional alternatives which were considered for the Development Council, starting on Page 19. As you can see, alternative C was chosen by the Ministers. In the annex, starting on Page 23, there is a list of the four major topics which had been assigned to the Committee by the Ministers in January of 1974 and commentary as to how these topics might be treated. The commentary has no standing, but may be useful as background. The main subject headings were approved by the Ministers, but since the Development Council will be at the Ministerial level, there is of course no guarantee that once the Council is established, it will deal with all or any of these subjects or what order of priority will be assigned to them. At present, I would expect that if the Council is established, the first item of business will be the capital requirements of the developing countries in the light of current commodity prices.

Mr. Weiss

- 2 -

August 8, 1974

I have been dealing with this increasingly chaotic topic since the Committee of Twenty established the Technical Group last year in Nairobi; and if you need any additional background information, give me a call.

Best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy

Attachments

Mr. J. Shilling, EPDCA

August 8, 1974

Ernest Stern, Director, Development Policy

Country Assessments for the UN Emergency Operation

Look this over and, unless you have major changes, get it to your collaborators in the IMF, by hand. Have a copy delivered to Mr. Finch. Work out an agreed joint version by tomorrow. Let me know if there are substantive issues.

Attachment

cc: Messrs. Swaminathan (with att.)  
Nusbaumer (with att.)

EStern/lm

Mr. J. M. Kearns, Director, OPD

August 9, 1974

Ernest Stern, Director, Development Policy

Senior Level Position Planning

The distinction made in your memorandum of July 12, 1974, between growth and structural positions seems eminently sensible. It recognizes that career development sometimes requires promotion which need not, and sometimes should not, be associated with administrative responsibility. But based on the criteria for the two types of position, I fail to understand the proposal to allocate structural and growth positions to the operating Departments and structural positions only to the support Departments. This proposal is neither logical nor acceptable.

Within the DPS, there are two categories of individuals for whom a limited number of growth positions should be established. First, we have several staff members who, over a period of time, have developed an expertise essential to the work program of the DPS. Because of this training, their mobility within the Bank is limited, as are the prospects for promotion to the limited number of supervisory positions. It seems essential to me in cases such as this that the DPS be given the opportunity to promote these individuals, as the case merits, in order to retain the very special expertise and without resorting to the structural supervisory positions. As presently allocated, we have many divisions where only the Division Chief can have an M-level or higher position. This is not consistent with our demands for professional skill and experience.

A second category consists of highly qualified economists, usually from academic institutions, who wish to join the Bank even though their long-term interests are in universities. Such individuals often come to the Bank with higher level salary requirements than other new staff and often come on a fixed-term basis. These new staff members do not normally make the best administrators, primarily because of their lack of Bank experience. It is important, therefore, that we have both the opportunity to offer a reasonable salary, and the prospect for promotion, without forcing them to accept supervisory responsibilities which may not be suitable or of interest.

After having carefully reviewed our Departmental requirements, I request that, in addition to the structural positions listed on the attachments to your memorandum, the DPS be allocated five growth positions in FY1975. These growth positions would be provisionally allocated to four Departments, as follows:

August 9, 1974

One Position - Development Economics Department  
One Position - Development Research Center  
One Position - Computing Activities Department  
Two Positions - Economic Analysis & Projections Department

In addition to the growth positions listed above, I cannot concur in the proposed allocation of structural M-level or higher positions. We require one additional structural position in the Economic Analysis and Projections Department, and the upgrading of two Division Chief positions in CAD from "M" to "N" level. The new structural position in EPD would carry responsibilities for the supervision of the Systems Group in the Director's office. The Group (although small) is responsible for reviewing and assisting in the development of computer systems used throughout the Economic Analysis and Projections Department. The CAD positions to be upgraded are located in the File Processing Services Division and the Analytical Services Division. These Divisions are large (26 and 19 staff members respectively) and the Division Chief positions carry a responsibility which, in my opinion, warrants an "N" level. It should be noted that Computing Activities was never subjected to a position audit in 1973, and therefore the adjustments recommended should have been suggested in 1973 by the Personnel Department.

In summary, I am requesting four growth and one structural "M" level positions for the DPS Departments and the upgrading of two structural positions in the CAD. I shall be pleased to discuss this further with you, if necessary.

cc: Messrs. R. Clarke  
Ruth  
DPS Directors

PSmith/EStern:lm

Mr. Robert S. McNamara, President

August 9, 1974

Ernest Stern, Director, Development Policy

OPEC Country Surpluses

1. You asked me before you left for data on OPEC surpluses by country, by year. The latest information available to us was incorporated in the table of July 19, supplied you earlier by P & B. The second line under each country, "Increase in Reserves over Previous Year", is an estimate of the annual surplus.

2. The figures for Venezuela, and hence the totals, were incomplete in the July 19 table. The original table plus the revised figures are attached.

Attachment

EStern/lm

bcc: Mr. Chenery  
Ms. Yudin

August 9, 1974

Mr. Kevin Pakenham  
Senior Economist  
Rothschild Intercontinental Bank, Ltd.  
P.O. Box 171  
120 Moorgate  
London EC2P 2JY  
England

Dear Mr. Pakenham:

Thank you for your letter of July 25 and its very interesting attachment. Several of my colleagues would be pleased to discuss various aspects of it with you when you come here for the Annual Meetings, and I hope that you will be able to put aside some time for this.

We have been working on related matters, including particularly the effects of inflation on both borrowers and lenders. One part of our work includes projections of rates of international inflation and of prices for a large number of commodities. These are used, appropriately weighted by the commodity composition of trade, in country projections. Observed and projected changes in these relative prices have caused us to change--considerably increase--our estimates of the requirements for external financing of a number of developing countries. We are looking into the complicated question of where, on what terms and in what such amounts may become available.

Another part is more directly concerned with the effects of relative price changes on the 'real' cost of servicing the external debt of developing countries. Although we have not worked out any systematic way of forecasting interest rates, we have been expanding the coverage of our statistical work to include more, and more detailed, information about the terms of lending and particularly of changing rates of interest. A particularly difficult question is the relationship between interest rates and the rate of inflation. We are looking into this question but are, of course, aware that there are a great many complex policy variables involved.

Sincerely,

Ernest Stern  
Director  
Development Policy

bcc: Messrs. Chenery, Saxe  
JWSaxe/lm

Mr. Robert S. McNamara, President

August 12, 1974

Ernest Stern, Director, Development Policy

Meeting with Mr. M. Williams

When I saw Maury Williams, he asked me to convey two items to you:

- (a) He has been asked to explore the feasibility of convening a Tidewater meeting on food, because of the general concern about the preparatory work for the World Food Conference. He is inclined to go ahead if there are no serious objections from the bilateral donors.
- (b) He may convene a meeting under DAC auspices to consider the Sahel problem, as a preliminary to possibly establishing a Consultative Group. The DAC would not chair any group that might emerge; the hope is that the Bank would be willing to do so.

EStern/lm



Mrs. O. Peterson

August 12, 1974

Ernest Stern, Director, Development Policy

Distribution of "Prospects for the  
Developing Countries"

This memorandum is to confirm that earlier today Mr. McNamara gave verbal authorization for Bank Report #477, "Prospects for the Developing Countries", to be distributed to those United Nations Agencies which routinely receive copies of IBRD reports, and to request that you proceed with that distribution.

LMoney

August 12, 1974

M. Jean Taillon  
Directeur-adjoint  
Centre Quebecois de  
Relations Internationales  
Universite Laval  
Quebec 10e  
Canada

Dear M. Taillon:

I enclose several studies on primary products which may help to describe the kind of analysis we do:

1. Price Forecasts for Major Primary Commodities
2. Tropical Hardwood Trade in the Asia-Pacific Region
3. Sugar - A Reappraisal of Investment Policies for Developing Countries
4. A Review of the World Tin Market

If you would like additional information, on other commodities or on methodology, I suggest you contact the Chief of our Commodities and Export Projections Division, Mr. Shamsher Singh.

Sincerely,

Ernest Stern  
Director  
Development Policy

Enclosures

EStern/lm

Mr. Robert S. McNamara, President

August 12, 1974

Ernest Stern, Director, Development Policy

Additional Positions for the  
Economic Analysis & Projections Department

1. At our last discussion on this subject you asked me to spell out the staff assignments involved in the creation of the International Economy Division and the division of responsibility between this new unit and the International Finance Division. Since we have on various occasions over the last several months discussed with you in detail the reasons for setting up the International Economy Division, I will not repeat them here. In essence, the unit was established to enable us to understand better and more systematically the economic developments in the industrialized countries and the impact of those developments on the prospects for the developing countries. To a large extent the unit will utilize material from the OECD and other sources, but it will also seek to place this material in a longer term context and analyze the linkages between the industrialized and the developing countries.

2. The attached Table I shows the internal reorganization of EPD, including the allotment of five positions to the International Economy Division. As the table shows, the positions for the new unit have been obtained by reallocating one position each from two other DPS Departments and one from within EPD. Two additional positions are required to bring this unit up to minimum operating strength. Without these positions, we would have to draw one additional slot each from the Economic and Social Data Division and from the External Debt Division. Most of the staff in both these Divisions is required for the maintenance of our data systems and to support the scheduled CPP work and country analysis. Staff reductions could only be obtained from our support of economic and special mission work. Such a reduction would quite quickly affect the quality of our statistical data and also further limit our capacity to assist the Regions in dealing with special debt situations -- which are likely to increase.

3. Table II shows the staff months allocated to the work of the International Economy Division and the International Finance Division, based on our Time Reporting System for FY1974 and the work program for FY1975. The 1974 figures for the International Economy Division are for this work done by staff members previously located elsewhere in the Department.

The staff time available in the International Finance Division remains the same in 1975 as in 1974. Increases are in the two areas which we think require increased attention -- namely, country creditworthiness and Euro-currency lending. The work of this Division is an important contribution to the CPP process, particularly the creditworthiness analysis; to the understanding of international capital flows, including developments in the Euro-currency market; and to the flow of information to the Regions and to outside institutions about international capital flows. As restructured, the technical and management capacity of the Division seems to me better suited to its present assignment than it was previously when its responsibilities included some of the work which has now been assigned to the International Economy Division.

4. As you know, Mr. Kearns has recently reviewed the work on creditworthiness in the Bank. The conclusions in his memorandum to you about the role of the DPS in country creditworthiness analysis is fully consistent with the responsibilities assigned to the International Finance Division.

5. The only other significant shift in the Department is to strengthen our work on commodities which is of increasing importance. We have had our methodology reviewed by outside consultants recently; and while the review indicated that we were doing well, it is clear that in this period of economic uncertainty in the commodity area, the demands on that Division are not likely to diminish. Moreover, they are important to our global economic projections, to the assessment of prospects for individual countries, and to the analysis of specific projects.

6. In summary, we have created a Division which has been urgently needed in the Bank for some time. We have staffed it largely from within the DPS by reallocating internal priorities. The heavy demands placed on EPD do not make it feasible at this time to provide additional positions to the new unit without dislocating important support work for country economic analysis. We expect that with the shift to new computer facilities and the consequent reorganization of our external debt system, additional staff economies will be possible over the next few years. At present, however, we urgently need two additional positions which we requested at the outset of the budget process. Since we are already well into the fiscal year, I would hope it would prove possible to approve these positions quickly so that our work program can be finalized.

Attachments

cc: Mr. Chenery o/r  
Mr. Kearns

EStern/lm

Mr. J. Saxe, EPDIF

August 13, 1974

Ernest Stern, Director, Development Policy

International Capital Markets

There was a good deal of discussion about the need for better information on terms prevailing in international capital markets at the recent TG-4 meeting. I wonder to what extent the material in your regular reports on terms and volume of borrowing could be made more widely available.

Can we discuss this some time?

EStern/sc

bcc: Mr. Hollis B. Chenery

August 13, 1974

Mr. Sidney Dell  
Deputy Special Representative  
for Emergency Measures  
United Nations  
New York, New York 10017

Dear Sidney,

Attached are 32 country studies and associated summary tables. The data, though necessarily still subject to many uncertainties, represents the best assessment of the Bank and Fund staff members who have worked on this for you. As you know, we made no attempt to have these estimates reviewed officially in either institution, and they should not be used as representing the official views of either the Fund or the Bank.

Sincerely,

Ernest Stern  
Director  
Development Policy

Attachment

cc: Mr. D. Finch, IMF

EStern/lm

Miss E. Yddin, EPDIE

August 14, 1974

Ernest Stern, Director, Development Policy

Analysis of Energy Forecasts

Would you please review the attached and let me have your comments by early next week. I will set up a date to discuss this after I have received your note.

Attachment

EStern/lm

Mr. John Merriam, Director, IPA

August 19, 1974

Ernest Stern, Director, Development Policy

FY1975 Budget Transfer for Editorial Work

Per our discussions with the Programming and Budget Department, this memorandum is to authorize the transfer of \$13,000 from the Office of the Vice-President, Development Policy to the Office of the Director, Information and Public Affairs. Of the total, \$10,000 should be transferred from the consultants budget and \$3,000 from the travel budget (600-99). The total amount should be placed in the consultants budget of 740-05.

The \$13,000 is equivalent to the FY1974 authorized budget for the Editors Unit. Since all Bank consultant funds have not been adjusted for inflation, the amount is in FY1974 dollars which will be adjusted by P&B at mid-year review.

By copy of this memorandum P&B will initiate the transfers.

cc: Messrs. Sison - IPA  
Ruddy/Papadopoulos - P&B

EStern/sc



LEOPOLDO SOLIS  
DIRECCION GENERAL DE ESTUDIOS ECONOMICOS  
SECRETARIA DE LA PRESIDENCIA  
PALACIO NACIONAL  
4<sup>o</sup> PISO  
MEXICO CITY  
(MEXICO)

AUGUST 19 1974

TELEX

REMYLET JULY 31 PLEASE CONFIRM BY RETURN CABLE YOUR  
ARRANGEMENTS TO VISIT WASHINGTON FOR DISCUSSIONS WITH  
~~TIMS~~  
TIMS AND MYSELF

REGARDS

ERNEST STERN

INTBAFRAD

Ernest Stern

Director, Development Policy

LMoney

Mr. M. Haq, Director, EPR

August 20, 1974

Ernest Stern, Director, Development Policy

Financing Exports of Capital Goods

1. Per our conversation of yesterday, attached is the text of the paper on "Financing Exports of Capital Goods" with my comments noted in the text. There are one or two items to which I have objected before, for reasons explained to the drafters. I have crossed them out again and would appreciate it if they did not recur in the next version.

2. I hope you will be able to give personal attention to the final version to go to the Board. Since it is unlikely that we will be able to avoid a discussion, you will be presenting the paper.

3. As we agreed, the country annexes should not be included in the Board paper, but we should note that they are available. However, Annexes A-E probably should be included, and I will review them and send you my comments shortly.

4. The comments on Sections I and II are largely editorial. Section III seems to me particularly weak and repetitious. The changes I have indicated there do not help very much with these basic problems. There is more useful material in the annex.

5. In Section IV the discussion often gets quite confused, in part because the terms change from paragraph to paragraph, and the whole is a poor condensation of the annex material. The arithmetic in Paragraphs 32-34 is not self-evident.

6. In Section V, Paragraph 36 gives five reasons which might justify Bank support of export financing. Paragraph 38 then describes the financial aspects, Paragraph 40 the pooling of risks and the other issues are written off with a sentence in Paragraph 42. I am not clear that, for instance, the need of LDC engineering firms for financial support is an important reason; but if we list it as such, at least we should deal with it. The same goes for the "developmental nature of the effort to build up capital goods exports", which also is not referred to again. Finally, it is of course no argument to say that institutions can be built without Bank assistance. If we limited ourselves to those which can only be developed with our help, we would presumably do nothing but redecorate the headquarters building.

7. The discussion on Page 19 on the Bank-funded refinancing pool seems particularly obscure. The suggested scribbling, when deciphered, reads as follows:

"Such an approach may assure a supply of credit, but it is not likely to reduce the cost of capital to competitive levels. Even if the Bank were to provide a substantial share of the capital, the average costs of funds would be near the market level, particularly if sale of portfolio certificates or other debt instruments were undertaken to make the fund self-financing."

8. I have suggested combining Paragraphs 45 and 46 and deleting the last two sentences of Paragraph 45 -- principally because I was unable to plumb their meaning. I believe the contraction leaves out no substantive point, but cannot be sure, of course.

9. The discussion on Bank guarantees to export banks (Page 21) could easily be less didactic and more reasoned, even though the conclusion may be right. First of all, if the figures earlier in the paper are correct and if the Indian share in total capital exports was to remain the same, then by 1980 India might have to borrow annually \$120 million gross on the Euro-dollar market. That can hardly be described as "a large amount". The more important point is that for countries which are creditworthy in the Euro-currency market, a Bank guarantee will not be economical. For all countries, creditworthy or not, a full guarantee would not be desirable since it leaves both the supplier and the importer without any risk and hence no incentive to worry about quality and performance. A partial guarantee for countries not themselves creditworthy in the Euro-market would probably not reduce the cost sufficiently to offset the cost of the guarantee.

10. I don't disagree with the conclusion on Bank guarantees to import banks (Page 21), but the concluding sentence of that paragraph seems to me to miss the point. The issue is not that national agencies might find the transaction too risky in an economic sense but too large for them, given their own resources. This of course does not change the problems this approach poses for the Bank.

11. The discussion in the first paragraph on Page 22 might be expanded. The point presumably is that any attempts to place LDC exporters on a competitive basis with exporters

from industrialized countries will require governmental support since that is the basis for the industrialized countries' export credit and insurance programs also. Without governmental support, the costs would be unduly high. Any insurance system, either regional or international, must therefore be based on callable guarantees offered by participating governments. The point about tax powers to deal with losses in times of war or major default seems to me quite redundant.

12. Please delete Paragraph 54. We must not fall into the bad habit of giving further credence to the proposition that all Bank lending must be tested against its direct benefits for the poor. We are well aware that a substantial component of Bank Group lending continues to be for activities which may have little direct impact on the poor but which are nonetheless an essential ingredient in a balanced investment program in the borrowing country.

13. Finally, I do not quite understand the concluding sentences. It has never been a principle in the Bank that we must give equal resources to all regions regardless of conditions. If we were to find conditions such that we could support an ECAFE-sponsored regional insurance scheme, there is no reason why we should not do so simply because other regions do not have similar operations. All we would have to do is to make our criteria clear to African and Latin American countries and be prepared to provide similar assistance if and when they meet these criteria. If we want to involve the regional banks, the last sentence might conclude as follows:

"...but financial or promotional support by the World Bank or by the regional banks could be a useful catalyst to the realization of the scheme."

14. As I mentioned yesterday, it would be useful if this paper could be circulated to the Board for information prior to the Annual Meeting. I would therefore hope to have a final version from you not alater than Wednesday, September 4, when Mr. Knapp will be back. Please also include a short draft covering memorandum from the President.

Attachment

BLUE  
COPY

## OFFICE MEMORANDUM

TO: Mr. B. B. King, Research Adviser, VPD      DATE: August 20, 1974

FROM: Ernest Stern, <sup>ES</sup> Director, Development Policy

SUBJECT: RPO 277: Financing the Development of Small-Scale Industries.  
Mr. Gulhati's Memorandum of August 13, 1974

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This report seems to me a very good example of how little one can get for one's research funds if the research question(s) is not formulated in detail and if there is no agreement on methodology and data collection. The report is a reasonably well written statement on the desirability of supporting small-scale industries by people who were convinced of this before they set out and who, in the time available, gathered some anecdotal information to support their views.

We know no more than before, or than any research assistant could have dug up in Washington, about the contribution of small-scale industries to development; about the real costs of operating at different scales in different sectors; about the financial and manpower costs of successful programs, or even what the criteria for success are; about how, and what kind of, technology is transmitted in small-scale industry; about the costs of lending and how these might be reduced. Cooperatives get three paragraphs; industrial estates three pages saying there can be clients with different requirements.

The needs of the small-scale industrialists are discussed at length--but the list of woes is common knowledge.

There is no new data and no analysis--everything is descriptive.

The recommendations to the Bank are devoid of operational guidance--but perhaps none should be expected directly from a research study. But it is simply not useful to be told that we can either finance a small industry intermediary, or a special fund in a DFC or a special fund in a commercial bank or a "package" of services or combine these options in various proportions and be flexible.

I realize that the industrial sector is one of the most difficult in which to formulate research proposals with broad policy content. That means much more careful review of methodology and work plans for future proposals. It also means, it seems to me, much more attention to scale and time. With more time and money, it might have been possible to develop data to support, modify or eliminate some propositions and provide some guidance to the operators--complex issues cannot be dealt with meaningfully by brief visits of itinerant researchers.

cc: Mr. Gulhati

Mr. W. Tims, Director, EPD

August 20, 1974

Ernest Stern, Director, Development Policy

Additional Positions for the  
Economic Analysis & Projections Department

Attached is Mr. McNamara's approval of an additional two positions in the Economic Analysis and Projections Department. This brings your authorized strength to 61 positions and leaves your recruitment authorization at 63. In terms of composition, it provides for 5 positions in the International Economy Division, 5 in International Finance, 8 in Comparative Analysis and Projections, 9 in Economic and Social Data, 12 in External Debt, 15 in Commodities, and the remaining 7 in the Front Office, including the systems group.

I have checked on the trade-off between contract funds and positions in grades F and I for the Computing Activities Department where the arrangement was made during the consideration and approval of the FY1975 budget for the Department. In general, discretionary resources and staff positions are not interchangeable. Our budget is constrained both by the amount of money and by the number of positions we have been allocated. Since the discussions about the additional professional positions have been conducted with Mr. McNamara over the last several months and the use of additional positions in grades F and I has not been pursued since the original request, I have no intention at this time of reopening the discussion with Mr. McNamara. The only available alternative is to use your discretionary resources to contract for research assistance on an interim basis.

Attachment

cc: Messrs. Chenery  
Smith

EStern/lm

Mr. H. Schulmann, Deputy Director, PAB

August 20, 1974

Ernest Stern, Director, Development Policy

Additional Positions for the  
Economic Analysis & Projections Department

Attached is Mr. McNamara's approval of our additional two positions which, as you know, have been under discussion for some time. As we discussed the other day, although the issue has been debated in terms of professionals, it has been the understanding all along that if approved the professionals would be supported at the average level for the DPS. I would appreciate it therefore if you would revise our budget allocation to increase our salary and associated costs and provide us with an additional secretary for the support of these two new positions.

The Economic Analysis and Projections Department was within two positions of filling its previous budget authorization, and I fully expect that they will quickly move to recruit for the two new slots. Therefore, I should be grateful if your office could take the appropriate action as quickly as possible.

Attachment

cc: Mr. P. Smith

bcc: Mr. Chenery  
EStern/lm

See Distribution

August 21, 1974

Ernest Stern, Director, Development Policy

CPP System

I understand that work has been started on the revision of the CPP attachments. Before we get too much further into the design stage, I should like to meet with you to discuss the deficiencies of the present format and the nature of the proposed changes. Perhaps Mr. Tims can indicate when such a meeting might be suitable in the next 2-3 weeks.

After that, I believe a similar discussion with regional economic staffs will be necessary. The CPP attachments constitute a considerable workload for the Regions, and they should have full opportunity to participate in the decision on whether the format needs change and, if so, what changes are needed. We can discuss the details of this when we meet.

Distribution

Messrs. Haq  
Tims  
Carter  
Chernick

bcc: Mr. Chenery o/r  
EStern/lm



August 22, 1974

Mr. Sidney Dell  
Deputy Special Representative  
for Emergency Measures  
United Nations  
New York, New York 10017

Dear Sidney,

After you mentioned the agreement on the reporting form last week in New York, I have had an opportunity to review Forms A and B which you agreed upon in Vienna and to talk to Mrs. Paulson. If I understand it correctly, Form A will be used by the OPEC Secretariat to collect information on all capital flows and Form B will be sent to all donors (to OPEC countries through the OPEC Secretariat) to collect data on commitments which qualify under the UNEO.

As you know, I think it is important that information be obtained on not only pledges and commitments, but also on disbursements. I recognize that some OPEC countries may find detailed statistical reporting requirements burdensome. However, these countries are members of the IMF and regularly report on their reserves, balance of payments, and other financial data, and a simple form on external capital flows to the most seriously affected countries is by no means beyond their capacity. Furthermore, they are not the only countries which will be contributing to the Operation. A necessary first step, both for your own purposes and in order to tie down the EEC conditional pledge, is to obtain information on intentions. However, from the point of view of the recipient countries, the important issues are the speed of disbursement and the terms on which the assistance is received. From the point of view of maintaining public pressure on governments to make resources available on soft terms and to disburse them quickly, a follow-up on commitments and disbursements is necessary.

Therefore, I would like to suggest that the Form B be modified to include an expression of intention on terms and that the Form E.O.2 on commitments which was worked out by the team of UN, OECD and IBRD staff be sent to all

August 22, 1974

donors together with Form B.

But data on intentions and commitments is not enough; data on disbursements is also necessary. I suggest that a report be developed for disbursements and that this cover the period through December 1974 and each succeeding quarter, at least through December 1975. Although UNEO might terminate a year after its creation, it is not realistic to suppose that all commitments registered with it will have led to disbursements by then. Any statement of its accomplishments will be incomplete without disbursement data. Mrs. Paulson proposed a form to obtain data on disbursements and other transactions in her letter to you of July 25, but that can be modified in any way thought necessary.

Even though these suggestions may go somewhat further than a few countries are ready to accept, there are many donor countries which would have no problem with them. We would be better off even with partial responses of more detailed information than we will be by not asking for such data in the first place.

We reiterate our offer to provide assistance in formulating reporting requirements and in processing the responses. I hope there will be an opportunity to discuss this again with the inter-agency group; or if that is not feasible, perhaps you and I can talk about it.

With best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy

bcc: Mr. Chenery (o/r)  
Mr. Chernick (o/r)  
Mrs. Paulson  
Mr. Nusbaumer, New York

EStern/HPaulson:lm

August 23, 1974

Mr. G.V. Ramakrishna  
Minister (Economic)  
Embassy of India  
2107 Massachusetts Ave., N.W.  
Washington D.C. 20008

Dear G.V.:

Enclosed is the book on population  
policies I mentioned. You might find it  
of interest.

Sincerely,

Ernest Stern

FILES

August 23, 1974

Ernest Stern, Director, VPD

Draft Board Papers

1. Third Window

Vibert will prepare draft for discussion with Haq and myself on August 30. Paper should be ready for limited circulation by September 5. Paper will discuss issues in 8/23 discussion note except a higher interest rate for IBRD lending; new institutional arrangements or separate management arrangements. Three standard disbursement patterns will be calculated - project only, program only, 50/50. Grants to Fund, the subsidy will be assumed to be in hand prior to commitments of subsidized loans. The calculation will assume subsidized lending within the framework of the 5-Year Plan. The impact on projected Bank income of immediate transfers of 1/3 of the grant requirement will be calculated compared to the disbursement pattern for IDA transfers.

2. Bank Lending to High Income Countries

Assigned to Program Review Division. First draft September 6 for discussion with Haq and myself. Draft for limited circulation no later than 9/13/74. Paper along the lines of 8/22 discussion note. Emphasis on analytical definition of high income; identify countries scheduled for phaseout under existing policy; distinctions between countries in the 375-1000 group, including rates of growth and relative dynamism. Split lending rate and offset lending subject separate papers. Will decide later if either can be incorporated. If not only refer to fact that issues will be discussed separately. Basis of policy should be the criteria for Bank lending to these countries not discussion of lending volume.

cc: Mr. Haq  
Mr. Vibert

EStern/sc

Mr. John Hulley, EPRPP

August 23, 1974

Ernest Stern, Director, Development Policy

Departmental Space Allocations

1. I have reviewed the Departmental space allocations in the "D" Building and I cannot justify increasing the allotment of EPR. Allocation of the Departmental space is, of course, at the discretion of Mr. Haq.

2. The review has also shown that the space presently allocated to you is exactly equal to the space allocated to other staff members at the same grade in all DPS Departments located in the "D" Building.

cc: Mr. P. Smith, VPD  
Mr. Haq

EStern/sc

bcc: Mr. Chenery o/r

Mr. B. Chadenet, VP, VPO

August 23, 1974

Ernest Stern, Director, VPD

Revised Performance and Potential Review System

1. The basic principles which you described as underlying the performance review system are unexceptionable and necessarily elicit my full support. Unfortunately, I believe that the gap between these principles and their associated rhetoric and the actual functioning of the personnel system is growing and the proposed changes will increase the dichotomy. In summary, I believe the approach proposed in your memorandum of August 7 will further reduce the capacity for making comparative Bank-wide judgements on staff performance and reduce incentives for superior performance.

2. The proposal regarding the timing of the annual review has three significant disadvantages, so serious that I should think they would warrant rejecting the proposal. First, while it is a burden on supervisors to review all their staff members in the October/November period, the simultaneous evaluation assures the application of roughly comparable standards. The need for consistency in assessing levels of performance is reinforced by the limitations imposed on the numbers who can be put in the upper brackets. If the reviews take place over the course of the year, the standards necessarily will change over time as managers are able to evaluate a person in a particular position at a particular grade level without reference to his peers and without a clear knowledge as to how many people will be rated exceptional performers. The second disadvantage is that merit increases will be given based on evaluations which, on an average, can be six months out of date. At the extreme, a November merit increase will be given on the basis of an evaluation written in January. While there may not be many cases where the performance of an individual changes significantly over the course of a year, there will surely be some for which the merit increase in November will appear to be either inappropriately low or excessively high. Finally, there will be much too long a period between the formal review discussion and the visible salary action to be satisfactory for the many staff members who must rely on merit increases as the principal means of progression.

3. It is also not clear what the distinction between the anniversary evaluation and the October/November rating is to be. Unless the latter is a mechanical reflection of the former we have to go through the evaluation process twice. The second time, when salary actions are at stake, will be cursory. If the October/November "rating" is not a reflection of the "anniversary evaluation" we will be faced with massive morale problems. Surely no-one can accept gracefully an "exceptional" evaluation in June and have that translated into a "fully competent" rating for salary purposes.

4. I fully support the concept of an open and continuing dialogue on performance between supervisors and staff, and I therefore think it a matter of regret that the draft instructions still do not provide clearly that the staff member being reviewed has the right to see the written evaluation. A comprehensive discussion is not an adequate substitute. Sometimes the discussion is not comprehensive; at other times managers are reluctant to express their concerns as vigorously to the staff member as they are prepared to do in writing. If we are indeed committed to an open review system, I think it essential that the evaluation form provide a space in which the staff member would sign, certifying that he has read the final version of the written evaluation and an opportunity to append a statement in case of serious disagreement.

5. I believe that undue emphasis is placed on the agreed objectives for a staff member's work. Clearly there needs to be a yardstick for assessing performance, but work performance, as your memorandum itself recognizes, consists of more than can be stated in quantitative targets. Statements relating to staff development objectives are invariably imprecise and general and subject to widely different interpretations. It would be much better to stress the need for staff discussions of work priorities and performance at regular intervals than to rely on an agreed "contract" against which the staff member is expected to be assessed "objectively" at the end of the year.

6. I note that no provision is made in the review process for the Vice President, except in the transitional arrangements. This is simply unacceptable. As far as the Development Policy Staff is concerned, the review of all senior level staff ("M" level and above) will be subject to discussion with the Vice President, and it seems to me entirely appropriate that the staff members be made aware of this. I can of course only speak for the DPS, but I

would expect that other Vice Presidents would also feel that the capacity of their Departments to perform depends on the selection and rating of personnel which, although principally the responsibility of the Department Directors, is subject to review by the Vice President.

7. Although I am well aware of the debate which last year's system of staff evaluation caused, the response offered in your proposals seems to me likely to exacerbate the difficulties. The concern last year was that there were only four categories and there seemed to be no logical place to describe average performance. Category 3, although intended to describe average performance, was perceived as less than satisfactory since there were two categories which were better. The solution to this problem it seems to me, would have been to have either three or five categories, with the middle one reflecting "fully competent" performance. A second cause of concern was the limitation on the number of superior performers, even though this was set at 30%, which I thought was a reasonable level. The present system combines last year's two superior performance categories into one, but limits the number of people to 15%. The result is that we will be able to identify only a smaller number of individuals who are better than average -- a step which hardly seems designed to promote career development. As an offset, two categories are proposed for staff less than fully competent, but these two categories, by your own reckoning, will account for less than 5% of the staff. Since it proved difficult to divide the top 30% of staff into two categories, it can hardly be easier to divide the approximately 5% of the staff which fall into the less than fully competent category.

8. I think it is essential that we differentiate between those who are less than fully competent to determine who has the potential for satisfactory performance and identify those who do not have this potential. It is equally important to recognize that a system which fails to distinguish among 80+% of the staff has no right to be called a merit system. The average ("fully competent") category necessarily will cover such a broad range of performance that it provides no opportunity to distinguish between those who do a fully adequate job but no more and others who, while not in the top 15%, substantially exceed the norm.

9. To some extent the limited numbers of categories for performance factors (quantity, quality, supervision required and work relationship) for all jobs is too restrictive, since



some of these factors may not be applicable to a particular job. For some jobs other factors (e.g. job knowledge) may be far more important. We would suggest that an optional factor be added which would be selected by the supervisor as appropriate for each particular job. This category could be used to rate "skill in dealing with officials of member countries", as proposed in the revised form as well as any other particular skill critical to a specific job.

10. I realize that staff assessments are a necessary, difficult and sometimes unpleasant task. However, the answer does not lie in reducing the decisions managers must make by eliminating distinctions in staff performance which are crucial to the Bank's longer term capacity to attract and hold the best people.

cc: Mr. Lari  
Mr. Chenery o/r  
DPS Directors  
Mr. Smith

EStern/sc

Mr. R. Krishna, Senior Adviser, ECD

August 23, 1974

Ernest Stern, Director, VPD

Chapter 2 - Rural Development Policy Paper

1. Thank you for showing me the early draft of Chapter 2 of the Rural Development Paper. There is much in it that I agree with, including the general thrust of your arguments. My critical comments below should be read in that context.

2. One general problem I had in reading the paper will undoubtedly be cleared up in successive drafts. It is that factual and prescriptive statements are often inter-mingled so that the reader has difficulty in formulating a view of the subjective content of the judgements being put forward.

3. I also thought that the paper was written backwards. Many of the factors which must be taken into account in the design of rural development projects derive from the national and regional contexts. After the introduction, which seemed to me to be mis-labeled as "The Designing of Rural Development Projects", I would have preferred to go on to a discussion of the national policy contexts (Section 4) followed by discussion of the regional contexts (Section 3) and conclude with the organizational requirements for rural development. As it stands, some of these are difficult to assess until one has completed reading the full Chapter and there will also be some savings in writing since there is now some duplication.

4. Another reason for starting with the national context is that the point about national commitment is absolutely crucial and really should be brought to the attention of the reader before he dips into the question of how better projects can be designed.

5. The introductory section seems to me to start on an unnecessarily weak basis. The principal point is not that multi-purpose projects are more difficult or temporarily fashionable, but that they are essential as part of a national strategy to deal with rural development. This is supported by the assertion in the middle paragraph on page 4 which seems to me a proper starting point for the discussion.

The fact that indirect benefits are difficult to measure, that area planning is inherent in agriculture or that a single crop requires multiple inputs are surely secondary considerations. The policy point round which the Chapter should be organized is that it is only the multi-purpose project which can deal effectively with identified poverty groups and that such projects are, in any event, most likely to be successful in a modern agricultural setting for both technological and social reasons.

6. In section 2, on organizational requirements, I have only a few points, although this is one of the sections where fact and conclusion are not clearly distinguished. First, the paragraph which deals with voluntary non-profit agencies puzzled me since I was not aware that they played an important role outside the sub-continent. Have they really been significant? Secondly, I wondered whether the reference to the basic sovereignty of the individual farmers is a relevant concept in parts of Africa. Thirdly, I would urge the deletion of the section which deals with the role of political parties in unionizing the rural poor. Not because I think the development of political power for the rural poor is unimportant or that it is too sensitive a subject to talk about, but rather that this very brief statement deals with a very complex topic in such a facile fashion that it is rather meaningless. For instance, it is not at all clear that this is the proper role of established political parties, that established political parties would be interested in this function, that the rural poor can be organized in this fashion or even that the traditional concepts of unionization are at all relevant in this kind of setting.

7. I agree with your argument about decentralization and the need to tackle some multi-dimensional projects even though this will mean higher rates of growth in some regions than in others. It is less clear to me that the transition of financial responsibility to local inter-departmental levels needs to be as slow as you forecast or remain as limited in scope. Your argument on this point seems to me much too aggregative and one wonders whether it would not be helpful to have some functional differentiation. While it may be true that the bulk of development funds must be allocated on a departmental basis, it is not clear, for instance, that this is also true for preventive health, primary school budgets or other sub-categories. In any event, a functional differentiation of the argument would make it much clearer as to what the prospects of change are.

8. I thought the discussion of the man-power problem was exceptionally good.
9. Although I recognize John Lewis' point that the local power structure is not necessarily more egalitarian just because it is local, I cannot see how that bears on the other argument that at the local level the preference is for local welfare expenditure. It may well be that at the individual level the greatest need is for improved health and better education. That is not because the individual misconceives his needs, but because he cannot formulate the national trade-offs. If local allocation were to reflect these interests it is not because they are less important but because they are made under different assumption as to resource availabilities. Some skewing in this direction may well be a necessary cost of increasing local participation in decision making.
10. In the section on the regional context, I am not sure that it is true that a full infra-structure and social service complex must be established in the high growth areas. Undoubtedly, the argument is sound for the infra-structure side. To what extent one also needs to differentiate on the social services side is less clear since, in a high growth area, there are more private resources available to meet the cost of some of these social services. A definition of the terms would be helpful and the issue should be dealt with explicitly.
11. Regarding price policy, I found the section unenlightening and would suggest that you have a look at the recent paper by Mellor and take into account some of his discussion on the impact of price policy on different income and producer groups. Similarly, on the discussion of input policy, it seems to me that differentiation between income groups is important and that this needs to be linked to the Governmental policy of recovery through taxes or other measures.

EStern/sc

Mr. M. Haq, Director, EPR

August 26, 1974

Ernest Stern, Director, Development Policy

Export Credit Financing Paper

Two other points relating to the export credit financing paper:

- 1) Upon rereading it, the paper seemed to me to denigrate unduly the developmental importance of increasing export earnings. The fact that we would not review the end use of the commodities in the importing country is an important consideration -- and probably one that tips the balance in conjunction with other factors -- but should not describe our entire perspective. Some increased emphasis to the urgency of increasing foreign exchange earnings in order to sustain development efforts would be desirable.
- 2) We need to downplay the propositions that because there are other sources of assistance the Bank need do nothing. I identified this problem earlier in connection with institution building, but it also surfaces on the financing side. We are not a lender of last resort and do not consider ourselves as such in other areas like population, education, nutrition, etc. The weight of the argument against action must be firmly on other grounds.

cc: Mr. Vibert

bcc: Mr. Chenery o/r  
EStern/lm

Mr. G. Cahn-Hidalgo, VPD

August 26, 1974

Ernest Stern, Director, Development Policy

Airships

I enjoyed reading your July paper on airships. If the paper is to be presented to a conference, I suggest the introduction be recast. The description of the Bank's interests and limitations (particularly footnote 1, page 3) seems to me to miss the point. The point is surely that countries are not likely to turn to the airships and that the Bank can only recommend this mode if there is a proven technology. No LDC is likely to want to borrow to develop a new technology.

While the paper is persuasive, I thought mention of the support facilities required for the large ships (H<sub>2</sub>) would be helpful. If they cost little, it strengthens the case; if they are large, it's a factor to take into account. Also, a discussion of the manpower requirements would be useful. Trucks can be operated and maintained by local personnel. How about the airships? If special training is required, how long does it take, how complex, for how many people?

Finally, I am not at all sure that tripling a 1952 estimate is an adequate allowance for price increases. I don't know what goes into an airship, but prices of some engineering products have more than tripled in 20 years.

cc: Mr. Weiss

EStern/sc

Mr. W. Tims, Director, EPD

August 26, 1974

Ernest Stern, Director, Development Policy

Conference Attendance

Of all the conferences listed in Mr. Foster's memorandum to you of August 20, none seem worth going to unless attendance can be tied to an already scheduled trip (except New York - since the cost is low). However, it's conceivable that some of the papers to be presented at these or other conferences would provide views or data not otherwise available. If we receive the papers, it might be useful for John to distribute a selected compendium to a limited number of the senior management.

bcc: Messrs. Chenery o/r  
Smith

EStern/lm

Mr. M. Haq, Director, EPR

August 26, 1974

Ernest Stern, Director, Development Policy

Country Annexes to Export Credit Paper

I have skimmed the country annexes but made few suggestions except in Annex F, which seemed to have a number of problems.

Please have someone go over these carefully. We might then have them reproduced with a cover sheet (Country Annexes -- Export Credit ....) and a short note explaining what they are -- e.g., based on interviews by our consultant plus data on export institutions.

As we agreed, they would be available on request.

Attachment

bcc: Mr. Chenery  
EStern/lm



August 26, 1974

M. J.L. Lacroix  
European Economic Community  
Berh. 7/73  
200, rue de le Loi  
Brussels  
Belgium

Dear M. Lacroix:

When we had lunch at the United Nations, I promised to send you the data we have collected on OPEC financial flows to developing countries. The enclosed tabulation, completed in early August, contains summary commitment and disbursement data (Tables 1-3), commitment and disbursement data by donor and recipient (Tables 4 and 5) and information on the purposes and terms of credits (Tables 6 and 7).

I should like to stress again the highly preliminary nature of the data. We have tried to use all available sources but, nonetheless, the picture is likely to be less than complete. As you know, there has been no formal reporting system along DAC lines, and there is none now. Often data, particularly on terms, are hard to come by. However, the system will improve gradually, and meanwhile these data are possibly the most complete available. Because of the tentative nature of the data, they are not for public use and should not be disseminated further.

Within the limitations of the data, you will find Table 6 probably of most direct relevance. The table shows the amount and terms of commitments and the grant element. The 1974 commitments with a grant element of over 25% would probably total about \$900 million, not counting transactions which are known to have occurred but for which data are incomplete.

I hope this material will be of assistance.

Sincerely,

Ernest Stern  
Director  
Development Policy

Enclosure

bcc: Mr. Chenery o/r  
EStern/lm

August 26, 1974

Mr. Moshe Meirav  
Manager  
Foreign Banking Transactions  
Bank of Israel  
P.O. Box 780  
Jerusalem  
Israel

Dear Moshe,

Enclosed is a copy of our paper on export credit financing. I know that you will be disappointed in our conclusions. We have worked hard and long on this, and the conclusions represent our best assessment, taking all factors into account.

I hope you will keep some time free during the Annual Meeting to get together.

Sincerely,

Ernest Stern  
Director  
Development Policy

Enclosure

bcc: Mr. Chenery o/r  
EStern/lm

August 26, 1974

Ms. Channa Weinberg  
Office of the Governor  
Bank of Israel  
Tel Aviv  
Israel

Dear Channa,

Your letter of May 6 finally made it. What a blow to our institutional ego to learn that a mere wrong address prevented a letter from reaching the World Bank.

Enclosed is a copy of our last draft of the paper on export credit financing. With minor editorial changes, it is expected to go to the Board in the next few weeks. I've also sent a copy to Moshe.

You probably will not agree with our conclusions, but we have really reviewed the matter thoroughly and, taking all factors into account, this is where we come out. Our qualified willingness to support some national efforts and the potential assistance to regional undertakings may help to get some programs moving.

Shall we see you here sometime soon?

Best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy

Enclosure

bcc: Mr. Chenery o/r  
EStern/lm

August 26, 1974

Mr. Sidney Dell  
Deputy Special Representative  
for Emergency Measures  
The United Nations  
New York, New York 10017

Dear Sidney,

Enclosed is a copy of the material I sent to M. Lacroix. Included is summary data on disbursements and commitments (Tables 1-3), data on commitments and disbursements by donor and recipients (Tables 4 and 5), and details of transactions and terms for recipient countries (Table 6) and institutions (Table 7). Of most relevance to the EEC deliberations is Table 6. The 1974 commitments to MSAs (although some transactions may have taken place prior to May) with a grant element of at least 25% add up to about \$900 million. This does not count transactions for which data are not fully available but of which some surely will meet the terms criteria; nor does it count commitments to international organizations, a portion of which will go to the MSAs.

The data are compiled from a variety of sources and undoubtedly incomplete. As you know, there is no DAC-type reporting system which covers the OPEC countries, and thus we have had to make do. Despite the many data problems, it is useful to have an overall picture. However, the material is not ready for any wider dissemination; and while I have no hesitation in sharing it with you, it should be treated as private and not circulated.

Sincerely,

Ernest Stern  
Director  
Development Policy

Enclosure

bcc: Messrs. Hoffman, Franco

EStern/lm

August 27, 1974

Mr. Walter G. Stoneman  
Director  
Modernization Studies  
The National War College  
Department of Defense  
Washington, D.C. 20319

Dear Stoney,

Per our conversation of yesterday, I enclose:

- a) Mr. Carter's paper on "doomsday" models,
- b) A recent Bank publication on population,  
and
- c) A report on the impact of oil on the  
developing countries.

The last item, as I mentioned, is to be used  
for your background information only and  
should not be placed in the library or  
otherwise disseminated.

Sincerely,

Ernest Stern  
Director  
Development Policy

Enclosures

bcc: Mr. Chenery  
EStern/lm

Mr. W. Tims, Director, EPD

August 27, 1974

Ernest Stern, Director, Development Policy

Oil Prices

I think the time would be propitious to issue a statement on oil prices. There is much talk, as you know, about an oil surplus at present prices, downward pressure on crude prices, production cutbacks in Kuwait, etc. A relatively brief note covering these issues would certainly be of use to the senior staff and might also be of interest to the Board. Would you let me know when we can have it ready.

bcc: Mr. Chenery  
EStern/lm

Mr. J. Adler, Director, PAB

August 27, 1974

Ernest Stern, Director, Development Policy

United Nations Emergency Operation

The UN Emergency Operation is circulating the attached questionnaire to collect data on commitments and disbursements. The questionnaire has been sent to all bilateral donors and to international organizations, including us. The material is requested by September 6.

The instructions (attached) note that project loans should not be included, nor loans with a grant element of less than 25% (at a 10% discount rate). The countries for which data is requested are listed in the Annex.

Since the Bank has not made any emergency loans/credits, I would think the best approach is to show expected disbursements to the 28 countries listed, by country, for 1974 and 1975 -- by six-month periods if possible. 1973 data should be shown as a base period. A covering note could explain that while we have increased our lending program in view of the increased capital requirements of the LDCs, our lending is largely in projects, though some increase in non-project lending is also forecast. Disbursements from new commitments inevitably take time. Nonetheless, it may be relevant to note the anticipated level of disbursements compared to previous years, even though these do not derive from commitments made after the Emergency Operation was initiated.

Please let me know if we need to discuss the format and content of our response further. I should appreciate it if I could receive the data by Tuesday evening, September 3, so that we can transmit it to the UN on time.

Attachments

cc: Mr. Chernick

bcc: Mr. Chenery  
EStern/lm

Mr. W. Tims, Director, EPD,  
Mr. R. McPheeters, EPDDR, Mr. M.E. Muller, Director, CAD  
Ernest Stern, Director, Development Policy

August 28, 1974

B5700 Computer

Based on our conversation on Tuesday, we agreed on the following regarding the retention of the B5700 Computer:

- 1) Planning will be based on the assumption that the B5700 will be retained until the end of March, 1975. Mr. Muller will contact Burroughs to seek to extend the arrangement already agreed to through the end of January.
- 2) Discussions will continue with the IMF to determine their willingness to share in the cost in retaining the B5700 Computer. (Although we did not discuss this at the meeting, it is my view that the conversion costs are an integral part of the general computer services and even though the delay may be focused on the external debt system, the cost involved is part of the general program. Therefore, it is reasonable to expect the IMF to share in the cost on the usual percentage basis whether or not they have specific activities for which they wish to use the B5700 Computer.)
- 3) Mr. Smith will contact the space people to ensure that no other plans are being made for utilization of the B5700 space.
- 4) It is now expected that the file up-date module will be completed by CAD by the end of September. One staff member has been assigned full-time to it and she will have no other responsibilities until the work is completed. Progress of the work will be reviewed on September 9, and, if necessary, additional staff will be assigned. Limited scale parallel testing will start on November 1, and full scale parallel testing no later than December 1.
- 5) The work program will be reviewed at the time of the Mid-Year Budget Review, but in any event no later than January 1. At that time we will either firm-up the March 30 date or agree on a new one. Whatever date agreed upon will then become the responsibility of both Departments to meet and any over-runs will be charged on an equal basis to the existing budgets of CAD and EPD.
- 6) As soon as Mr. Muller has a cost estimate for the retention of the Burroughs Computer through March, 1975, he will submit the estimate and we will see what can be done about finding additional resources to meet these costs.

cc: Mr. Smith, VPD  
EStern/sc



Mr. Robert S. McNamara, President

August 28, 1974

Ernest Stern, Director, Development Policy

UN Emergency Operation

1. Attached is an updated listing of commitments under the UN Emergency Operation. As of now, the bulk of the funds will be administered bilaterally. However, at the August 15 meeting of the Group of Eight (US, EEC, Sweden, Japan, Iran, Algeria, Saudi Arabia, Venezuela), Iran indicated that their contribution would be made through multilateral channels, possibly the UN. Also, a portion of the EEC contribution might be given to the UNEO.

2. The September EEC meeting will determine whether conditions have been met. If so, \$200 million, out of the \$500 million, would be available for release in 1974. Our data show the general condition has been more than met. Commitments with a grant element of more than 25% by OPEC countries to MSAs in 1974 are over \$1,000 million. Most have not been notified to UNEO. In addition, non-EEC industrialized countries have contributed \$275 million (see attached) so that the total stands at about \$1.3 billion--a more than 5 to 1 match for EEC's \$200 million. I have sent our data on OPEC commitments to the EEC staff to be sure these facts are available prior to the meeting.

3. The UNEO now has circulated a questionnaire asking for data on commitments and disbursements from bilateral and international agencies. Responses are due by September 6. Only commitments to a list of 28 MSAs are eligible, provided the commitment has a grant element of more than 25% and is in some form of non-project assistance so as to be "additional", but no base year data are requested. UNEO expects to follow this up with a quarterly report, covering the last quarter of 1974 and four quarters in 1975, on disbursements. We have offered to process the data. We, and the DAC, also helped with the design of the first questionnaire, but the format the UN finally decided on leaves much to be desired. In any event, if countries cooperate, we should have a fairly accurate picture by mid-September.

Attachment

cc: Messrs. Knapp, Carriere, Hoffman, Franco-Holquin,  
Haq, Tims, Chernick, Saxe, Vibert

EStern/lm

Mr. F. Vibert, EPRPP

August 28, 1974

Ernest Stern, Director, Development Policy

Financial Development Issues Paper

Don't we still need a revised memorandum to Mr. McNamara on the work on financial development issues. Are you doing a draft in light of our last meeting with Mr. Gill? When will it be done?

bcc: Mr. Chenery  
EStern/lm

JULIAN GRENFELL  
INTBAFRAD  
PARIS

AUGUST 29 1974

LT

(FRANCE)

ARRIVE LONDON MONDAY AND WILL BE AVAILABLE TUESDAY  
APPOINTMENTS (STOP) LEAVE INFO BANK OFFICE (STOP)  
EXPECT LEAVE LONDON FOR BONN TUESDAY EVENING (STOP)  
LEAVE BONN FOR PARIS WEDNESDAY EVENING (STOP) HOPE  
LEAVE PARIS THURSDAY AFTERNOON OR LATEST EARLY MORNING  
FLIGHT FRIDAY (STOP) IN BONN WOULD BE USEFUL ALSO  
MEET WITH FINANCE MINISTRY (STOP) CARGILL SUGGESTS  
HELGA STEEG (STOP) ALSO SUGGESTS MIGHT BE USEFUL CALL  
ON DE LA ROSIERE BUT LEAVE THAT YOUR JUDGEMENT (STOP)  
WILL CALL YOU FROM LONDON (STOP)

REGARDS

STERN

Ernest Stern  
Director, Development Policy

EStern/lm

Mr. Donald D. Fowler, Deputy Secretary

August 29, 1974

Ernest Stern, Director, Development Policy

Chairman's Speech - 1974 Annual Meeting

I have reviewed the Chairman's draft speech and have noted my comments in the text. I just would like to stress here a few points:

- 1) The opening section, which deals with the IMF, is virtually guaranteed to put the audience to sleep. I assume the division of responsibility is such that we can make no suggestions on this portion, but I do not understand why this recitation of historical facts, with which all the Finance Ministers are thoroughly familiar, is necessary or desirable. There is not a word in it regarding the overriding problem of how the large amounts of oil money are to be recycled and what role private institutions, governments or international organizations have to play in this process.
- 2) In the section dealing with the Bank, most of the changes are to make the argument technically more accurate.
- 3) On Page 9, the aid figure for 1980 in fact assumes the achievement of the DDII targets since from the outset the average annual growth rate of 6% implied a rate of growth of 4 1/2% for the poorest countries. If you wish to retain the original language, the equivalent figure would be \$20 billion. This is related to a 5.7% annual rate of growth for non-OPEC developing countries with a rate of growth of only 3.2% (i.e. just slightly ahead of population) for countries with per capita income of less than \$200.
- 4) Also on Page 9, when talking about emergency measures, I think it is essential that reference be made to the UN Emergency Operation which, after all, is the only effort aimed exclusively at raising concessional capital for developing countries.
- 5) I think the paragraphs dealing with population on Page 14 really ought to be deleted unless the Chairman has expressed a strong interest in making a comment on the subject. The Bucharest

Mr. Fowler

- 2 -

August 29, 1974

Conference on Population will have been held only a month ago. The topic proved to be a highly controversial one. The brief statement in the text will be considered almost irrelevant by anyone who has followed those discussions. To do justice to a more rational view of the population problem would take much more space. In any event, the topic is being dragged in by its heels and has no real place in the general thrust of the speech.

I have shown Pages 10 and 11 to Mr. Cargill to make sure my changes are satisfactory from his point of view.

bcc: Mr. Chenery  
EStern/lm

Mr. W. Clark, VP, External Relations

August 30, 1974

Ernest Stern, Director, Development Policy

Population Conference

I have been appalled by our apparent failure to use the material for the Bucharest Conference. As you know, the original idea was to have Mr. McNamara attend and the publication which we prepared, under great pressure of time, was a substitute for his appearance. We all agreed that, given the nature of the Conference, it was desirable to keep the World Bank participation in a low profile, but surely there is a difference between a low profile and oblivion.

There has been rather wide coverage of the Bucharest Conference and extensive reporting on divergent views -- e.g. those of Mr. Rockefeller, Mr. Waldheim, the Brazilian Government, African Governments and even those of Lester Brown. Most of these, at least as reported, are at substantial variance with the policy approach outlined in our publication and endorsed in the introduction for Mr. McNamara. If the local papers and the Bank's paper clipping service are to be believed, no one's attention was drawn to this difference. Prior to the Conference the Washington Post devoted a portion of its editorial page to the views of Mr. Brown, but none of the local papers interested in these matters were apprised of our views. When I mentioned this to Mr. Merriam, he indicated that you are not staffed for this kind of activity. It seems to me a waste of time for us to devote staff resources to produce information which the information system cannot get to the proper audiences. Since you were involved from the outset in the planning of this work, I simply cannot understand the lack of interest in its dissemination. I had assumed that we were sending a strong delegation to Bucharest not because we expected to affect the formal outcome of the Conference but because we hoped to have an educational impact on a wider audience.

cc: Mr. Gulhati  
Mr. King

bcc: Mr. Chenery  
EStern/lm

Mr. D. Fowler, Deputy Secretary

August 30, 1974

Ernest Stern, Director, Development Policy

Draft Resolution on Development Committee

Attached is a draft memorandum which might accompany these three documents. Please return these documents - they are my file copies (and we deal harshly with those who lose our prized possessions). I have left a note for Burke (with a copy of the memorandum) recommending that this be circulated.

Attachment

bcc: Mr. Chenery  
EStern/lm

July



July 2, 1974

Professor P.N. Rosenstein-Rodan  
Director  
Center for Latin American  
Development Studies  
745 Commonwealth Avenue  
Boston  
Massachusetts 02215

Dear Professor Rosenstein-Rodan:

With reference to your letter of June 14,  
this is confirm that Mr. Ernest Stern will  
be attending the symposium on "International  
Cooperation for Development in the 1970's  
(Quo Vadis the Inter-American System?)" on  
October 16-18. The five copies of our March  
paper on the oil situation were mailed  
about two weeks ago. If you have not  
received them, please let us know.

Sincerely,

Lynne M. Money  
Secretary to Mr. Stern

LMoney

July 2, 1974

Mr. Reuben Sternfeld  
Assistant Director  
Council on International  
Economic Policy  
Room 210  
Old Executive Office Building  
Washington, D.C. 20500

Dear Ray,

Attached are several tables giving our current data on 14 countries. The material was prepared for the United Nations, based on their list of countries. While not all would be in my definition of MSA's, it does include the largest. Some revisions are already in progress, and we are also working on six additional countries. I would be glad to let you have this data when it is ready later this month. The material is, of course, for your personal information only.

Note that the "financing gap" is a different concept from the one used earlier. No assumption is made about use of foreign exchange reserves or use of IMF facilities. Also note that, generally, the 1975 problem is larger than the 1974 requirement.

There is quite a lot of detailed material underlying these projections, but I shall spare you that for the moment.

Sincerely,

Ernest Stern  
Director  
Development Policy

Attachments  
bcc: Mr. Chenery  
EStern/lm

Mr. R. Gulhati, Director, ECD

July 2, 1974

E. Stern, Director, Development Policy

FY1975 Personnel Authorization

Current projections indicate that your Department will use 47.21 equivalent staff years in FY1975. This is based on the June 28, 1974, Status of Recruitment.

During FY1975 the Development Economics Department will be given salary funds equal to 47 staff years. Any salary expenses in excess of this amount will need to be transferred from Departmental discretionary resources. Consequently, before an offer can be made to Mr. Renaud, we need to identify additional losses (e.g. transfer Mr. Hubbel to the discretionary budget) or have your assurance that sufficient discretionary resources (\$15,000, assuming Mr. Renaud comes on board in October) will be reserved in case additional losses do not materialize.

PSmith/EStern:lm

cc: Messrs. Chenery  
Smith

Mr. H. Schulmann, Deputy Director, PAB

July 3, 1974

E. Stern, Director, Development Policy

FY75 Approved Budget

Attached is our version of where the budget figures are a problem. After you've had a chance to look this over, perhaps we can discuss it.

Attachment

cc: Messrs. Chenery  
Smith

EStern/lm

Mr. T. King, ECDPH

July 3, 1974

E. Stern, Director, Development Policy

Attached Paper on Population Planning  
in the People's Republic of China

As I mentioned to you, Mr. McNamara would like to circulate the attached paper. To do so, Secretary's Department (Mr. Ghoshal) needs a short explanation of who Mr. Pi-chao Chen is for the cover memorandum. Would you take care of this in the next day or so.

We might just say that as part of our work we commissioned this paper and have a sentence on Mr. Chen's university affiliation.

Attachment

bcc: Mr. Chenery  
EStern/lm

Mr. W. Clark, VP, External Relations

July 3, 1974

Ernest Stern, Director, Development Policy

UN Emergency Fund

In my absence, as of July 3, I have asked Mr. S. Chernick, Policy Planning and Program Review Department, to take charge of our activities in support of the UN Emergency Fund. He will be the channel for our contact with Mr. S. Dell.

cc: Messrs. McNamara  
    Maq (o/r)  
    Hoffman  
    Tins

bcc: Messrs. Chenery  
       Chernick

EStern/lm

Mr. B. B. King, VPD

July 3, 1974

E. Stern, Director, Development Policy

Membership in Research Committee

Some time ago we discussed changing some members of the Research Committee which had served more than two years. One of these was Jean Baneth. He raised the issue again yesterday and suggested two possible replacements -- John Hansen or Basil Kavalsky. Both are highly recommended, and Mr. Hansen would help to strengthen our project representation. This is the time of year to make changes, so would you look into this please and inform Mr. Baneth whether a change will be made.

There are also other potential changes which D.C. is familiar with and, presumably, the Committee should be expanded to accommodate Asia II.

cc: Messrs. Chenery  
Rao

EStern/lm

Mr. Robert S. McNamara, President

July 5, 1974

Ernest Stern, Director, Development Policy

Status of Population Paper

1. The book is on schedule. We have the galley proofs, and printing is expected to commence next week.

2. The typed version will be delivered to Mr. Dary by Wednesday, July 10. In my absence Mr. Gulhati will be responsible for the timely delivery of the Board document.

cc: Messrs. Dary  
W. Clark (o/r)  
Gulhati

EStern/lm

bcc: Messrs. Chenery  
King



July 5, 1974

Sr. Candido Mendes  
Instituto Universitario de  
Pesquisas do Rio de Janeiro  
Rua Paulino Fernandes, 32  
Botafogo - ZC 02  
Rio de Janeiro  
Brazil

Dear Sr. Mendes:

I am most grateful for your invitation to attend the conference on the Crisis of Development on September 13-17. The subject is indeed of very great importance; and if at all feasible, I hope to be there.

However, September is a very difficult month for our schedule since on the 30th our Annual Meeting of Governors commences. This involves, as I am sure you understand, substantial amounts of preparatory work. It is for this reason also that Mr. McNamara asked me to express his appreciation for the invitation and his regret at being unable to attend.

In addition, Mr. Chenery has tentative plans to be in Europe during the middle of September, and if these materialize, this would be another reason why I could not leave. Therefore, I must make my acceptance tentative at this point and hope this will not inconvenience you too much in your planning. I will let you know definitely as soon as my schedule is clarified.

Sincerely,

Ernest Stern  
Director  
Development Policy

bcc: Mr. Chenery  
Ms. Chitwood, IPA

EStern/lm

July 5, 1974

Professor Goran Ohlin  
Nationalekonomiska institutionen  
vid Uppsala universitet  
752 20 Uppsala  
Sweden

Dear Goran,

I am about to leave on a much needed vacation and therefore wanted to answer your letter of May 11 rather than run the risk of having it sit around until my return when it would undoubtedly be again at the bottom of a pile with which I may not finish dealing until December.

As to your two questions, the Woodrow Wilson International Center runs what is essentially a "scholars-in-residence" program. You are provided with financing and necessary staff assistance to work either on a project of your own choosing or on a project within a general theme proposed by the Center. I know of a number of people who have spent a year or so there and have been quite pleased with it, but it is still a fairly new activity and I don't think it has developed a major reputation yet. It has no connection with the Woodrow Wilson School at Princeton; it is organized and run by the Smithsonian Institution.

Sylvain seems to have disappeared into the Central American jungles, and I have had no sign of life from him at all. I did, however, run across someone the other day who kindly gave me his address. While I have not yet written to him, I pass the address along in the hope that it is correct.

M. Sylvain Lourie  
c/o Oficina de la UNESCO  
Apartado Postal 1175  
San Salvador  
El Salvador

We are off to Mexico next week rather than Europe so I will not have a chance to see you either in Paris or Stockholm. I hope business and/or pleasure will bring you to Washington fairly soon, hopefully accompanied by Anita. The suggestion

Professor Ohlin

- 2 -

July 5, 1974

I made in January is really a standing offer, so if ever you want to come join us, let me know and I am sure we can work out something which is mutually interesting and satisfactory.

With best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy

EStern/lm

Mr. H.B. Chenery, VP, Development Policy

July 5, 1974

E. Stern, Director, Development Policy

Mr. Hablutzel's Replacement

1. Since I will be away on leave when you return, I would like to restate my views on the staffing of Mahbub's Department. You will recall that at the time we created the Senior Adviser's position, I was very skeptical that such a position was needed. The argument was that the Program Review Division, which was then being run by John Edelman on an acting basis, was weak and a Senior Adviser who would concentrate on the program review side would strengthen that operation. Not only do I believe that my skepticism was warranted, since in fact very little delegation of authority takes place, but with the appointment of Mr. Chernick, the basic reason is no longer valid.

2. The Department has 18 authorized slots, and its assured on-board strength is about 16. Even without the Senior Adviser, this means only 13 professionals for 3 management positions which, it seems to me, is already quite heavy. Moreover, having a Senior Adviser in so small an operation inevitably sucks too much of the important work into the Front Office and seriously weakens the role of the Division Chiefs.

3. There is one other argument which is used to justify a second Front Office position, and that is that there needs to be continuity in case the Director is out. In so small a Department, I think there is really no problem in having, say, Mr. Chernick designated as acting Director; and in any event, even with the Senior Adviser, Mr. Haq has managed to have both on leave at the same time.

4. If Mr. Kuczynski is available, I would reluctantly agree that his general utility makes it worthwhile to offer him the position in order to get him back into the Bank. However, if he is not available, I would strongly urge that the position not be filled. Mahbub has already cabled that if Mr. Kuczynski is not available, he would like to make an offer to Mr. Kavalsky, a proposition to which I am strongly opposed.

5. If Mr. Kuczynski is not available, I think we should give thought to making the Division Chief of Program Review an X level, as it was in the past, and hiring an additional staff member for either of the two divisions at the B or C level. If we have any weaknesses in that Department, they

Mr. Chenery

- 2 -

July 5, 1974

do not derive from an inadequate number of senior officers who are policy oriented in the Front Office but from the staffing of the Divisions and how these Divisions are used in the execution of the work.

6. In any event, I would hope that the matter can be kept in abeyance, except for the possible offer to Mr. Kuczynski, until my return.

EStern/lm

July 8, 1974

Mr. Carlos F. Diaz-Alejandro  
Economic Growth Center  
52 Hillhouse Avenue  
Yale University  
New Haven  
Connecticut 06520

Dear Carlos,

I received your draft paper just two days before my departure on a much overdue vacation to Mexico, and since I have no intention whatsoever of wasting all those happy hours reading about the international financial system, I had to read your draft hurriedly before my departure. On the whole, I was a little puzzled by the paper, and my comments will undoubtedly reflect this, but this may be due to not having spent enough time on it.

It seemed to me that the purposes of the paper were unclear and no central theme emerges. The opening paragraph verges on false advertising, since you say in fact very little about the international monetary mechanism and SDRs and devote very much more space to greater exchange rate flexibility and the emerging capital market. How these four subjects are connected is never made clear.

A major problem in the analysis, it seems to me, is that although you mention LDC heterogeneity in the second paragraph, that never surfaces again. All the subsequent discussion is in terms of a small open economy regardless of its income level, its export basket, its degree of industrialization and the many other factors which are relevant to the management of its external sector. The term "small" is never defined. Is a small LDC different from, say, the Dutch, whose currency is clearly pegged to that of Germany? Moreover, there are some LDC economies which are not so small, and how do they fit into this discussion. The conclusion of the section is that it is difficult to peg a currency to a single international currency, and it is also difficult to peg it to a bundle

of currencies, such as the SDR. Even assuming the analysis is improved to take account of different types of developing countries and that it would turn out to be true that all of them would have such difficulties, the question surely is which of these is least costly. While you assert a preference for the system of floating rates, you never present any evidence as to what the benefits of this system are. Moreover, when you say at the top of Page 10 that you prefer a system of generalized floating, it is not clear whether your conclusion is that LDC currencies should be pegged to a single key currency or based on the SDRs.

The section also gives very little support for the second conclusion that the floating of currencies raises the requirement for reserves. While this may be true in the abstract, one certainly ought to take cognizance of the fact that for many LDCs the amount of reserves are determined by the simple proposition that they must keep a minimum of two-three months imports. This working capital type of definition may not be optimal under any system, but given the pressure for financing of development investments, it may be all they can afford. This is not the Brazil case, but it is certainly the case in South Asia. The marginal additional amount of uncertainty created by a floating system is not going to change this very much.

Finally, I thought you rather overdid the role of fixed exchange rates in the post-war development of Europe. There were quite a lot of other reasons, and it is surely not at all clear that after the initial reconstruction phase Europe would be any worse off if it had gone to floating rates then. Indeed, as you know, there are a number of people who would argue that the U.K., for instance, would be much better off today if it had not stuck to fixed exchange rates for so long.

As you know, I am a strong supporter of additional LDC reliance on the capital markets. However, your section seems to me to leave much to be desired. First of all, you give the very strong impression that all LDCs have access to the international markets, even though you list the countries who have been the principal borrowers. Some disaggregation by income level, export growth rates or other general indicators would certainly be very helpful, plus the identification of such special cases as Indonesia, which despite its low level of income is now highly creditworthy. Secondly, I think you are being rather glib about the problems of credit management. While a country like Brazil may both have the

July 8, 1974

capacity to borrow large sums of money on fairly high interest rates and to assure that either its debts are paid or it can force an acceptable rescheduling, this is certainly not true for such countries as, say, Ghana. I suppose you can write it off to institutional bias (although I would vigorously and sincerely deny it), but institutional lending for the lower income countries serves a significant purpose. Thirdly, your statement on Page 20 is egregiously wrong. The Bank does not lend at identical terms to Brazil and Bangladesh. Money to Brazil is lent on Bank terms of 8% and 20-25 years repayable; whereas money to Bangladesh is lent at 3/4% for 50 years. In some of the low income countries, such as India or Pakistan, Bank lending is sufficient only to turn over Bank debt incurred before the establishment of IDA.

You are of course right that the relationship between the Bank and countries which are developing rapidly and have access to the capital market is different from those which have no alternatives. But the sense of your discussion on this is really quite misleading. Our relations with Brazil, for instance, continue to be excellent. Our lending program, at their request, continues to be very large. Even countries like Indonesia and Iran request continued Bank involvement because they see a benefit to the preparatory work which goes into our lending program -- certainly they don't borrow because they need the foreign exchange.

The section on the SDRs is obscure, as befits the topic, but I think the conclusion that if any SDRs are to be allocated, they should be allocated directly to EDCs is sound.

Finally, your comment on the gold price seems to be based on proposals other than the ones I have heard. It is quite possible to sell official gold (slowly) at market prices, thus realizing substantial profits which could be utilized in any number of ways, including transferring them to the developing countries. That has nothing whatsoever to do with the decision on a gold exchange standard and could just as easily be based on a decision to completely abolish the role of gold in the monetary system.

I am sorry that I have not been able to provide my usual encomium, but I do feel that the thoughts in the paper need further development, need to be bolstered by data and the analysis needs to be disaggregated. Most discussions of the international financial system suffer from treating all LDCs as a group and completely ignoring the large amounts of



Mr. Diaz-Alejandro

- 4 -

July 8, 1974

information which has been developed about their economic differences, but you needn't fall into the same trap.

I will see you in August. Best regards,

Sincerely,

Ernest Stern  
Director  
Development Policy

bcc: Mr. Chenery  
EStern/lm

Mr. G. Tannous, PDP

July 8, 1974

E. Stern, Director, Development Policy

Mr. Gerardo R. Cahn-Hidalgo

Since Mr. Cahn-Hidalgo has been interviewed extensively in the Bank, it might be useful to record for future reference that he was not offered a position because the expected vacancy did not materialize. He seemed a highly suitable candidate.

You might place a copy of this note (attached) in his folder.

cc: Mr. Weiss

bcc: Mr. Chenery  
EStern/lm

Mr. Robert S. McNamara, President

July 8, 1974

Ernest Stern, Director, Development Policy

FY1975 Operational Program

I called Chuck Cooper on Saturday and confirmed that:

- (a) John Adler would be the contact point for further discussion.
- (b) We would provide them in the course of the week:
  1. The implications for the capital base of no increase beyond FY1975.
  2. The debt exposure (through 1980) table similar to the one in the 1971 paper.
  3. Lending by groups of countries (per capita income based) for FY1975 and 1976.

cc: Mr. Adler  
EStern/lm

bcc: Mr. Chenery

Mr. F. Vibert, EPRPP

July 8, 1974

E. Stern

Bank Group Role in Financial Development

Attached is a memorandum to Mr. McNamara. After you've discussed it with Mr. Gill, you can initial it for me. Ravi also has not yet seen the revision of his draft. If the going gets too rough, it can no doubt wait for my return.

Attachment

bcc: Mr. Chenery  
EStern/lm

Mr. Robert S. McNamara, President

July 31, 1974

Ernest Stern, Director, Development Policy

Commission on U.S.-Latin American Relations

1. I mentioned to you several weeks ago that a Commission on U.S.-Latin American Relations had been established. The function of the Commission, as its title implies, is to review the present state of U.S.-Latin American relations, assess U.S. interests and make recommendations for use by the Secretary of State. The members of the committee are listed on the letterhead of the attached document.
2. One of the first papers the committee considered in May was one by Fred Bergsten, on which I had been asked to comment, personally and informally. The paper was very poor and simply repackaged the well-known Bergsten thesis about commodity shortages into a Latin American context. Although I keep professing liberally my relative ignorance about Latin America, I have now been asked to comment on the attached paper by Roger Hansen and to attend a meeting and working luncheon on August 6.
3. Given the membership of the committee and the informal nature of the discussion, I am sure that my participation on a personal basis will not be compromised, and I would accept the invitation unless you perceive objections. I attach the paper which will be the subject of the morning meeting which you might find of interest.

Attachment

EStern/lm

bcc: Mr. Chenery

Mr. M. M. Ahmad, EDS

July 31, 1974

Ernest Stern, Director, Development Policy

Sugar Cane

While I was away on vacation, my office forwarded the material on sugar cane which we received from CIDA. I thought you might also like to know the names of two individuals who might be contacted for further information. They are Dr. George Dion, CIDA's Special Adviser on Agriculture (613-996-1359), who has worked on the application of this technology; and Mr. Bob Miller of Canadian Cane Commodities (Bridgetown and Montreal), who developed the technology.

bcc: Mr. Chenery  
EStern/lm

July 31, 1974

Dr. Leopoldo Solis  
Direccion General  
de Estudios Economicos  
Secretaria de la Presidencia  
Palacio Nacional  
4° Piso  
Mexico 1, D.F.  
Mexico

Dear Dr. Solis:

After our discussion in Mexico, I spent a further ten days travelling in Mexico and I am now back at work well refreshed. Hollis was pleased to learn that you would be prepared to visit us in August to discuss the position I mentioned to you in greater detail. I have checked Mr. Tims's schedule, and he will be back in the Bank on August 19. I therefore would suggest you plan to visit us during the week of August 26. The Bank will of course be pleased to pay for the expenses of the trip; and as soon as I have your confirmation as to timing, we will instruct the airline office to issue your ticket.

I am looking forward to hearing from you.

Sincerely,

Ernest Stern  
Director  
Development Policy

bcc: Messrs. Chenery  
Tims o/r

EStern/lm

Mr. H.B. Chenery, VP, Development Policy

July 31, 1974

Ernest Stern, Director, Development Policy

Creditworthiness Analysis

You asked me to review the attached memorandum drafted by Messrs. Sage and Chernick. I found it a very poorly written document and was left thoroughly confused as to what its purpose is. I attach a substantially revised draft which reflects my understanding of what the original attempted to say, but I may well have misunderstood it.

Attachment

EStern/lm