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Hollis B. Cheney papers - McNamara discussions

1973 (Jan-April)



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Hollis B. Cheney Papers - McNamara discussions / notebooks / memoranda - 1973  
(January - April)



2932

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# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 30, 1973

FROM: Hollis B. Chenery *HBC*

SUBJECT: Review of McKinnon, "Money and Capital  
in Economic Development"

*4/30*  
As you requested, I submit a short review of McKinnon's Brookings volume, prepared by Oktay Yenal, the chief of our Public Finance Division. McKinnon argues for the development of capital markets and a reduction in government intervention in credit allocation. The discussion is largely theoretical and empirical evidence is mainly illustrative.

Attachment: McKinnon book w/ Yenal's review

HBC Chenery: csm

*cc Yenal*

President has seen (*+ kept book*)

*Returned* MAY 1 1973

Review of Money and Capital in Economic Development,  
by Ronald L. McKinnon (Brookings Institution)

The Thesis

1. McKinnon's book on Money and Capital in Economic Development is about the importance of the monetary and financial policies in the development process of semi-industrialized economies. The thesis of the author can be summarized as follows:

- (a) In the development of LDCs, efficient use of resources is more important and capital accumulation is less important than generally believed.
- (b) Unification of the capital market is a prerequisite for eliminating the fragmentation in factor markets and reducing the inefficiencies in resource allocation.
- (c) The key to capital market unification lies in appropriate monetary and financial policies - especially higher real interest rates than are common in many LDCs.

The argument of the book is elaborated with interesting observations, treated formally in a new model of money demand, and confronted with data from a number of countries. The result is a forceful though somewhat one-sided plea for reducing the imperfections in the capital markets of LDCs.

The "Fragmented" Economy

2. An underdeveloped economy is characterized by market fragmentation so that isolated productive agents face different effective prices for land, labor, capital, and produced commodities. Access to technology differs across economic agents, leading to the coexistence of best-practice and inefficient techniques for the same product. In spite of capital shortage, capacity is underutilized, while educated unemployment exists cheek by jowl with specific labor skill scarcities. Market fragmentation is characterized by the coexistence of a wide dispersion of rates of return to existing and new investment. In this context it is a serious mistake, argues the author, to consider development as simply the accumulation of homogeneous capital of uniform productivity. Rather, economic development should be defined as the reduction of the great dispersion in social rates of return. In a "developed" economy, a mature capital market monitors the efficiency of capital allocation by pushing returns on physical and financial assets towards equality, thereby significantly increasing the average return.

Government Intervention

3. Faced by the historical legacy of an underdeveloped, fragmented economy, many newly independent LDCs have sought to speed development by a series of public policies designed to substitute for the integrating role of a developed capital market. Tariff protection, import licensing, incentive schemes, subsidized credits, tax systems and other commodity price



manipulations have been used to induce resource shifts into sectors and activities identified as socially advantageous by policymakers. Unfortunately, such public intervention has often accentuated market fragmentation. These policies have, in general, perpetuated the importance of self-finance. Absence of external finance for producers detains them from taking advantage of best investment opportunities and from making the best use of technological innovations. The absence of financial intermediation reduces the incentives for saving. And finally, with indivisibilities in investment opportunities, large dependence on self-finance may mean that the very wealthy, who can take advantage of the technological innovations, will get wealthier while the small men will be caught in a low-level equilibrium trap.

#### The Preferred Strategy

4. The way out of this vicious circle - distortions in factor markets leading to government intervention, and government intervention reinforcing fragmentation - is to unify the capital markets. And the key to this is to raise the interest rates. It is forcefully argued that high interest rates with increased availability of credit will improve both the volume and the quality of capital accumulation. A new model of money demand is introduced which postulates that high returns on monetary investments (i.e., deposits) would not discourage the entrepreneurs from accumulating physical assets, but may even provide a conduit to physical investment. This theoretical discussion does not add much to the main thread of the argument, which, though not novel, is refreshing in the context of current policies. The failures of the financial policies in reaching the small rural and urban businesses by credit rationing and the regressive effects of making credit availabilities depend on collateral rather than the price of capital are well narrated.

5. The original contribution of McKinnon's book lies in the two empirical hypotheses put forward:

- (a) Growth performance of a country is positively correlated with the real size of the monetary system (measured by the ratio of bank deposits plus currency to GNP or M/Y).
- (b) The real value of monetary assets held depends on the level of the real rate of interest.

These hypotheses start from the observation that almost all the financial assets held in the LDCs are monetary assets, that is, cash and deposits. The banking system is the dominant intermediary and source of finance. Thus, the higher the real value of monetary assets held in the economy, the larger is the availability of external finance for entrepreneurs and the wider the allocative benefits of a unified capital market. And the way to induce individuals to hold more money in real terms (say, as a proportion to their income) is to offer them higher real returns on their money holdings.

### Historical Evidence

6. These hypotheses are supported by the experience of a number of countries, both developed and developing. Germany and Japan both have financial systems similar to LDCs in the sense that the banking systems play the dominant role. The rapid post-war growth in both countries went parallel with the increase in the real size of the monetary system (M/Y). In the case of three Latin American countries, recessions coincided with declines in the respective M/Y ratios. The recessions were products of "orthodox" deflationary policy aimed at curbing inflation through rigorous control of the supply of monetary assets. Control of inflation is certainly important to assuring high real returns on monetary assets, the key to McKinnon's development strategy. Confronted with the problem of instituting financial reform in an inflationary climate, McKinnon points to the successful Korean case where the demand for monetary assets was stimulated by a massive, and temporary, hike in bank deposit interest rates, so that they were well in excess of the inflation rate. The resultant increase in real money holdings expanded the real size of the monetary system and the increased volume of financial savings was rationed to remunerative investment opportunities at high lending rates. While these productive investments quickly swelled the supply of goods and services, the increased demand for real money holdings reduced inflationary demand in the product markets, leading to a slower rate of inflation. Of course, the strategy of increasing real demand for money holdings involved reducing inflationary expectations through reduction of deficit financing and visible reassertion of money supply control. Once inflation was slowed, the family of nominal interest rates could be lowered without reducing the real rates.

### Financial Reform and Trade Liberalization

7. Once financial reform has restored the integrating and intermediation role of a capital market centered on the banking system, the arguments for government manipulations of commodity prices, especially through interventions in foreign trade and payments, lose much of their force, while the efficiency arguments for liberalizing foreign trade regimes and rationalizing tax structures grow correspondingly stronger. (In passing, McKinnon devotes considerable attention to devising a tax system which is neutral with regard to exploitation of a country's comparative advantage, and comes out in favor of value-added taxation, bolstered by consumption levies on luxury consumer goods, irrespective of origin.) Thus, McKinnon sees the unification of the domestic capital market as the key to general liberalization, and particularly to the withdrawal of unwise public intervention from commodity markets. In a context such as Korea, where financial reform based on high interest rates accompanies foreign trade liberalization based on exchange rate flexibility, McKinnon strikes a warning note on the role of foreign short-term capital. Attracted by the high domestic interest rates, a massive inflow of short-term capital could prevent the exchange rate from depreciating as low as optimal trade policy indicates. Temporary controls on short-term inflows, or a gliding parity aimed at compensating for the interest-differential, are suggested solutions. McKinnon ends the book with a



critical commentary on long-term direct foreign investment and government-to-government aid. Basically, he sees such investments as enclave-oriented (hence reinforcing fragmentation) and as crutches to support controls on foreign trade. However, he does allow a beneficial role for foreign portfolio capital at "hard" terms, channelled through institutions such as the IBRD, after the domestic financial system has matured and foreign trade has been liberalized.

#### An Assessment

8. The book offers a stimulating approach to the problems of development. The characterization of underdevelopment as a fragmented economy is illuminating. The stress on the benefits of capital market unification is a useful corrective to the recent development literature, which focusses on capital accumulation and liberalizing of foreign trade and exchange systems. However, though there is a great deal of plausible argument offered in favor of the hypothesis linking real growth rates to the size/maturity of the financial system, the empirical evidence is only suggestive. In particular, no attempt is made to separate the influence of the real size of the monetary system from other variables, such as the rate of investment, on the rate of economic growth.

Oktay Yenal  
April 26, 1973

APR 17 1973



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

OFFICE OF THE PRESIDENT

April 16, 1973

MEMORANDUM TO MR. CHENERY

SUBJECT: Research Budget

I note in Mr. Adler's memorandum of April 11, 1973 on the FY74 budget that approximately \$685,000 in consulting and travel requirements for various research activities will not be reviewed by the Research Committee. I believe that all consultants and travel for research should be allocated through the Research Committee. Unless you strongly object, I should like you to make the necessary arrangements.

A handwritten signature in cursive script, appearing to read "R. S. McNamara".

Robert S. McNamara

cc: Mr. Adler  
Mr. Stern  
Mr. Kearns

*Copied to: ~~Mr. Stern~~  
Mr. Ray  
Mr. Paul Smith*

*JH.  
Apr 17*



HBC

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 6, 1973

FROM: Hollis B. Chenery HBC

SUBJECT: FY74 Manpower Budget for the Development Policy Staff

1. In his memorandum to you of April 2, Mr. Adler states that our budget request is "thoroughly prepared" and that he has "for the moment included the requested professional positions in our recommended budget". Since he leaves it to you to make a final determination in this matter, I would like the opportunity to discuss it with you before I leave for Europe on April 10. As background I attach the first section of our budget submission and will summarize its rationale.

Professional Staff

2. The reorganization of the Development Policy Staff in October gave us increased responsibilities in several areas without a corresponding increase in staff. In the division of functions between DPS and CPS, we were assigned primary responsibility for policy and research in Urban Development, Population, Industry and other non-regionalized sectors. Since our staff in the regionalized sectors was largely transferred to the CPS, there was no offsetting saving from those areas. In addition, we made provision for a new Policy Planning Division of six professionals, for which we plan to complete the staffing in the next few months. Our requirements for professional staff are listed in pp. 8-9 of the attached submission and summarized in tables 1-3.

3. One of the casualties of the reordering of priorities in FY1973 has been our basic statistical work. In my review with you last year, we agreed that this should have high priority and you provided extra positions for this purpose. Since we have had to delay this increase to accommodate other functions, the urgency of this increase is even greater than it was a year ago.

4. The first source of staff for these functions has come from (a) reordering over time our internal priorities and (b) completion of the process of replacing professional staff not fully qualified for DPS work. Our request is therefore prepared on a "zero-budget" basis: only high-priority activities are continued and marginal performers have been eliminated. To start with, even though I believe research to be a high-priority activity for the Bank, I have reduced the professional staff of the Development Research Center by two man years and total DPS time for longer-term research by 14% in an effort to meet the P & B guidelines.

April 6, 1973

5. Since the Bank has not yet developed usable measures of its outputs apart from loans, it is difficult to evaluate the DPS budget in input-output terms. As a step in this direction, we have summarized our divisional work programs for 1973 and 1974 in table 1 in categories that more clearly indicate the present DPS responsibilities in the Bank for policy formulation and program development and its production of outputs (research findings, statistics and projections) that contribute directly to the Bank's role as a development institution. The principal increases shown--for policy formulation and program development--have been described to you in detail in the inventory of policy papers that you have approved and in the work programs for Urbanization, Industry, and Population. In the direct output categories, increased requirements for statistics and projections are largely offset by the temporary reduction in the longer-term in-house research effort.

6. Clarification of the specific points raised by P & B is given in attachment 2.

#### Special Service and General Service Staff

7. In a year when funds are very tight, I will not protest the proposed P & B reduction in our Special Service request, however justified it may be in terms of making the best use of professional staff. However, I cannot see the argument for perpetuating the dual standard for secretarial staff that exists between the DPS and the rest of the Bank: secretarial/professional ratios are 25% better in both CPS and the Regions (P & B annex, p. 4). If there are going to be any increases in secretaries, it seems to me that they should go to units in which secretaries are most seriously overworked, not on the basis of past patterns.

Attachments

cc: Mr. Adler  
Mr. Stern

·HBChenery:di



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 6, 1973

FROM: Hollis B. Chenery *HBC*SUBJECT: Budget for Computing Activities Department

I have spent several hours investigating the Department's budget and I strongly endorse it. The main issue raised by P & B is whether three professional positions should be added to allow for the development of new systems. Given the inefficiency of the Bank's existing data processing systems, it would be false economy to eliminate this activity entirely. Several new systems already developed have reduced costs and greatly increased our capability to handle important problems, and there is already a backlog of three years' work of this kind for the future.

Attachment -

cc: Mr. Adler  
Mr. Muller

HBC Chenery:di

Mr. Robert S. McNamara

April 6, 1973

Hollis B. Chenery

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Attachments - *shelton h.k. at desk*

cc: Mr. Adler  
Mr. Stern

HBChenery:di





## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: International Industrialization Institute  
(Your meeting on Thursday)

DATE: April 4, 1973

You already have received a briefing memo regarding the International Industrialization Institute, which I want to supplement with some comments about the potential utility of the Institute.

The Proposal calls for the funding of a \$100 million International Industrialization Institute which would have a core of some 40 professionals in appropriate disciplines drawn from various nationalities. Financing would be from industrialized and industrializing countries, international organizations, foundations and private business organizations. The program envisages applied research in the entire range of industrialization problems.

I have considerable doubts about the merits of this proposal as now formulated. In the first place, there would be serious practical difficulties in implementing it. A great deal of work on industrialization is already being carried out in existing international and academic institutions. Staffing up a new, centralized institute would call on the best staff available in the field, and the existing institutions would be weakened. The LDCs' very limited supply of "industrialization" specialists, would be seriously eroded by the proposed Institute's hiring of developing country staff. Support for existing research institutions would probably be more productive than establishing a large new center.

Contrary to the impression given by the Proposal, understanding of the industrialization process is at present well ahead of the developing countries' ability to change policies, to administer them effectively, and to build local institutions. It is true that there is a need to accelerate the dissemination of existing knowledge with regard to industrialization, and perhaps particularly in the choice of techniques available to developing countries. However, improvements in dissemination require an institute which will be complementary with existing institutions rather than in direct competition with them.

Centralized global research institutions are rarely successful -- despite the best intentions. There are great risks of their becoming bureaucratic and detached from operating problems. This is even more likely if they are not the culmination of a system of national and regional efforts but instead seek to build from the top down.

Conclusion: I suggest that you express our interest cautiously, indicate some of the possible pitfalls and suggest that a more modest beginning -- in several countries or on a regional basis -- would be more likely to be productive.

cc: Messrs. E. Stern, M. Qureshi  
Mrs. H. Hughes

HHughes/EStern/HBChenery:csm



HB2

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 3, 1973

FROM: Hollis B. Chenery *HB2*

SUBJECT: Planning for FY74 Economic Missions and Reports

1. This is in response to your suggestion, prompted by my memorandum of March 1 and John Adler's memorandum of March 6 (copies attached), that we try to integrate possible revisions in FY74 economic work plans with the current budgetary process.

2. The objective of the review suggested in my memorandum is to make the best use of the staff we have, which should be a regular feature of our functional supervision. Given the status of the Regions' work programs, it is not possible to come up with a revised FY74 program of economic work, cleared with the Regions, in time to incorporate its inputs into the FY74 budget. Since changes in priorities will take time to implement, they may not have a significant impact on FY74 resource allocations. Given the backlog of sector and special studies, any staff savings that may occur in FY74 can be reassigned to higher priority uses.

3. With this objective in mind, we plan to have the following for you by end-July:

- (i) An analysis of FY73 country missions and reports. Were missions adequately or excessively staffed? Did the questions covered reflect the concerns of the Bank Group? What use was made of the reports?
- (ii) Proposals, prepared in consultation with the Regions and with P&B, to reduce the size and frequency of updating missions and reports and to simplify requirements for economic supporting material for CPPs and Board consideration of loans and credits.
- (iii) Guidelines for updating reports and for reports intended for consortia.
- (iv) An analysis of FY73 sector missions. Staffing. Purpose. Reasons for slippage. Recommendations on resources to be assigned to sector economic work for FY74 and FY75.

4. Before we can evolve more effective control mechanism, we must have a much better understanding of our work objectives, of the match between work programs and staff resources, and of our experience with the revised system. Once the analysis indicated in para 3 is completed, it should provide the basis for devising an appropriate control mechanism.

Attachments

cc and cleared with: Mr. J.H. Adler

PPKuczynski/EStern/MHag/HBChenery:esm



## OFFICE MEMORANDUM

File

TO: Mr. Robert S. McNamara

DATE: March 1, 1973

FROM: Hollis B. Chenery *HBC*SUBJECT: Basic and Updating Economic Reports, FY73-75

1. The Policy Planning and Program Review Department has conducted a brief review of the major economic reporting tasks planned by the Regions in the next two years. We plan to conduct such a review twice a year, jointly with P & B. These reviews are based on the data provided by P & B plus our own qualitative information from the Regions. The report will be made available to members of the President's Council.

2. Although there are the usual uncertainties about proposed missions and reports, especially in FY75, the main features of the first review are:

- a. A good beginning is being made in FY73 on Basic Economic Reports (see attached Table 1). Of the fourteen Basic Missions scheduled, ten have completed their visit or are now in the field. Eight Basic Economic Reports will be completed in FY73 and the other six early in FY74.
- b. Although we are off to a good start, some improvements in the system are needed: collateral work prior to the missions should be planned well ahead of time; the selection of countries could be improved somewhat so as to make the annual load more even, and to place less emphasis on some countries which are of relatively small importance within their Regions. However, there is no doubt that selection will in general be influenced by various factors (e.g. special interest of the government, availability of a plan, special talents in the Region) which are of practical importance.
- c. Table 2 lists the Basic Missions contemplated for FY74 and 75, with the particular reasons for the selection of those countries and any special observations. An important feature on which the Regional Chief Economists agree is that basic reports should pull together previous work (sector missions, special studies, etc.), so that large missions will not be a necessary feature of all Basic Economic Missions.

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d. Nevertheless, a large proportion of the resources of Programs Departments in FY73 will still be devoted to the preparation of updating reports, and indications are that this trend will continue in FY74. Table 3 presents a notional estimate of the manpower devoted to economic missions in FY73, based on simplified Bank-wide assumptions about the manyears needed for each type of task derived from data in P & B Tables V(a) and V(c). Although these notional figures have obvious limitations, they do provide orders of magnitude of the planned workload. As is shown in Table 3, out of an estimated 108 manyears of economic work by the Country Programs Departments in FY73 (taking as a rough guide the number of economists in those departments as of December 1972, without making allowances for overhead and leave), 23 manyears are to be devoted to basic reports (plus 29 manyears of support from Regional Projects Department, CPS and DPS), while 50 manyears are to be devoted to updating, reconnaissance and some special reports (plus 25 manyears of support). It should be noted that one-fifth of the updating work of Country Programs Departments is to be devoted to countries for which consultative group meetings are planned within the next twelve months. 1/

3. Ernie and I have met with the Regional Chief Economists, DPS Directors and Mr. Van der Tak to review the above findings and discuss how to make the best use of the economists in country work. There was general agreement on the following points:

- a. While it is important to keep abreast of developments in active countries through periodic - and if necessary frequent - missions, the size of missions and the frequency of economic reports ought to be cut down.

---

1/ In chronological order: Sri Lanka, Thailand, Pakistan, Zaire, Ethiopia, Indonesia, Colombia, Peru, Philippines, India, Turkey (OECD meeting), Morocco and Korea.

March 1, 1973

- b. Among the ways which ought to be explored in order to diminish the work load of preparation of updating reports are (i) to reduce the volume, though not the frequency, of economic reporting for consultative groups (a major task in the Asia Region); (ii) to eliminate the need for a draft economic report - but not necessarily an economic mission - before the preparation of a CPN or CPP, except in cases where there is a clear need for such a report; and (iii) to develop guidelines on when it would be satisfactory to substitute a short updating memorandum for a broader updating report.
- c. The staff released in this way would then be freed for priority work on sector and basic missions and reports.

4. The Policy Planning and Program Review Department plans to work out with the Regions a plan for FY74 applying the above ideas. This plan would be submitted to you before the end of the fiscal year and, if satisfactory, would form the basis for our next review of country economic work in June.

#### Attachments

Clearance and cc: Mr. Stern

cc: Messrs. Knapp, Alter, Bell, Benjenk, Cargill, Chauffournier, Le Jeune, Husain, Wright, de la Renaudiere, Goodman, Diamond, Votaw, Hartwich, Wiese, Gutierrez, Van der Tak, Adler, Baneth, Please, de Vries, Avramovic, Thompson, Cauas, Hayes, Stevenson, Haq, Kuczynski, Edelman

PPKuczynski/rso/lm



Table 1: REVISED BASIC MISSION SCHEDULE, FY73-75

(No. of staff involved shown in parenthesis;  
Country Programs Departments + support staff)

	LAC	EMENA	W. AFRICA	E. AFRICA	ASIA
FY73	Argentina (2+3)	Bahrain <sup>a/</sup> (2+2)	Liberia <sup>a/</sup> (3+4)	Botswana <sup>a/</sup> (2+2)	None
	Brazil (6+6)	Tunisia <sup>a/</sup> (3+8)		Kenya <sup>a/</sup> (4+2)	
	Ecuador (4+6)	Turkey <sup>a/</sup> (3+7)		Malagasy (1+9)	
	Mexico (5+7)	Yugoslavia (4+5)			
	Trinidad- Employment (4+7)				
	Uruguay (2+2)				
FY74	Caribbean Region (4+4)	Iran (3+4)	Congo <sup>b/</sup> (5+3)	Somalia (2+4)	Bangladesh
		Morocco <sup>b/</sup> (2+6)	Ivory Coast <sup>b/</sup> (4+3)	Zaire (4+4)	India
		United Arab Emirates (3+3)	Sierra Leone (2+2)		Papua/N.G. Philippines
FY75	Dominican <sup>c/</sup> Republic (3+3)	Algeria	Cameroon	Burundi	Burma
	Peru <sup>c/</sup> (4+6)	Iraq	Ghana	Ethiopia	Malaysia
		Yemen A.R.	Nigeria	Sudan	Pakistan
		Yemen P.D.R.			Thailand
		Romania			

Note: Based on discussions with the Regions; FY75 information subject to some uncertainties.

- <sup>a/</sup> Report expected FY74.
- <sup>b/</sup> Report expected FY75; tentative.
- <sup>c/</sup> Tentative estimates.

Table 2: CONTENTS OF "BASIC" ECONOMIC MISSIONS, FY/4 AND FY/5

FY	Fiscal 1974		Country	Fiscal 1975	
	Main Objectives	Planned Collateral Economic Work		Main Objectives	Planned Collateral Economic Work
ICA/CARIBBEAN					
an Regional	Explore alternative strategies for regional economic integration.		<u>Peru</u>	In-depth analysis of development problems and prospects.	Material being developed for Consultative Group.
			<u>Dominican Republic</u>	Ditto	ILO Employment Study
	Timed to permit analysis of new 5-year plan and investment program.		<u>Algeria</u> )		
			<u>Iraq</u> )		
	First in-depth review in some years; review 5-year development plan; focus on agriculture, industry and tourism.		<u>Romania</u> )	Develop more comprehensive information base.	
			<u>Yemen A.R.</u> )		
			<u>Yemen PDR</u> )		
Arab states	In part, provision of technical assistance to public utilities sector.				
A	Analyze overall development policies, plus public enterprises, agriculture, transport, human resources sectors. FY75 mission will sharpen focus of this mission.		<u>Cameroon</u>	Pull together recent economic sector work, provide basis for reformulation 5-year lending strategy. Timed to planning cycle.	Agriculture sector survey; rural development prospects review; regional industry review.
1st	Pull together recent economic work, focus on fiscal, agricultural human resource policies. Timed to influence new development plan.	Employment; industry; planning model	<u>Ghana</u>	Evaluation of new policies prospects following major internal changes and financial difficulties. Timed to expected formulation of new policies.	Industry; non-industrial agriculture; population
Leone	First IEDD comprehensive study. Focus: fiscal, enclave enterprise, minerals. Timed in relation to new development plan.		<u>Nigeria</u>	Review draft plan and assess longer term development prospects. Timed in relation to draft plan.	Food crop production; rural development; population; employment; education; industrial capacity utilization
			<u>Under consideration but not yet decided:</u>		
			<u>C.A.R.</u>		
			<u>Chad</u>		
			<u>Eq. Guinea</u>		
			<u>Guinea</u>		
			<u>Burundi</u>	In-depth analysis of development problems/prospects.	Agriculture and education sector surveys.
	Analyze new development plan and pull together recent sector work.	Transport and education sector surveys	<u>Ethiopia</u>	Analyze new development plan, incorporating recent extensive sector work.	Industry sector survey.
			<u>Sudan</u>	Analyze draft plan, incorporating recent sector work.	Education, manpower, industry reviews. Possibly agriculture.



Table 1: COMMENTS OF "BASIC" ECONOMIC MISSIONS, FY74 and FY75

Country	Fiscal 1974		Country	Fiscal 1975	
	Main Objectives	Planned Collateral Economic Work		Main Objectives	Planned Collateral Economic Work
<u>Yemen</u>	In-depth, comprehensive analysis. Timed in relation to development plan preparation and political conditions.		<u>Burma</u>	Put together results of previous economic and sector analyses.	
	Comprehensive analysis required annually for consortium.				
<u>New Guinea</u>	Provide a basic input into new economic plan and economic analysis needs of external donors.		<u>Pakistan</u>	In-depth, comprehensive review. Timing convenient.	
<u>Philippines</u>	Comprehensive analysis of economy. Timing convenient in relation to staff availability.		<u>Thailand</u>	In-depth, comprehensive review. Timing convenient.	

Regional Chief Economists

Planning and Program Review Department  
 1975

**Table 3: ESTIMATED MANPOWER FOR COUNTRY ECONOMIC REPORTS - FY73**

(Number of people on mission shown next to each country;  
Program Department economists + support staff;  
totals are man-years based on assumptions in note)

	<u>LAC</u>	<u>EMENA</u>	<u>W. AFRICA</u>	<u>E. AFRICA</u>	<u>ASIA</u>
<u>Basic Reports</u>					
El Salvador <sup>1/</sup>	8 + 8	Bahrain 2 + 2	Liberia 3 + 6	Botswana 2 + 2	
Costa Rica	4 + 7	Tunisia* 3 + 8		Kenya 4 + 2	
Ecuador	5 + 7	Turkey* 3 + 12 <sup>1/</sup>		Malagasy 2 + 9	
Guatemala	4 + 7	Yugoslavia 5 + 6 <sup>1/</sup>			
Paraguay	2 + 2				
Man-year based on assumptions	(11.3 + 11.3)	(6.5 + 10.3)	(1.5 + 2.4)	(4.0 + 5.2)	( - )
<u>Updating and related reports</u>					
Antigua	1 + 1	Afghanistan 2 + 0	Cameroon 2 + 2	Lesotho 1 + 0	Bangladesh 4 + 0
Belize	2 + 0	Algeria 3 + 4	Congo 2 + 1	Malawi 3 + 1	Eurma 3 + 1
Bolivia*	3 + 5	Cyprus 2 + 0	Mali 2 + 0	Senegal 3 + 0	Hongkong 3 + 0
Costa Rica	3 + 2	Greece 2 + 0	Mauritania 2 + 3	Sudan 3 + 6	Indonesia <sup>2/</sup> 3 + 1
Dominican Rep.	2 + 1	Iran 2 + 3	Nigeria 2 + 2	Tanzania 1 + 0	Malaysia 4 + 4
El Salvador	2 + 1	Iraq 1 + 0	U. Volta 2 + 0		New Zealand 2 + 0
Guatemala	4 + 0	Lebanon 2 + 1	Ghana 1 + 2		Pakistan <sup>2/</sup> 6 + 11
Honduras	3 + 5	Malta 2 + 4	Ivory Coast 2 + 6 <sup>2/</sup>		Philippines <sup>2/</sup> 3 + 7
Jamaica	2 + 2	Morocco* 2 + 2			Sri Lanka* 2 + 1
Paraguay	2 + 0	Romania 2 + 2			Singapore 2 + 0
Puerto Rico	5 + 5	Spain 1 + 0			Taiwan 3 + 1
Venezuela	4 + 4	Syria 2 + 0			Thailand* 2 + 3
		Yemen A.R. 2 + 3			India <sup>3/</sup> 1 + 5
		Yemen P.D.R. 3 + 0			
		Ireland 1 + 0			
Man-year based on assumptions	(13.2 + 6.5)	(11.6 + 5.5)	(6.0 + 3.5)	(4.4 + 1.8)	(15.2 + 8.0)
<u>Economist-availability</u>					
In COM. FY4/	22	21	19	12	29
and Dep.s.					

1/ More than one mission related to basic report.  
2/ Includes special missions.

3/ Excludes manpower of Resident Mission.  
4/ Excluding regional offices.

5/ Countries for which consultative group meetings are planned in the next 12 months.

The man year requirements are based on the number of persons shown in P&B Tables Va and Vc as actually participating in each mission, multiplied by the following uniform factors:

Basic reports	Country Programs Economists' time needed	Others' time needed
1 person	0.5 man-years	0.4 man-years
<u>Updating and related reports</u>		
1 person	0.4 man-years	0.25 man-years

Because of their method of calculation and possible overlap of work between fiscal years, these estimates should obviously be only as general indicators of manpower.



ASSOCIATION | RECOMMENDATION AND DEVELOPMENT | COM. DIVISION

# OFFICE MEMORANDUM

ATTACHMENT

TO: Mr. Robert S. McNamee

DATE: March 6, 1973

FROM: John H. Adler, Director P & B 

SUBJECT: Approval of Changes in Budgeted Work Load

1. My answer to your February 26 question: "Should we not have a procedure for obtaining appropriate prior approval of changes in the budgeted work load?" (see attached copy of FY73 Midyear Review Backup Note No. 5 page 1) is that we certainly need such a procedure, especially in regard to economic and sector work; I have a specific proposal which is outlined below. Although further downward program adjustments of the degree recently experienced seem unlikely in any case now that the new organization is taking hold, I believe a system of precisely defined thresholds and responsibilities for program change approval is essential if the fullest possible benefits are to be realized from the new organization structure and the assignment of responsibility to managers for carrying out the programs under their jurisdiction.

2. I believe that the main responsibility for change review and approval should be lodged with the Regional Vice Presidents. In some cases, however, upon recommendation of one or more of the Vice Presidents Finance, Development Policy, and Projects, review and approval by the Senior Vice President or the President should be required. The following paragraphs spell out in detail how this general rule would be applied to work on economic, sector and special missions and reports.

### Country Economic Missions and Reports

3. The approved program would be reflected in (a) the five-year schedule of economic reports (Standard Table Vd); (b) the budget-year Standard Table Va (prepared following final budget decisions); (c) pertinent task and manpower figures in the summary work program tables prepared by each Regional Office following final budget approval (numbers of country economic missions during the FY, numbers of green cover country economic reports to be issued during the FY, and manweeks to be devoted thereto broken down by Regional Office and CPS and DPS contributing departments).

4. Mission and report dates in the tables should be originally established and changed as necessary entirely by Regional Office decision. The changes need be reported only through the routine updating of the tables submitted quarterly to P & B, except for changes which (a) move items into and out of the fiscal year, or (b) cumulatively alter total manweeks devoted to this category of work by more than 10%. In these exceptional cases, a memorandum notifying P & B of the change should be sent at the time of the Regional Vice President's decision with copies to the President, Senior Vice President, and Vice Presidents Finance, Development Policy, and Projects. The memorandum should give the reasons for the change and include an explanation of how any additional manpower needed will be provided from within existing Regional Office resources, or how any manpower freed by the change is planned to be used. Any matters with which one or more of the Vice Presidents Finance, Development Policy, and Projects takes issue may then be referred to the Senior Vice President for additional review and decision.

March 6, 1973

5. All changes in the program will, of course, be reflected in the routine table revisions, analyzed quarterly by P & B, discussed with the RVPs if necessary by Mr. Aldewereld, and reported to the President if necessary. Thus, any significant cumulative effects of minor shifts in the program will also be brought to senior management's attention.

Sector and Special Missions and Reports

6. Sector missions and reports should be handled exactly as described above for economic work, except that (a) standard table Vb governs instead of Va, and (b) we do not yet have the equivalent of table Vd for a five-year program of sector reports (although the Regional Offices are now working out five-year programs so that we should be able to prepare such a table reasonably soon). Special missions and reports should be handled in the same way as sector work except that we will have only a two-year program of reports rather than one covering five-years.

Attachment

cc: Mr. Knapp, Senior Vice President  
Mr. Aldewereld, Vice President Finance  
Mr. Chenery, Vice President Development Policy  
Mr. Baum, Vice President Projects Staff

PJBowron/JBlaxall/JHAdler:ajw



FY73 Work Programs - Original vs. Expected

*Albrecht  
Henry  
Allen  
Should we not have  
a provision for...*

1. The tables below show our latest estimates of FY73 output in comparison with original budget plans for country economic and sector work, project processing, and project supervision.

Country Economic, Sector, and Special Missions and Reports

2. In brief, we are behind schedule on economic reports, with only two thirds of those planned for the first half of FY73 actually having materialized by December 31; sector mission and report plans have been sharply curtailed from those tentatively envisaged at the beginning of the FY (although the situation was so unsettled at the beginning of the year that we really cannot say we had a sector work program); special missions and reports, on the other hand, are in pretty good shape. The economic mission and report totals are as follows:

	<u>FY72 Actual</u>	<u>FY73 Budget</u>	<u>FY73 Current Schedule</u>	<u>1st Half FY72</u>	<u>1st Half FY73</u>
Economic Reports	57	73	65	35	27 <sup>a/</sup>
Economic Missions	67	70	65	38	25
Economic Man-missions	372	b/	295	179	142

a/ 37 originally scheduled.

b/ Man-mission figures were not worked out for the Budget.

3. The FY73 budget projected a three percent increase in manpower expenditure on country economic work. While the number of economic reports was programmed to increase by 15 percent, manpower expenditure per report was expected to decline due to the increased reliance on shorter updating economic reports and fewer but more comprehensive "basic" reports. Current schedules, however, call for a smaller increase in reports than previously planned (fifteen missions have been cancelled including seven "A" category countries -- Sudan, Uganda, Ghana, Indonesia, Egypt, Argentina and Chile). Furthermore, the current slippage trend will have to be sharply reversed if we are to do more in FY73 than in FY72.

4. The next table shows sector mission and report totals:

	<u>FY72 Actual</u>	<u>FY73 Budget</u>	<u>FY73 Current Schedule</u>	<u>1st Half FY72</u>	<u>1st Half FY73</u>
Sector Reports	30	46	29	15	11 <sup>a/</sup>
Sector Missions	30	52	32	13	10
Sector Man-missions	158	b/	155	74	60

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President                      DATE: March 29, 1973  
FROM: Hollis B. Chenery, VP, Development Policy  
SUBJECT: A Joint Program with ECLA on Income Distribution

1. Attached is a memorandum from Jorge Cauas, the Director of the Development Research Center, summarizing his recent trip to ECLA to develop a joint program of research on income distribution in Latin America. The trip was highly successful. We have agreed with ECLA to undertake a joint project for compiling income distribution data on twelve countries, for which ECLA has access to the original survey tapes. We will finance a consultant and his associated travel costs, while ECLA will provide office facilities, counterpart staff and their travel costs. Computer programming will be shared equally between the Bank and ECLA. We expect to finance these costs out of our regular budgetary resources.

2. The importance of this arrangement is twofold. First, it will provide us important new information on income distribution for some of the higher income countries, which is now quite inadequate. Secondly, it will establish a working relationship with one of the better UN regional commissions, which for some time has been suggesting a collaborative arrangement. ECLA is under the guidance of Enrique Inglesías, one of the outstanding economists in Latin America.

3. I believe that this project will provide us both better information in an important field and considerably strengthen the Bank's reputation in Latin America. Because of the basic importance of this arrangement, I thought you would be interested in the details.

cc: Mr. William Clark, Director, External Relations  
Mr. Jorge Cauas, Director, DRC

Attachment

*Answer Excellent*

ESTern:HBChenery:lm:di



## OFFICE MEMORANDUM

TO: Messrs. Hollis Chenery and Ernest Stern

FROM: Jorge Cauas and Montek S. Ahluwalia

SUBJECT: Income Distribution Research: Visit to ECLA and CEPLAN

DATE: March 23, 1973

1. We have just returned from a two week visit to Santiago in the course of which we had extensive discussions with ECLA on the availability of data on income distribution in Latin America and the possibilities for further research in this field. We also attended a seminar on Income Distribution and Development organised by the Centro de Estudios de Planificación Nacional (CEPLAN). The main points of interest arising from our visit are summarised below.

(i) ECLA Income Distribution Data

2. The ECLA meetings (in which we were joined by Mr. Dragoslav Avramovic Chief Economist, Latin American Region) began with a country by country survey of available data sources on income distribution. ECLA staff have compiled a comprehensive bibliography of such sources for each country in the region and we were able to compare these with the sources used by country economists in the Bank. In general we found that country economists were extremely well informed about the available data and in most cases were using the best available sources in country economic reporting. However the quality, information potential and certainly the comparability of data even from the best sources is as yet undetermined placing severe limitations on attempts at interpretation. These limitations became quite apparent in our discussions with ECLA.

3. Of the 19 countries reviewed in our discussions only 9 have "reasonably good" survey or census data covering the whole country. Even in these cases the statistical picture presented is subject to considerable error due to the usual widely recognised but frequently ignored factors. We list below some well known problems about which ECLA staff were very concerned and which raise questions about even the best data available:

- sample design problems: These are obvious in the case of survey data but are also relevant for census data since the population is being sampled at a point in time (In the case of wage labour weekly or monthly wage earnings for the last week or month are obtained and scaled up to obtain annual earnings). A measure of the sampling error is obtained by comparing national accounts estimates for total personal income with national totals derived from sample data blown up by population. Errors up to 30 percent were not uncommon for some Latin American countries.
- problems of measurement both definitional and conceptual: Imputed rents and valuation of subsistence consumption present the most obvious problems. We have no idea what assumptions were made in different surveys.
- response bias: This is the commonest source of underestimation of upper level incomes and therefore the degree of concentration. In one of the ECLA sources reviewed the survey data under reported profits by 30 percent when compared with national accounts figures.

- short term variability: When dealing with survey data as a measure of income distribution we will have to be content at best with one survey that is two to four years old. To treat this as measuring current income distribution (instead of a historical observation) is to assume substantial stability in income distribution patterns. We have no basis for making this assumption especially in countries with short term instability or high inflation rates.

Since the seriousness of these problems and any specific corrective measures adopted varies from case to case it is obvious that making comparisons (whether intertemporal or intercountry) is extremely hazardous.

4. These problems have important implications for the use of such data in Bank economic reporting. They suggest that mere presentation of the data in country economic reporting (as is now attempted) is of limited value. Undoubtedly the available data despite their limitations suffice to present the broad picture of inequality in income distribution but of course this broad picture has never really been doubted. The interest in income distribution lies essentially in whether it is improving or deteriorating, whether particular policies can affect these changes and at what cost and whether country performance in this respect is better or worse than in other countries. On these subjects we are convinced that available data or for that matter theory permits only the most qualified judgments in a handful of countries and then only after considerable detailed study of original data. It follows that if income distribution data are to be presented for each country in normal economic reporting we should be alert to the dangers of casual empiricism especially for intertemporal and intercountry comparisons. In general such data should only be presented with appropriate references to the original source, extent of coverage, size of sample, types of income surveyed and any corrections made to the data. This is the minimum information necessary for the reader to place data presented in some sort of perspective, and would undoubtedly warn against the worst excesses of unjustified interpretation.

5. Research can make a definite but limited contribution at this stage. The basic information problem can only be solved if data collection on this subject is integrated into the normal "statistical effort" of the country on the basis of an accepted system (as with national accounts) that reflects the needs of economic analysis and interpretation. This is essentially a long term goal that will depend on institutional developments as much as on economic and statistical expertise. Meanwhile a good deal can be gained from a detailed study of available original data both in terms of improving our knowledge of particular countries and developing a broader methodology for collecting relevant income distribution data. This is essentially what is envisaged in the data part of the work program of the Income Distribution Division and we propose to undertake this work jointly with ECLA staff in the case of Latin American countries. We found ECLA responded enthusiastically to our proposal for joint research.

6. We have accordingly agreed with Mr. Enrique Inglesias (Executive Secretary ECLA) on an outline terms of reference for a joint BankECLA team to work in Santiago on survey data for about a dozen countries for which ECLA has access to original tapes. (See Attachment I). The study will cover about twenty-five surveys



(described as nation wide surveys) which represent as far as can be determined at present the best available recent data for these countries. As outlined in the draft terms of reference the project will provide us with the following in the course of one year.

- (i) detailed information from original data on the profile of income distribution for a dozen countries.
- (ii) cross checks with national accounts enabling evaluation of this data.
- (iii) indepth study of two or three countries comparing these data with other primary data for the country to develop a more rigorous set of cross checks.
- (iv) an outline methodology for detailed country studies on income distribution in the light of available and evaluated data (a key constraint in any planned study.)

We have identified a possible consultant (Mr. Oscar Altimir, an Argentinian national currently working for the U.N. in Mexico) and are in the process of negotiating a contract with him.

(ii) ECLA Policy Oriented Research

7. We also discussed directions for research of a more analytical kind on the determinants of income distribution and implications for policy with ECLA staff. ECLA officials were emphatic that "Policy oriented research" in this field will be given priority in their work and they have devised a general framework for this purpose. It is likely that they will want to undertake countries studies in this field. They were keenly interested in maintaining close working contact to enable periodic joint review of work in progress and research proposals as they become further defined. We have agreed that the review meetings planned to monitor the joint research on data will be used for this purpose and we will mutually advertise our interest and involvement in income distribution to other institutions interested in the field.

(iii) CEPLAN Seminar

8. The CEPLAN Seminar provided an interesting overview of various types of ongoing research in income distribution. (See Attachment 2). Several of the papers had already surfaced elsewhere (Profs. Adelman, Fishlow, Weisskopf) but there were several papers on income distribution problems in Latin America. These papers were in themselves interesting but they confirm the suspicion that we are still in search of a theory in this field. One point that surfaced repeatedly in the discussions was the sensitivity of income distribution patterns to short term phenomena such as wages and price policies, and consequently to short run disequilibria in the economy. The question has obvious relevance for present day Chile.



9. The last day of the seminar was devoted to a panel discussion on future directions of research. The discussion centered on the problems of information, analysis and policy. Emphasis was placed on "policy instruments" such as factor prices, product prices, wealth distribution and access to education. The role of the government and the importance of the political and social environment were stressed.

Attachments 1 and 2

cc: Messrs. Stevenson  
Culhati  
Hayes  
Haq  
Avramoric  
Pfeffermann  
Ross  
Hawkins  
Turnham  
Mazumdar  
McPheeters



NACIONES UNIDAS

COMISION ECONOMICA PARA AMERICA LATINA  
EDIFICIO NACIONES UNIDAS  
AVENIDA DAG HAMMARSKJOLD  
CASILLA 179 D  
SANTIAGO, CHILE

REFERENCIA: ECO 625/1 (2)

CABLE: UNATIONS

14 March 1973

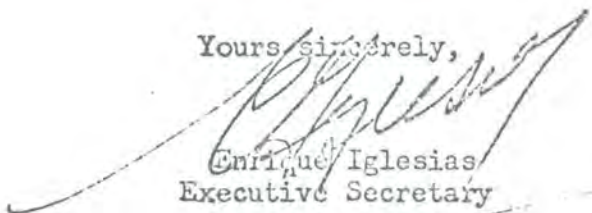
Dear Mr. Cauas,

... The attached notes summarize the conclusions reached during discussions held last week between staff members of both organizations with a view to outlining a joint work programme in the field of income distribution.

In this respect, I am very happy to inform you that I am fully agreeable to having the text used as a basis for carrying out the above mentioned project.

I wish to express my satisfaction at the possibilities of co-operation between the two organizations afforded by this joint work programme, and trust that in the future we may have the opportunity of incorporating other areas of common interest within the framework of mutual co-operation.

Yours sincerely,

  
Enrique Iglesias  
Executive Secretary

Mr. Jorge Cauas, Director  
Development Research Center  
International Bank for Reconstruction  
& Development  
1816 H. Street, N.W.  
Washington, D.C. 20433  
U.S.A.

## INCOME DISTRIBUTION JOINT PROGRAMME

The following is a preliminary outline of a proposed joint research project between the Bank and ECLA in the field of income distribution in the Latin American region. The research team will consist of Mr. Oscar Altimir (Bank Consultant) and Mr. Horacio Santamaría (Chief, National Accounts Section, ECLA) working with two research assistants in Santiago. The project is expected to last approximately one year and may lead to further research projects in this field to be determined at the conclusion of this stage.

### PART A: THE PROPOSAL

The research proposal consists of three separate stages:

#### I. Presentation and Analysis of available data

- (a) The main object in this stage will be to prepare multiple tabulations of survey data for about 12 countries (covering approximately 25 surveys) currently available with ECLA. The tabulations to be prepared will be selected following the guidelines given in Annex I. These tabulations will be accompanied by statements of the basic characteristics of the data with a view to assessing degrees of comparability between countries.
- (b) At a later stage (see part B: Timing) the project will develop appropriate "control devices" to check the consistency of the survey data with the following:

- (i) national accounts data on personal income and its components (wages, profits, etc.);
- (ii) population and employment data.

These "control devices" will be developed and presented for each of the 12 countries.



II. Comparison with alternative data sources

In the second stage the analysis of income distribution data will be extended to include other data sources. The main aim in this part of the project is to examine possible methodologies for comparing income distribution data from household surveys with other primary data relating to income distribution e.g.:

- (i) Income tax data
- (ii) Social security data
- (iii) Economic census (both agricultural and industrial censuses)
- (iv) Other sources

The output of the second stage will be in two parts:

- (a) Working paper discussing the conceptual problems in this area and identifying possible operational procedures to make cross checks. The paper will evaluate how far these comparisons can extend our knowledge of income distribution derived from household surveys.
- (b) Application of these procedures to some of the countries covered under item I (a) and (b) depending upon data availability. It is expected that such application may be possible for two or three countries which can be covered in depth. In each case the analysis will incorporate the results of investigations under I (b) above. The results of these investigations will be presented in a separate report on each country. The report will evaluate the the problems of measurement of income distribution and the extent to which these problems can be overcome by developing appropriate control procedures. The report will

pay special attention to familiar problems of measuring non-monetary income in rural areas and especially in the subsistence sector.<sup>1/</sup>

### III. A research proposal

The third stage of this joint effort will attempt to develop a research proposal for an indepth country case study of factors affecting income distribution for one or more countries of the region. The aim of such a proposal should be to go behind the statistical patterns yielded by size distribution and the proposal should focus on how to relate such patterns to the functional distribution within sectors and the sectoral pattern of production and growth. The basic methodology proposed will be intensively discussed before determining the feasibility of future research in this direction.

#### PART B: TIMING

The research proposal outlined above will be conducted according to the following time table:

- |             |   |
|-------------|---|
| (1) Aug. 1  | Discussion of the first draft of Ia.                              |
|             | Discussion of the first draft of IIa.                             |
| (2) Dec. 31 | Discussion of final draft I(a) & (b).                             |
|             | Discussion of first draft (or report on work in progress) of IIb. |
| (3) April 1 | Discussion of final draft II(a) & (b).                            |
|             | Submission of research proposal for in depth studies.             |

---

<sup>1/</sup> We hope that these in depth studies will serve as a basis for developing a general methodology on how to collect and present income distribution data. Work on such a methodology is necessarily long term and can be undertaken by a special task force as deemed necessary.



PART C: ADMINISTRATION

- (i) The Bank will pay for the consultant and will meet travel costs of the consultant (including subsistence) while on official travel;
- (ii) ECLA will provide office facilities and counterpart staff and their travel costs. It is estimated that two research assistants will be necessary, one of which will be assigned to Mr. Altimir to work directly with him.<sup>2/</sup>
- (iii) Computer and Programming resources up to \$ 3 000 may be needed and will be equally shared up to that total amount by the Bank and ECLA.

---

<sup>2/</sup> His selection will be discussed with Mr. Altimir.

## ANNEX I

### TABLATIONS FOR DATA ON INCOME DISTRIBUTION

1. Total population, by age groups according to sex.
2. Units of occupied household, by tenure form and number of rooms, according to number of persons in the unit.
3. Total households, by age groups of head of household and sex, according to household type.
4. Total households, by number of persons per household, according to household type.
5. Total households, by number of children per household, according to household type.
6. Population over 10 years, by age groups and sex, according to activity.
7. Population over 10 years, by age groups and sex, according to unemployment characteristics.
8. Population over 10 years, by conjugal status and sex, according to activity condition.
9. Economically active population, over 10 years, by kind of economic activity according to occupational situation and sex.
10. Economically active population over 10 years, by occupation, according to occupational situation and sex.
11. Economically active population over 10 years, by occupational category, according to occupational situation and sex.
12. Occupied population over 10 years, by kind of economic activity and sex, according to age groups.
13. Occupied population over 10 years, by occupation and sex, according to age groups.
14. Occupied population over 10 years, by occupational category and sex, according to age groups.
15. Economically active population over 10 years, by kind of economic activity and sex, according to age groups.
16. Economically active population over 10 years, by occupation and sex, according to age groups.



17. Economically active population over 10 years, by occupational category and sex, according to age groups.
18. Occupied population over 10 years, by occupation and educational attainment, according to kind of economic activity.
19. Economically active population over 10 years, by occupation and educational attainment, according to kind of economic activity.
20. Occupied population over 10 years, by educational attainment and sex, according to kind of economic activity.
21. Occupied population over 10 years, by occupational category and sex, according to kind of economic activity.
22. Economically active population over 10 years, by occupational category and sex, according to kind of economic activity.
23. Occupied population over 10 years, by hours worked during week and sex, according to kind of economic activity and occupational category.
24. Occupied population over 10 years, by socioeconomic groups and sex, according to income groups.
25. Economically active population over 10 years, by socioeconomic groups and sex, according to income groups.
27. Wage-earner population over 10 years, by hours worked during week and sex, according to income groups.
28. Occupied population over 10 years, by age groups and sex, according to income groups.
29. Occupied population over 10 years, by kind of economic activity and sex, according to income groups.
30. Occupied population over 10 years, by occupation and sex, according to income groups.
31. Occupied population over 10 years, by occupational category, educational attainment and sex, according to income groups.
32. Occupied population over 10 years, by kind of economic activity and occupational category, according to income group.
33. Population, by relationship to head of household, according to income groups.
34. Households by socioeconomic group of head of household, according to household income groups. 1/

35. Households by number of members in the household, according to income groups. 2/
36. Households, by household type, according to household income groups.
37. Households by educational attainment of head of household, according to household income groups. 3/
38. Households, by age group of head of household and sex, according to household income groups. 3/
39. Households, by socioeconomic group of head of household, according to size of household. 2/
40. Consumption expenditure, by object expenditure, according to socioeconomic group of head of household.
41. Consumption expenditure, by object expenditure, according to household income groups. 4/
42. Consumption expenditure, by object expenditure, according to size of household.
43. Households, by size of household, according to household consumption groups.
44. Households, by household consumption groups, according to household income groups. 5/
45. Income: by source of income, according to income groups. 6/
46. Households, by changes in the asset and liability, according to household income groups.

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1/ In the cell: number of households, number of members, amount of household income and number of recipients.

2/ In the cell: number of households, number of recipients and amount of household income.

3/ In the cell: number of households, number of members and amount of household income.

4/ In the cell: number of households, number of members and amount of household expenditure.

5/ In the cell: number of households and number of members.

6/ Designed for recipients, can also be used for families.

14 March 1973

Dear Mr. Iglesias,

I am in receipt of your letter of 14 March expressing your complete agreement with the proposed joint programme on income distribution prepared by a group of staff members of both organizations, as a result of the meetings held in Santiago from 5 to 9 March 1973.

In this connection, I wish to inform you that I fully approve the work programme and, in order to fulfill this project within the dates fixed, we will take the necessary administrative steps to obtain Mr. Oscar Altamir's services as consultant for the programme.

I sincerely hope that this joint venture will lead to further co-operation between the two organizations in the future.

Yours sincerely,

Jorge Cauas  
Director  
Development Research Center  
International Bank for Reconstruction  
and Development

Mr. Enrique Iglesias  
Executive Secretary  
Economic Commission for Latin America  
Santiago



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President      DATE: March 26, 1973  
FROM: Hollis B. Chenery, *HBC* VP, Development Policy  
SUBJECT: Reply to Lady Jackson

Attached is a draft which you might use in responding to Barbara. In fact, we are a good deal more skeptical of her proposal than seemed diplomatic to state in the reply. Her assumptions - about demand and the deflationary effect of activated reserves - seem wrong, and I believe that a major grant proposal at this time is not politically practical and would add to the difficulties of the SDR-Link discussions.

Attachment

EStern/lm

DRAFT  
PHayes/EStern:lm  
3/26/73

Dollar Overhang - Reply to Lady Jackson

Thank you very much for sending me your idea about translating the dollar overhang into assistance for developing countries. I don't have to tell you how interested we are in getting more aid, and aid on a more automatic basis, as part of the reform of the international monetary system. As I think you know, we have been invited to attend the meetings of the Group of Twenty as an observer and Sir Denis is our representative.

The primary focus has been on generating aid resources as part of future SDR creations, but the idea of generating a flow of aid as a corollary to funding of the dollar (and sterling) overhang also has been canvassed, though not, to our knowledge, in quite the form you suggest.

The basic point, as mentioned in your note, is that all the developed countries like to run balance of payments surpluses and build up their reserves. The natural counterpart to surpluses of the developed countries is deficits on current account in the developing countries, and hence the original Stamp Plan and all the other variants of the Link proposal. Frank Southard has said, I think rightly, that the economics of the Link is rather simple, and that what is involved at this stage is the necessary political decisions. Countries are

concerned with the real cost of assistance and who ends up with the reserves. Nothing in my discussions suggests that developed countries feel their markets to be "saturated", as you suggest. On the contrary many seem to be motivated by concerns about excess demand and competing domestic priorities.

One major snag occurs to us in your proposal. That is that if the excess dollars held by other countries were handed to the developing countries, which would then use them to purchase goods and services for development, they would end up coming back to the developed countries. To the extent that they were spent in the United States, the overhang would be reduced, but not if they were spent in other Western countries. To liquidate the overhang, it is necessary

- (a) that the present holders of "excess" dollars should receive in exchange an asset which they are prepared to hold;
- (b) that the destabilizing short-term claims on the U.S. (and U.K.) should be written off or changed into a stable, long-term obligation.

In short, I am very anxious that the reform of the monetary system benefits the developing countries by providing them with additional aid resources. The Fund staff and some Western governments are sympathetic to such ideas. The manner in which this objective can be achieved, and whether it can involve the liquidation of the dollar and sterling overhangs is clearly going to depend on some pretty delicate negotiations between the creditors and the debtors.



1. In 1947, the Atlantic community faced the risk of a total breakdown, in its efforts to restore world trade and world cooperation in the wake of World War II. Between 1944 and 1947, the Americans had sold nearly \$30 billion dollars more of merchandise than they had purchased -- in the next eighteen months the figure was to rise to nearly \$41 billion. With such an imbalance between trading partners, there was no hope that by normal means trade would be restored and the resources made available for the restoration of war damage in Europe and Japan.

2. The American response, after its early contributions to Allied military government and to UNRRA, was to contribute about half the overhanging dollar surplus in direct grants to Europe under the terms of the Marshall Plan. The result was a twenty year boom of unexampled prosperity during which Europe and Japan reached new levels of productivity and became effective trade partners with the United States in a massive expansion of world trade. Had no action been taken by the United States, the result would have been the collapse of the world's one-sided trade and virtually no flow of funds to European reconstruction.

3. Today, as a result of a variety of causes, the dollar "overhang" has reached \$80 billion and is in the hands of those governments formally <sup>er</sup> assisted in their reconstruction by the United States. The result of purely "technical" answers to this problem is likely to be competitive devaluations and competitive surcharges. Moreover,

underlying the possible conflict is the fact that the world's three largest industrial areas are competing with each other for many of the same types of "consumer durables" and components of consumer durables in markets already fairly saturated with these types of goods. If Datsun has already sold the first automobile to the family, Ford and Volkswagon have a harder time competing to sell the second. The likely outcome therefore may be a possible failure in expanding demand combined with fierce competition to satisfy it, each competitor aiming at a trade surplus and each determined to avoid the deficit which must accompany a surplus. This risk is not entirely unremnescent of the disastrous collapse in trade and monetary policy of 1929 and the continued floundering thereafter.

4. The governments of the market economies appear therefore to have two major models to choose between. The model of discordance in 1929 led to a fall of two-thirds in world trade in nine months and was a proximate cause of renewed general war ten years later. The "Marshall" model of 1948 led to the longest, widest expansion of prosperity in industrial history and to the avoidance of Great Power conflict. It would seem the course of wisdom today to explore the second model.

5. Its essence is twofold. First, governments in Europe and Japan who are now in control of economies fully as prosperous as the United States in 1947, should determine, as did the American government, to give away a third to a half of the present dollar "overhang" held at this time by central banks, the share of each government

to be determined by the size of its surplus. The overhang is of the order of \$50 billion dollars. Possibly \$25 to \$30 billion could now be set aside for free transfer. Secondly, the grants should go to countries in need of capital assistance to build up productive economics in which economic and social progress can bring them over the threshold of modernization. The release of the capital should, as with the Marshall Plan, take place over time and be directed to economic and social programs agreed to by the governments concerned and possibly by the World Bank and by international consortia.

6. The advantages of this policy for dealing with the crisis are (i) it would halve the present disruptive dollar surplus, (ii) it would transfer the dollars to nations that will use and not hoard them, (iii) it will expand the productive capacity of nations that cannot yet enter fully the world's modern economic and commercial system: by doing so it creates new markets and takes the strain off the fairly saturated markets of the already developed (iv) it has strong ~~disinflationary~~ effects in developed societies (v) it creates an atmosphere of vision and goodwill within which urgent technical questions -- of currency rates, convertability, world liquidity and an orderly monetary system -- need no longer be solved "out of the barrel of the gun".



## OFFICE MEMORANDUM

Mr. Robert S. McNamara

DATE: March 23, 1973

Hollis B. Chenery *ABC*The Enke Study

We met with Enke and his assistants this morning to go over their request for information. We agreed that the Bank could provide some materials on a number of points raised in Enke's letter and Haq is proceeding to gather material on these points.

Stern and I have serious reservations about the extent to which we should provide our views on some of these issues in writing, since we do not know what use is to be made of the material or the study. This applies particularly to the details of the first two questions posed by Enke, including the impact of different IDA levels on specific country programs. We would be inclined to cover these sensitive topics in general terms and indicate that we would be available to supplement the written response orally. I would like some advice from you before we submit anything in writing.

*3/26*  
*S*  
*Agree*  
*Enke*

Attached is a memorandum from Stern on the background to the Enke study which was written after we received his request but before our meeting.

Attachment

HBChenery:EStern/csm

cc: Mr. J.B. Knapp

## OFFICE MEMORANDUM

TO: Mr. H.B. Chenery, VP, Development Policy DATE: March 23, 1973

FROM: Ernest Stern, Senior Adviser, VPD

SUBJECT: Background on the Enke Study

1. I have checked around and collected information on the genesis of the Enke study. As usual it turns out that the U.S. Government is in a state of moderate to severe chaos.
2. Apparently it all started when the Treasury, which is seeking to breathe life into the NAC, suggested that as a first effort for consideration at the principal level a staff study on the role of the U.S. in the international financial organizations be undertaken. This was agreed to, but in very short order Treasury tried to expand this study into a general review of U.S. aid policy. This blatant power grab sent all the other pigeons scurrying; and after protests from OMB, State, AID, and CIEP, the CIEP announced the Enke study. The study was announced without, as far as anyone knows, prior consultation with the agencies concerned.
3. A second, though apparently subordinate, causal factor was the attempts by John Hannah to get someone in the White House to read his proposals on how the U.S. AID program might be reshaped for FY1974. While there has been no response to his paper, several of the individuals who were apparently involved in starting the Enke study seemed to have been reminded by Hannah's memo of the dismal state of U.S. foreign assistance and the absence of any clear policy.
4. Although the Enke study is being conducted under the auspices of CIEP, which is allegedly the coordinating body for the U.S. Government on such matters, this has not meant a suspension of the Treasury study. Indeed it turns out there is also a study which the State Department has undertaken on the same subject. This study is being conducted by the Policy Planning Staff, and they had previously asked us for some statistical information to update projections in the Pearson Commission report.
5. Meanwhile back at the OMB they are in the middle of final clearance on the legislative proposals for foreign assistance for FY1974. It is not clear to them or to the CIEP just what is to be done with the Enke study

after it is completed, although it is on a time schedule which will enable it to be of use in the formulation of legislation for FY1974.

6. Conversations which Enke has had with several of the Departments indicate that he is aiming for a rather short piece dealing with the basic strategic questions of U.S. foreign assistance along the lines of the Pearson report. The basic issue he seems to be posing is whether the foreign aid program is really responsive to Presidential needs; and if so, how it can be used most effectively. If it is not fully responsive, what changes need to be made to make it so.

7. Although there are no signs of serious high level political interest, the fact that the Enke study was commissioned is the strongest sign to date that the Administration recognizes the existence of the developing countries and therefore certainly warrants a thorough response from us.

cc: Mr. Haq



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, <sup>HBC</sup>VP, Development Policy

SUBJECT: Ford Foundation Program in Bangladesh

DATE: March 21, 1973

1. Dr. Dale Hathaway, Ford Foundation, visited us today at the request of Dave Bell to discuss a possible project in Bangladesh which, I understand, Dave intends to discuss with you in the near future.
2. In the discussion with Ernie and myself, Dr. Hathaway outlined a still vague idea. The problem is that senior members of the Bangladesh Planning Commission, senior staff officers of that Commission and of other government agencies have many attractive opportunities outside of Bangladesh while within Bangladesh they work under great pressure, with little appreciation and at low salaries. There is, at the moment, an acute risk that several will leave Bangladesh for positions elsewhere. In order to provide them with a more attractive opportunity within Bangladesh, the Ford Foundation would consider establishing a program which would enable these people to spend two out of every five years, probably in six-month installments, outside of Bangladesh at an academic institution. This would enable them to rejuvenate their academic standing, permit them to do some basic work in a less pressurized atmosphere and supplement their income. The program would require that the individuals return to Bangladesh for further service.
3. Attached is a proposal from the Institute of Development Studies at Sussex which was prepared after a discussion with Ford and visits to Bangladesh by IDS personnel. This proposal has several problem areas but is indicative of the kind of institutional arrangement which might prove possible.
4. Dr. Hathaway was interested in finding out whether the Bank could support such a program. We told him that in our view the program was very desirable and would make a substantial contribution to the continued and hopefully increasing effectiveness of the Bangladesh Planning Commission. The Bank normally does not provide grant assistance for training, and it was difficult for us to

see why we should make an exception in this case. However, we would be prepared to provide a position for well qualified individuals in our Development Research Center for a year at a time as part of this program. It might also be possible to use some of the present or proposed credits for Bangladesh, which contain training components, to supplement the Ford program. In any event, if the budget which IDS proposes is a reasonable five-year estimate, the cost is very modest. \$250,000 over a five-year period should be well within Ford's financing capacity.

5. Ford has a number of objectives in Bangladesh, and at present they do not seem to have separated these clearly. One objective is to increase the institutional capacity for policy oriented research, and for this purpose they are processing a grant to BIDE. They are also concerned with training more junior officers in project analysis and other aspects of economic management. A third objective is to develop institutional interest in Bangladesh in a developed country institution. Finally, they are concerned with improving the prospects of retaining senior Planning Commission and other economic officials in Bangladesh. While these objectives can certainly be combined in one program, we felt it essential that the program aimed at the senior officials be as unstructured as possible. If the program is to meet its objectives, these people must have maximum choice as to which institution they would wish to attend and what work they would like to do. It is not realistic to expect them all to go to the same one or two institutions or for all of them to engage in research. Some might simply wish to do some writing, participate in seminars or spend time on reading and research without necessarily producing a product within the six-month period. In essence the program should offer such personnel a frequent and unfettered sabbatical, and this purpose would be lost if it were too closely intertwined with the objective of building research capacity within Bangladesh or developing an institutional specialization on Bangladesh in one of the developed countries.

6. In summary, if Dave raises the issue with you, I recommend that you should strongly support the idea and urge Ford to establish a program which, within their own administrative constraints, is as nearly like a fellowship program as they can make it.

Attachment  
EStern/lm



11/11/73

# THE INSTITUTE OF DEVELOPMENT STUDIES

at THE UNIVERSITY OF SUSSEX, ANDREW COHEN BUILDING, FALMER  
BRIGHTON BN1 9RE

Telephone BRIGHTON (0BR3) 66261

Telegrams DEVELOPMENT BRIGHTON

RICHARD JOLLY (Director)

ARJ/MB

8 March 1973

Dr. Dale Hathaway,  
Ford Foundation,  
320 East 43rd Street,  
New York, N.Y. 10017,  
U.S.A.

Dear Dr. Hathaway,

... I am enclosing the draft of a paper outlining the sort of link scheme between Bangladesh, IDS and other institutions, which we think would be useful. You will note that it follows very much the lines of our discussion in Sussex. I very much look forward to getting your reactions to this, either by letter or when you next visit Sussex. If you are able to give us some preliminary comments on paper, it might help speed up the process of reaching agreement - for which there is obvious need if we are to respond to the urgent situation in Bangladesh.

Yours sincerely,

*pp Richard Jolly*

(Dictated by Richard Jolly but signed in his absence)



DRAFT  
ML/ARJ/MB  
5 March 1973

The aims, content and approximate cost of a  
link scheme between IDS and Bangladesh through  
the Ford Foundation.

This note outlines a proposal emerging from informal discussions between Dale Hathaway and Michael Lipton and various members of the Planning Commission in Bangladesh, and with Richard Jolly and others of the Institute of Development Studies in Brighton.

1. Planning in Bangladesh depends on a small number of key men, chiefly the members of the Planning Commission itself. If these men leave Bangladesh for good, there will be nobody left with an intellectual commitment to the agricultural plan as a whole, or even with much grasp of what agricultural planning should mean. Lacking defenders, the plan will be replaced by ad hoc decisions, largely the outcomes of faction-fighting in the Administration. This applies in particular to issues of price policy, input distribution and land reform, where the pressures of bureaucratic self-interest are strongly opposed to the concerns of the planner.
2. Nevertheless, the departure of all four key Planning Commissioners is imminent, unless something can be done to prevent this "brain drain". They can command international salaries at many times their present level of earnings. In addition, the Commissioners feel the strains of their administrative burdens and intellectual isolation which would cumulatively render them academically obsolescent and increasingly bureaucratized (and hence less useful) even as planners. To expect men of their stature to stay at their

posts indefinitely would thus be to demand a degree of disinterested loyalty that is not only superhuman but, in the long term, counter-productive.

3. It is necessary, therefore, not to preach at the draining brains but rather to provide them with acceptable alternative courses of action. One such course was discussed in February 1973 in Dacca by individual Planning Commissioners with representatives of the Ford Foundation and (separately) of the Institute of Development Studies at Sussex University.

4. The scheme would involve Planning Commissioners in spending roughly two years out of every five in a selected research institution in a developed country. The other three years would be spent at the disposal of the Bangladesh Planning Commission. This could in some cases be achieved by consultancies, but these would have to be combined with primary appointments in Bangladesh, e.g. at Dacca University. Whether the two years abroad were taken at a stretch or interrupted (and whether at one or several institutions) would be flexible; but at least two of the present four Commissioners should be in Bangladesh at any one time. The proposal could well be extended to senior personnel in other Ministries later. If successful it could serve as a model for similar attempts to combat the "brain drain" elsewhere.

5. The institutions involved should be widely spread in space and type. Three or four might be appropriate, one in Eastern Europe (probably Budapest but perhaps Warsaw or Belgrade) and one in Scandinavia (perhaps the Christian Michelsen Institute in Bergen).

6. However it is important to avoid delay - several of the Commissioners are urgently considering offers of permanent appointments abroad. To keep things simple, bilateral links



should be set up separately between the Ford Foundation and each collaborating 'developed' institution, rather than as part of a cumbersome multilateral link depending on agreement, correspondence and non-dropout by many partners. We would hope that it would be made clear to other Commissioners that similar arrangements at approved research institutions would be under way soon.

7. Accordingly IDS is prepared, if funded, to begin this summer. We are interested, in the first instance, in providing five-year Fellowship 'bases' (to be paid for and occupied for up to two years) for Dr. Nurul Islam and Dr. A. R. Khan, respectively at Professorial and Readership level. We would provide research and office support, and would encourage both appointees to spend up to 35% of their two-year period working outside of the IDS, preferably in Bangladesh, in addition to the three years they would spend there with the Planning Commission. We should expect both appointees to undertake research relevant to Bangladesh while at IDS, Dr. Islam in the field of trade and Dr. Khan in the field of accounting, budgeting and planning for improved income distribution. We understand that the Ford Foundation is considering meeting the costs and overheads of these four man-years. The budget is attached at Appendix 'A' below (first two years and last three years shown separately).

8. IDS would also be willing to participate in a complementary training scheme envisaged by the Commissioners. This would involve imparting certain basic planning techniques (notably those of project evaluation and monitoring), both to junior members of the Commissioners' staff and to their counterparts in other Ministries, notably in the 'policy planning unit' which it has been agreed to set up at the



Ministry of Agriculture. We believe this training could best be done here at IDS, firstly because it would allow younger personnel too a 'breathing space' at international salaries, secondly because the contact with planners from other developing countries (in the framework of IDS 'study seminars') would be useful in itself. But we do not rule out the possibility that IDS might assist with training in Bangladesh. We expect that six man-months of salary and support for visiting fellowships would be required per year. This is budgeted in Appendix 'A' below (first two years and last three years shown separately). We also anticipate incurring training costs to the extent of about one extra Study Seminar every second year (i.e. about 15 extra participants per year from Bangladesh), but we assume that the principal costs would be met by ODA technical assistance with no extra cost to the Ford Foundation.

9. We are already undertaking complementary research and training work. One of our Research Officers, Mr. Stephen Biggs, is expected to take up work in Dacca on a home-based post with the Ford Foundation. One of our Fellows, Mr. Benet L. Jacobs, is arranging a special seminar on public administration for senior administrators from Bangladesh in August/September 1973. We should expect to develop our internal research and training concerns in Bangladesh, and our support work on the two schemes proposed above, in tandem. Dr. Scarlett Epstein of our Institute has already discussed her proposed micro-research with Dr. Hathaway, and if the above proposals were acceptable we should certainly wish to see some of this research taking place in Bangladesh.

10. IDS is willing to provide from time to time consultancy services in areas where it has special competence. It envisages that this might extend to one 3-month tour of service

per annum. This would be independent and complementary to the main programme.

11. We now await your response to the above proposals and the attached budget. I understand that George Zeidenstein is, without committing anybody, letting all four Commissioners know about these proposals; and that he and they will explore further the prospects of approaching two more research institutions in developed countries within a few weeks.

Budget for Ford Foundation support for  
IDS/Bangladesh Planning Staff project

The following expenditures are envisaged over a five-year period 1973-78:-

Salaries

2 Professor years	£13,400	
2 Reader years	£9,600	
2½ Visiting Fellowship years (Research Officer level)	£7,500	£30,500
		<hr/>

Travel

3 adult economy fares London-Dacca @ £250 for 13 x 6 month stays		£9,750
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Accommodation

6½ year rent at £750 per annum		£4,875
Disturbance/settlement grants per visit (13 @ £300)		£3,900

Research assistance

To cover secretarial, office and miscellaneous working support costs at IDS		
6½ man years @ £2,000 p.a. (= 42.5% of salary cost)		£13,000

IDS overheads

2 round economy fares London-Dacca		£500
5% service charge on above expenditure		£3,120

Provision for inflation (and contingencies)

Assume rate of 10% per annum		£30,000
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£96,645

(say £96,500)

Expenditure to be phased:	Years 1 and 2 - £38,600
	Years 3, 4, 5 - £57,900



MARCH 20, 1973

Mr. McNamara sent his copy of the publication announcement of McKinnon's "Money and Capital in Economic Development" to Mr. Chenery asking him to have someone review the book for him (McNamara).

Mr. Chenery, on April 2, asked Mr. Tims to have this done (sending him copy of book).

Doris reminded Mr. Tims' secretary on April 18.

McN  
note book  
See Letter file  
POPULATION

Mr. Robert S. McNamara

March 19, 1973

Hollis B. Chenery and Warren C. Baum

POPULATION - Policy and Research - Work Program

Please find attached a combined work program on population in the policy and research areas submitted by the Population and Nutrition Projects Department and the Population and Human Resources Division of the Development Economics Department. We would like you to review this at your convenience.

Attachment

EKlawkins:gan

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 16, 1973

FROM: H.B. Chenery/W.C. Baum

SUBJECT: Review of Sector Work Programs

We would like to continue the series of discussions with you of the sector work programs if you have time to do so. You have received the papers on Industry and Urbanization and shortly will receive the paper on Population. In addition, CPS would like to meet with you on the Tourism paper.

If you agree, we will schedule the meetings.

HBChenery:EStern:WCBaum:csm



INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

OFFICE OF THE PRESIDENT

3/8/73

To Dr. Chenery

Hollis, it will be necessary for DPS to work with the Regions and P&B to complete the work referred to in para 14 in time for it to serve as the basis for the FY74 budget.

RMcN.

cc: JHADler

# OFFICE MEMORANDUM

*45 This it will be  
necessary for DPS  
to work with the Regions  
→ P & B to complete  
the work referred to  
in P 4 in time for  
the FY 74  
budget.*

TO: Mr. Robert S. McNamara

DATE: March 1, 1973

FROM: Hollis B. Chenery *HBC*

SUBJECT: Basic and Updating Economic Reports, FY73-75

1. The Policy Planning and Program Review Department has conducted a brief review of the major economic reporting tasks planned by the Regions in the next two years. We plan to conduct such a review twice a year, jointly with P & B. These reviews are based on the data provided by P & B plus our own qualitative information from the Regions. The report will be made available to members of the President's Council. *several  
the bases  
for the FY 74  
budget.*

2. Although there are the usual uncertainties about proposed missions and reports, especially in FY75, the main features of the first review are:

- a. A good beginning is being made in FY73 on Basic Economic Reports (see attached Table 1). Of the fourteen Basic Missions scheduled, ten have completed their visit or are now in the field. Eight Basic Economic Reports will be completed in FY73 and the other six early in FY74. *cc Jm Adler  
xerox E. Stern*
- b. Although we are off to a good start, some improvements in the system are needed: collateral work prior to the missions should be planned well ahead of time; the selection of countries could be improved somewhat so as to make the annual load more even, and to place less emphasis on some countries which are of relatively small importance within their Regions. However, there is no doubt that selection will in general be influenced by various factors (e.g. special interest of the government, availability of a plan, special talents in the Region) which are of practical importance.
- c. Table 2 lists the Basic Missions contemplated for FY74 and 75, with the particular reasons for the selection of those countries and any special observations. An important feature on which the Regional Chief Economists agree is that basic reports should pull together previous work (sector missions, special studies, etc.), so that large missions will not be a necessary feature of all Basic Economic Missions.

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2. Although there are the usual uncertainties about proposed missions and reports, especially in FY75, the main features of the first review are:

- a. A good beginning is being made in FY73 on Basic Economic Reports (see attached Table 1). Of the fourteen Basic Missions scheduled, ten have completed their visit or are now in the field. Eight Basic Economic Reports will be completed in FY73 and the other six early in FY74.
- b. Although we are off to a good start, some improvements in the system are needed: collateral work prior to the missions should be planned well ahead of time; the selection of countries could be improved somewhat so as to make the annual load more even, and to place less emphasis on some countries which are of relatively small importance within their Regions. However, there is no doubt that selection will in general be influenced by various factors (e.g. special interest of the government, availability of a plan, special talents in the Region) which are of practical importance.
- c. Table 2 lists the Basic Missions contemplated for FY74 and 75, with the particular reasons for the selection of those countries and any special observations. An important feature on which the Regional Chief Economists agree is that basic reports should pull together previous work (sector missions, special studies, etc.), so that large missions will not be a necessary feature of all Basic Economic Missions.



- d. Nevertheless, a large proportion of the resources of Programs Departments in FY73 will still be devoted to the preparation of updating reports, and indications are that this trend will continue in FY74. Table 3 presents a notional estimate of the manpower devoted to economic missions in FY73, based on simplified Bank-wide assumptions about the manyears needed for each type of task derived from data in P & B Tables V(a) and V(c). Although these notional figures have obvious limitations, they do provide orders of magnitude of the planned workload. As is shown in Table 3, out of an estimated 108 manyears of economic work by the Country Programs Departments in FY73 (taking as a rough guide the number of economists in those departments as of December 1972, without making allowances for overhead and leave), 23 manyears are to be devoted to basic reports (plus 29 manyears of support from Regional Projects Department, CPS and DPS), while 50 manyears are to be devoted to updating, reconnaissance and some special reports (plus 25 manyears of support). It should be noted that one-fifth of the updating work of Country Programs Departments is to be devoted to countries for which consultative group meetings are planned within the next twelve months. 1/

3. Ernie and I have met with the Regional Chief Economists, DPS Directors and Mr. Van der Tak to review the above findings and discuss how to make the best use of the economists in country work. There was general agreement on the following points:

- a. While it is important to keep abreast of developments in active countries through periodic - and if necessary frequent - missions, the size of missions and the frequency of economic reports ought to be cut down.

---

1/ In chronological order: Sri Lanka, Thailand, Pakistan, Zaire, Ethiopia, Indonesia, Colombia, Peru, Philippines, India, Turkey (OECD meeting), Morocco and Korea.

- b. Among the ways which ought to be explored in order to diminish the work load of preparation of updating reports are (i) to reduce the volume, though not the frequency, of economic reporting for consultative groups (a major task in the Asia Region); (ii) to eliminate the need for a draft economic report - but not necessarily an economic mission - before the preparation of a CPN or CPP, except in cases where there is a clear need for such a report; and (iii) to develop guidelines on when it would be satisfactory to substitute a short updating memorandum for a broader updating report.
- c. The staff released in this way would then be freed for priority work on sector and basic missions and reports.

4. The Policy Planning and Program Review Department plans to work out with the Regions a plan for FY74 applying the above ideas. This plan would be submitted to you before the end of the fiscal year and, if satisfactory, would form the basis for our next review of country economic work in June.

Attachments

Clearance and cc: Mr. Stern

cc: Messrs. Knapp, Alter, Bell, Benjenk, Cargill, Chaufournier, Le Jeune, Husain, Wright, de la Renaudiere, Goodman, Diamond, Votaw, Hartwich, Wiese, Gutierrez, Van der Tak, Adler, Baneth, Please, de Vries, Avramovic, Thompson, Cauas, Hayes, Stevenson, Haq, Kuczynski, Edelman

PPKuczynski/rso/lm

Table 1: REVISED BASIC MISSION SCHEDULE, FY73-75

(No. of staff involved shown in parenthesis;  
Country Programs Departments + support staff)

	LAC	EMENA	W. AFRICA	E. AFRICA	ASIA
FY73	Argentina (2+3)	Bahrain <sup>a/</sup> (2+2)	Liberia <sup>a/</sup> (3+4)	Botswana <sup>a/</sup> (2+2)	None
	Brazil (6+6)	Tunisia <sup>a/</sup> (3+3)		Kenya <sup>a/</sup> (4+2)	
	Ecuador (4+6)	Turkey <sup>a/</sup> (5+7)		Malagasy (1+9)	
	Mexico (5+7)	Yugoslavia (4+5)			
	Trinidad- Employment (4+7)				
	Uruguay (2+2)				
FY74	Caribbean Region (4+4)	Iran (3+4)	Congo <sup>b/</sup> (5+5)	Somalia (2+4)	Bangladesh
		Morocco <sup>b/</sup> (2+6)	Ivory Coast <sup>b/</sup> (4+5)	Zaire (4+4)	India
		United Arab Emirates (3+3)	Sierra Leone (2+2)		Papua/N.G. Philippines
FY75	Dominican <sup>c/</sup> Republic (4+3)	Algeria	Cameroon	Burundi	Burma
	Peru <sup>c/</sup> (4+6)	Iraq	Ghana	Ethiopia	Malaysia
		Yemen A.R.	Nigeria	Sudan	Pakistan
		Yemen P.D.R.			Thailand
		Romania			

Note: Based on discussions with the Regions; FY75 information subject to some uncertainties.

<sup>a/</sup> Report expected FY74.

<sup>b/</sup> Report expected FY75; tentative.

<sup>c/</sup> Tentative estimates.





Country	Fiscal 1974		Country	Fiscal 1975	
	Main Objectives	Planned Collateral Economic Work		Main Objectives	Planned Collateral Economic Work
IA					
<u>Bangladesh</u>	In-depth, comprehensive analysis. Timed in relation to development plan preparation and political conditions.		<u>Burma</u>	Pull together results of previous economic and sector analyses.	
<u>India</u>	Comprehensive analysis required annually for consortium.				
<u>Papua New Guinea</u>	Provide a basic input into new economic plan and economic analysis needs of external donors.		<u>Pakistan</u>	In-depth, comprehensive review. Timing convenient.	
<u>Philippines</u>	Comprehensive analysis of economy. Timing convenient in relation to staff availability.		<u>Thailand</u>	In-depth, comprehensive review. Timing convenient.	

Source: Regional Chief Economists

Planning and Program Review Department  
February 9, 1975

Table 3: ESTIMATED MANPOWER FOR COUNTRY ECONOMIC REPORTS - FY73

(Number of people on mission shown next to each country;  
Program Department economists + support staff;  
totals are man-years based on assumptions in note)

	LAC	EMENA	W. AFRICA	E. AFRICA	ASIA				
<b>A. Basic Reports</b>									
Brazil <sup>1/</sup>	8 + 8	Bahrain	2 + 2	Liberia	3 + 6	Botswana	2 + 2		
Ecuador	4 + 7	Tunisia*	3 + 8			Kenya	4 + 2		
Mexico	5 + 7	Turkey *	3 + 12 <sup>1/</sup>			Malagasy	2 + 9		
Trinidad -		Yugoslavia	5 + 6 <sup>1/</sup>						
Employment	4 + 7								
Uruguay	2 + 2								
Notional man-year needs, based on assumptions below									
	(11.3 + 11.3)	(6.5 + 10.3)	(1.5 + 2.4)	(4.0 + 5.2)	( - )				
<b>B. Updating and related reports</b>									
Antilles	1 + 1	Afghanistan	2 + 0	Cameroon	2 + 2	Lesotho	1 + 0	Bangladesh	4 + 0
Bolivia	2 + 0	Algeria	3 + 4	Congo	2 + 1	Malawi	3 + 1	Eurma	3 + 1
Colombia*	3 + 5	Cyprus	2 + 0	Mali	2 + 0	Somalia	3 + 0	Hongkong	3 + 0
Costa Rica	3 + 2	Greece	2 + 0	Mauritania	2 + 3	Sudan	3 + 6	Indonesia <sup>2/</sup>	3 + 1
Dom. Rep.	2 + 1	Iraq	2 + 3	Nigeria	2 + 2	Tanzania	1 + 0	Malaysia	4 + 4
El Salvador	2 + 1	Iran	1 + 0	U. Volta	2 + 0			New Zealand	2 + 0
Guatemala	4 + 0	Lebanon	2 + 1	Ghana	1 + 2			Pakistan <sup>2/</sup>	6 + 11 <sup>2/</sup>
Jamaica	3 + 5	Malta	2 + 4	Ivory Coast	2 + 6 <sup>2/</sup>			Philippines*	3 + 7 <sup>2/</sup>
Panama	2 + 2	Morocco*	2 + 2					Sri Lanka*	2 + 1
Paraguay	2 + 0	Romania	2 + 2					Singapore	2 + 0
Peru*	5 + 5	Spain	1 + 0					Taiwan	3 + 1
Senegal	4 + 4	Syria	2 + 0					Thailand*	2 + 3
		Yemen A.R.	2 + 3					India <sup>3/</sup>	1 + 5
		Yemen P.D.R.	3 + 0						
		Ireland	1 + 0						
Notional man-year needs, based on assumptions below									
	(13.2 + 6.5)	(11.6 + 5.5)	(6.0 + 3.5)	(4.4 + 1.8)	(15.2 + 8.0)				
<b>Total economist-years available in Country Programs Depts.</b>									
	27	21	19	12	29				

<sup>1/</sup> More than one mission related to basic report.

<sup>3/</sup> Excludes manpower of Resident Mission.

<sup>2/</sup> Includes special missions.

<sup>4/</sup> Excluding regional offices.

\* Countries for which consultative group meetings are planned in the next 12 months.

Note: The man year requirements are based on the number of persons shown in P&B Tables Va and Vc as actually participating in each mission, multiplied by the following uniform factors:

Basic reports	Country Programs Economists' time needed	Others' time needed
1 person =	0.5 man-years	0.4 man-years
Updating and related reports		
1 person =	0.4 man-years	0.25 man-years

Because of their method of calculation and possible overlap of work between fiscal years, these estimates should obviously be used only as general indicators of manpower.



DECLASSIFIED

INTERNATIONAL DEVELOPMENT  
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CORPORATION

FEB 28 1973  
5:40p

JAN 11 2017

# OFFICE MEMORANDUM

WHG ARCHIVES

TO: Mr. H. B. Chenery, VP, DP

DATE: February 28, 1973

FROM: Ernest Stern, Senior Adviser, DP

CONFIDENTIAL

SUBJECT:

Attached is the Chaufournier memo that led Mr. McNamara to withdraw the IDA norms.

In a conversation last week Bob said although his note dealt with who should be responsible for the issuance of such material, his real concern is that by suggesting reductions in programs for small countries, we would reduce the prospects of picking up the slack from likely slippage in a number of countries, including Indonesia. In addition, since IDA resources have been augmented by devaluation, it is no time to slim down any programs.

In short, there seems to be no interest in establishing any guideline figures at this time, and I suggest we do no further work on the approach until there is agreement on the principle that such guidelines should be used.

Attachment

*Discussed with Knapp - useful to try program by  
again to identify marginal cases.*

JAN 31 1973

# OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: January 25, 1973

FROM: Roger Chaufournier

cc - Mr. Stein's Library  
Stein ←  
1/31

SUBJECT: IDA Allocation to Western Africa

The normative IDA figures, distributed by Mr. Stein in his memo of January 16, raise a number of problems for our Region which I should like to bring to your attention.

1. The three-year allocation (1972-74) to Western Africa suffers from a lowering of the norm for countries with a population below 5 million and the 12% reduction in the total (excluding the Big Four). The allocation would fall from \$254 million to \$209 million, or by some 18%. Our share in the total would fall from 16.2% to 15.5%. While the brunt of the reduction affects the English-speaking countries and in particular Ghana, I am surprised to see that the allocation to the French-speaking countries which represent our poorest members shows a proportionately larger reduction (16%) than the Bank average (12%).

No doubt its even worse for the Swahili speakers

2. While we understand that in applying the norm, adjustments will be made for performance, creditworthiness and other factors, we also fear that, on average, these adjustments will be limited and our country programs will be expected to conform to the norm. The difference between norm and program is particularly large in Ghana, for which only \$11 million is allocated. As discussed in greater detail in a separate memorandum, I am proposing that we proceed with two new projects - road rehabilitation and telecommunications - which, together with the sugar project, would bring IDA lending to Ghana to \$29 million in FY 1973. Our present project pipeline would make a further \$20 million possible in FY 1974, making a total of \$59 million for IDA lending in 1972-74 (no IDA operations took place in FY 1972). This level of IDA operations would seem justified in light of our posture in the Consultative Group and Ghana's severely limited creditworthiness. Even if the present creditor proposal on debt rearrangement is accepted, Ghana will need to get the bulk of its external financing requirements on concessional terms.

if no one can be above or below the average its a little hard to change relative positions.

3. For the region as a whole our country programs add up to some \$260 million as against an allocation of \$209 million under the revised norm A. Besides Ghana, project readiness in Cameroon, Congo and Senegal call for programs above the norm. On the other hand, in a number of other countries our present programs are well below the norm. Project readiness in CAR, Chad, Niger and Upper Volta is such that IDA lending could not reach the norm allocation. I propose that the unused allocation for countries with low absorptive capacity be applied to those countries - like Senegal and Cameroon - where project readiness and performance permit a higher level of IDA operations. As you will recall this approach was approved, in principle, for our area during the recent review of the Senegal program. At that time it was felt that such an approach was justified in Western Africa on regional grounds and in view of the difference in absorptive capacity among the countries concerned.

Mr. J. Burke Knapp

- 2 -

January 25, 1973

4. The attached Table compares our present country programs for IDA with the allocations under the (unrevised) norm A.

Att. .

cc: Mr. McNamara

BAdeVries/RChaufournier:ps



WESTERN AFRICA REGION

IDA LENDING PROGRAM, FY72-74

(Amounts \$ Millions)

	1970 Population (Millions)	1972 Actual	1973 Likely <sup>a/</sup>	1974 <sup>b/</sup>		72-74		CPP Lending Program 72-74	FY72-74 Lending per Capita			
				Low Estimate	High Estimate	Low Estimate	High Estimate		Low Estimate	High Estimate	CPP Lending Program	Chenery Norm <sup>c/</sup>
<u>Francophone States</u>												
Cote d'Ivoire	5.8	12.7	-	10.3	12.8	23.0	25.5	37.7	4.0	4.4	6.5	3.6
G.A.R.	1.6	3.9	-	0.4	0.8	4.3	4.7	5.9	2.7	2.9	3.7	7.3
Senegal	3.6	2.2	-	3.6	4.4	5.8	6.6	10.2	1.6	1.8	2.8	5.8
Gambia	0.9	10.3	3.5	7.0	8.4	29.8	29.2	24.3	23.1	24.7	27.0	8.7
Sierra Leone	2.7	6.1	8.0	-	-	14.3	14.3	16.1	5.3	5.3	6.0	6.2
Ivory Coast	4.9	-	6.0	1.5	1.8	7.5	7.8	12.0	1.5	1.6	2.4	2.1
Mali	5.0	10.5	13.5	9.1	10.4	33.1	34.4	27.5	6.6	6.9	5.5	5.3
Mauritania	1.2	4.2	-	4.6	5.8	8.8	10.0	10.7	7.3	8.3	8.9	8.8
Niger	4.0	-	-	1.9	2.9	1.9	2.5	2.5	0.5	0.6	2.4	5.4
Senegal	3.9	11.2	12.1	5.6	6.8	28.9	30.1	33.0	7.4	7.7	8.5	3.5
Togo	2.0	-	6.0	1.8	2.1	7.8	8.1	8.0	3.9	4.1	4.0	6.5
Upper Volta	5.4	5.0	3.0	3.6	4.4	11.6	12.4	13.0	2.1	2.3	2.4	5.3
Subtotal	41.0	66.1	52.3	49.4	60.2	167.8	178.6	241.2	4.1	4.4	5.9	4.9
<u>Other States</u>												
Eq. Guinea	0.3	-	2.0	-	-	2.0	2.0	2.0	6.7	6.7	6.7	25.7
Gambia	0.4	-	2.1	-	-	2.1	2.1	1.8	5.3	5.3	4.5	20.8
Ghana	8.6	-	29.1	36.2	42.6	55.3	71.7	55.0	7.6	8.3	6.4	1.9
Liberia	1.5	8.4	2.5	1.2	1.6	12.1	12.5	14.9	8.1	8.3	9.0	6.4
Sierra Leone	2.6	4.3	-	-	-	4.3	4.3	10.3	1.7	1.7	4.0	5.0
Subtotal	13.4	12.7	35.7	37.4	44.2	85.8	92.6	84.0	6.4	6.9	6.3	3.8
TOTAL	54.4	78.8	88.0	86.8	104.4	253.6	271.2	325.2	4.7	5.0	6.0	4.7

More Items:

Western Africa countries not borrowing from IDA --

Gabon  
Ghana  
Nigeria

a/ Interim forecast, project-by-project.

b/ Probability forecast using probabilities for Board presentation in FY74 weighted as follows: FY73 slippage included.

Probability Estimate	Weights	
	Low	High
5	.9	1.0
4	.7	.8
3	.5	.6
2	.3	.4
1	.1	.2

c/ 11/24/72 Chenery to McNamara "IDA Allocation Norms for 1972-74."

FEB 20 1973

## OFFICE MEMORANDUM

*R. Mc*

TO: Mr. Hollis B. Chenery

DATE: February 20, 1973

FROM: Ernest Stern *ES*SUBJECT: IDA Allocation Data

I checked with Burke on his return as to what had happened to the memorandum on IDA allocation and felt relieved to learn that he too did not know it had been withdrawn. Apparently what happened was that Mr. Chaufournier wrote a memo to McNamara complaining about the allocation for West Africa, and on January 30 McNamara forwarded that memo with a penciled note to Burke saying that such figures should only be issued by him or Burke. Since at that time Burke was away, no one told McNamara that Burke had chaired the meeting at which the figures were agreed upon and that he had specifically agreed to the fact that we rather than he would issue the memorandum. I was also away at that time, although Burke's secretary is no longer sure that she called my office to advise us. Why no one called you or why McNamara didn't mention the problem to you since you were back by that time I do not know. In any event, since it took us almost a year to get these damn figures out, it is a matter of some importance that you take the issue up with McNamara upon your return.

*Mr Knapp's secy showed me Mr McNamara's note and I gave you the gist of it. You replied that your copy was at home and I shd. merely tell Knapp's secy that she shd. consider it withdrawn"*

*A copy of my note to you was left in Stern's office.*

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July 9, 1973

As whole format of Inventory has been changed, presume we don't have to do anything about Mr. McNamara's comments on the old format.

di

*Put in McNamara notebook*



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: Hollis B. Chenery *HS*  
SUBJECT: Policy Papers

DATE: February 20, 1973

1. Following its terms of reference, the Policy Planning and Program Review Department has prepared the attached inventory of policy papers. It covers all aspects of development policy, both general and sectoral. The list was prepared in close consultation with the groups in the Bank responsible for the papers listed, including CPS, DPS, and P&B. Its main purpose is to advise you of the existing pipeline of policy work and to elicit guidance as to priorities.

2. Scope of Policy Analysis

(a) Policy Papers. The 33 papers listed in this group typically explore possible lines of Bank action in relation to the policies of developing countries. Most of them will require some form of decision by the management and, in some cases, the Executive Directors. The remainder are designed as background papers to guide project selection or Bank advice on development policies in particular sectors. Many of the latter will be incorporated in future Sector Program Papers.

(b) Issues Papers. There is a large backlog of policy topics on which analysis is needed as a basis for advice to governments or for our lending operations. In the newer subjects such as housing, rural development, land tenure, and income distribution, some research is necessary before the proper policy options of countries or the Bank can be identified. To assure that the policy work is responsive to our management needs, it is planned to prepare an Issues Paper at the end of the initial research phase identifying the policy questions in order to elicit a response from management as to the desirability of more specific work on Bank policy. The second half of the attached list (items 34 to 56) contains the issues papers currently envisioned. It also includes some more technical questions, such as project analysis and fiscal policy, that do not require management decisions.

*President has seen*

*Returned July 9/73*

3. Review by Management

I will arrange for adequate technical review of all development policy and issues papers, jointly with Warren Baum in the appropriate areas. In addition there should in most cases be a review with management, which I assume that you will conduct on selected topics. Most items of operational policy would, presumably, be reviewed by Burke. We are discussing a process with Jim Kearns which would embody adequate review at the technical level and opportunity for review at the Vice-Presidential level before the paper is forwarded for your review. (For particularly sensitive papers these broader forums would be skipped.) I hope you will also be able to continue to review some of the joint sector work programs of CPS and DPS -- particularly in Population, Urbanization, and Industry -- which contain both research and policy agendas.

4. Scheduling

I estimate that there should be about a dozen policy papers of sufficient importance for your review per year. I would like to go over the inventory with you to identify those topics which you would like to discuss and to establish a format and preliminary schedule. Some time before the end of the fiscal year it would also be useful to review with you the priorities for further policy work so that papers can be commissioned. As a way of monitoring progress, we plan to submit a quarterly report which will show progress on the papers listed and identify new topics approved for inclusion.

Attachment

HBC:csm

cc: Messrs. M. Haq  
H.G. van der Tak



## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

(As of February 1973)

## I. Policy Papers

<u>Item</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Start</u>	<u>Complete Draft</u>
<b>A. General and non-sectoral</b>					
1. Financial policy of of the Bank	Management and ED's	Liquidity and interest rate policies	P&B (Adler)	Done	Done
2. IDA lending policies	Management and ED's		DPS-PPD	Done	Done
3. Lending to higher income countries	Management and ED's		DPS-PPD	January 1973	March 1973
4. Bank role in financing capital goods exports from LDC's (Israeli Proposal)	Management	Preliminary paper	DPS-PPD	Started	Done
5. Bank role in small and least developed economies	Regions, Management, and ED's		DPS-PPD	March 1973	May 1973
6. Issues in Bank/IDA retroactive financing	Regions, Management, and ED's		DPS-PPD	Started	March 1973
7. Local cost financing	Regions, Management		DPS-PPD	Started	May 1973
8. Financial sector paper (including Capital Markets)	IPC Management, <i>not</i> (Then, depending on review, Bank Management.)	Reviews LDC financial institutions' development and major policy options for IPC and Bank in giving assistance for this purpose.	IPC (Gill) (in coordination with Capital Markets Coordination Committee)	Started	March/April 1973
<b>B. Agriculture and Rural Development</b>					
9. Rural development	Management and ED's	Will look into possible new arrangements for Bank assistance to small farmers.	CPS (Yudelman)	Started	August 1973
10. Land reform	Management (and ED's)	Incorporates results of No. 44.	CPS (Yudelman)	January 1973	December 1973
11. On-farm mechanization	Management (and ED's)	Uses results of India and Pakistan research study.	CPS (Yudelman)	Mid 1973	June 1974
12. Credit to small farmers	Management (and ED's)		CPS (Yudelman)	January 1973	December 1973
<b>C. Education and Human Resources</b>					
13. <i>due</i> Sector policy paper	Regions, Management, and ED's	Still tentative. Would incorporate results of papers below plus various other less important papers.	CPS (Ballantine)	June 1973	1st half of 1974? <i>Apr '74</i> <i>Jan '74</i>
14. <i>P&amp;B see paper</i> Policy alternatives in educational development	Regions, CPS and DPS	Implications of recent studies of the education process for Bank activities.	DPS (Simmons)	Started	September 1973
15. <i>not found here</i> Nutrition operations	Regions, Management, and ED's	A plan of action for the Bank Group.	CPS (Berg/Baldwin)	Started	1st half of 1974?
<b>D. Industry, DFC's and Mining</b>					
16. Criteria for Bank support of public DFC's	Regions, CPS Management	<i>Plan of action in the ER</i> Will carry forward work of Prof. Mason.	CPS-DFCD	May 1973	July 1973
17. Criteria for Bank Group acceptance of DFC sub-projects	Regions, CPS	Will emphasize economic criteria.	CPS-DFCD	September 1973	November 1973
18. Effectiveness of various types of Bank Group and other assistance to industry	Regions, Management	Will look into comparative merits of direct financing, DFC's, IFC other sources.	CPS-IDP (Moore)	July 1973	March 1974



## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

Subject	Main Audience	Special Comments	Major Responsibility	Start	Complete Draft
1 <sup>o</sup> Appropriate share and timing of Bank Group assistance to industry	Regions, CPS, DPS	Timing refers to level of development of countries.	CPS-IDP (Moore)	July 1973	March 1974
20. International division of labor for selected industries	Regions, CPS, DPS <i>not</i>	Best location for selected industries, based on labor, raw materials, demand, transport and trade factors.	CPS-IDP (Moore)	July 1973	March 1974
21. Mining policy paper	Management and ED's	Will incorporate results of paper below	CPS-IDP (Bosson)	March 1973	May 1973
22. Summary recommendations on Bank policy in mineral sector	Management	Based on results of DSD* organized conference of January 1973 and work of consultant (Prof. Wilson of MIT)	DSD (Boskey)	Started	March 1973
23. Industrial sector policy paper	Management and ED's	Follows up 1972 paper, with emphasis on income distribution and employment issues. Will incorporate results of papers Nos. 50 and 51.	DPS (Hughes)	April 1973	December 1973
24. Bank role in natural resource development and enclave projects	Management	Policy note on long-term issues in mining and related sectors, starting from papers Nos. 21 and 22 above.	DPS-PPD	February 1973	June 1973
<b>E. Public Utilities</b>					
25. Urban water supply pricing	Regions, CPS		CPS (Warford)	March 1973	January 1974
Financing nuclear power	Region, CPS, Management	Review of latest developments and implications for procurement under Bank/IDA financing	CPS (Friedman)	January 1974	March 1974
<b>F. Tourism</b>					
27. Sector policy paper	Management and ED's	Depends on outcome of studies Nos. 55, 56, and 57.	CPS (-)	January 1974	May 1974
<b>G. Transport and Urbanization</b>					
28. Highway sector lending	Regions, Management	Studies case for sector rather than project by project lending for highway development.	CPS (Jaycox)	January 1973	October 1974
29. Lending for railways	Regions, Management	Will examine major problems in RR lending and proposed ways of handling them.	CPS (Jaycox)	April 1973	December 1974
30. The private automobile	Regions, Management	The economics of the private auto in LDCs and implications for Bank attitude.	CPS (Dunkerley)	Started	February 1973
31. Bank policy in urban transport	Management and ED's		CPS (Dunkerley)	Started	February 1974
32. Urban land policies	Regions, Management	Will recommend urban land use policies and betterment levies in connection with Bank urban projects.	DPS (Keare)	Started	February 1974
33. Bank policy on financing for sites and services projects	Management and ED's		CPS (Dunkerley)	May 1973	October 1973

*Optimum design  
Spec. + construction  
methods for roads - 2 DC's*

## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

II. Issues Papers					
Subject	Main Audience	Special Comments	Major Responsibility	Start	Complete Draft
<u>A. General and non-sectoral</u>					
34. Economic analysis of projects )	Regions, CPS	Both papers to provide a Bank-wide methodology. Possible important	CPS (van der Tak)	Started	April 1973
35. Measurement of shadow prices )		policy implications.	CPS (van der Tak)	Started	Mid-1973
36. Pricing of public services	Regions, CPS	Will review conflicting policies and recommend more general standards.	CPS (van der Tak)	July 1973	February 1974
37. The Bank and the environment	Regions, CPS	Major issues facing the Bank in application of environmental criteria in projects.	CPS (Lee)	April 1973	October 1973
38. Housing sector	Regions, Management	Will identify factors relevant for defining "target population" for which the Bank should finance sites and services projects.	DPS (Keare)	Started	August 1973
39. The financial system and public finance	Regions, DPS	Examines relevance of selected fiscal and financial instruments from standpoint of twin objectives of efficiency and equity in different types of economies.	DPS (Yenal)	December 1973	June 1974
40. Public works as a policy instrument	Regions, Management	Identification of circumstances in which public works programs can be used for reducing unemployment.	DPS (Hofmeister)	February 1973	June 1974
<u>B. Agriculture and Rural Development</u>					
41. African rural development	Regions, CPS, DPS	Will draw general policy conclusions from review of various African rural development projects, several with Bank Group involvement.	DPS (Reutlinger)	Started	August 1973
42. Tractor mechanization	Regions, CPS, DPS	Impact of land tenure and farm technology on tractor mechanization policy of governments and implications for Bank operations.	DPS (Donaldson)	Started	June 1973
43. Rural credit	Regions, CPS, DPS	The impact of access to markets, extension services and technology on credit policy for small farmers.	DPS (Lele)	Started	June 1973
44. Land tenure	Regions, CPS, DPS	Factors relevant for land reform under Latin American conditions.	DPS (Eckstein)	Started	November 1973
<u>C. Education and Human Resources</u>					
45. Educational implications of employment and income distribution policies	Regions, CPS, DPS		CPS (Erder)	Started	September 1973
46. Non-formal education for rural development	Regions, CPS, DPS		CPS (Ballantine)	March 1973	July 1973

## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED -FY73 AND FY74

<u>Subject</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Started</u>	<u>Complete Draft</u>
47. Employment and income distribution	Regions, DPS, CPS, <i>MT</i>	Examines appropriateness of present international aid instruments in meeting employment/income distribution objectives.	DPS (Turnham)	January 1974	June 1974
48. Issues in family planning	Regions, DPS, CPS, <i>MT</i>	Identification of policy variables which exercise critical impact on effectiveness of family planning programs.	DPS (King)	January 1974	December 1974
<b>D. <u>Industry, DFC's and Mining</u></b>					
49. Small-scale industry	Regions, CPS, IFC, <i>MT</i>	Discussion of policy issues facing Bank Group in promoting small-scale industry.	DPS (Hughes)	Started	April 1973
50. Industry in small least developed countries	Regions, CPS, DPS, IFC, <i>MT</i>	Discussion of major policy factors and the Bank's role	DPS (Hughes)	April 1973	June 1973
51. Government policy and development banks	Regions, CPS, DPS, IFC	Impact of government policy on resource allocation and mobilization decisions of DFC's.	DPS (Gulhati/Hughes)	Started	April 1973
<b>E. <u>Public Utilities</u></b>					
52. Lending policy for village water supply and sewerage	Regions, CPS, <i>MT</i>	Objectives and methods of lending for this purpose.	CPS (Shipman)	Started	February 1974
53. Contribution of telecommunications to development	Regions, CPS, DPS	Findings could have important policy implications.	CPS (Warford)	Started November 1972	June 1974
<b><u>Tourism</u></b>					
54. Terms of lending for tourism	Regions, CPS, IFC		CPS (Christie)	January 1973	April 1973
55. Benefits of tourism for LDC economies	Regions, CPS, IFC		CPS (Menezes)	January 1973	September 1973
56. Economics of special fiscal and other incentives for tourism investment and operations.	Regions, CPS, IFC		CPS (Odone)	April 1973	January 1974



Mr. Robert S. McNamara

Hollis B. Chenery

Policy Papers

February 20, 1973

*Mr. McNamara Council  
(included)*

*Return to Chenery*

1. Following its terms of reference, the Policy Planning and Program Review Department has prepared the attached inventory of policy papers. It covers all aspects of development policy, both general and sectoral. The list was prepared in close consultation with the groups in the Bank responsible for the papers listed, including CPS, DPS, and P&B. Its main purpose is to advise you of the existing pipeline of policy work and to elicit guidance as to priorities.

2. Scope of Policy Analysis

(a) Policy Papers. The 33 papers listed in this group typically explore possible lines of Bank action in relation to the policies of developing countries. Most of them will require some form of decision by the management and, in some cases, the Executive Directors. The remainder are designed as background papers to guide project selection or Bank advice on development policies in particular sectors. Many of the latter will be incorporated in future Sector Program Papers.

(b) Issues Papers. There is a large backlog of policy topics on which analysis is needed as a basis for advice to governments or for our lending operations. In the newer subjects such as housing, rural development, land tenure, and income distribution, some research is necessary before the proper policy options of countries or the Bank can be identified. To assure that the policy work is responsive to our management needs, it is planned to prepare an Issues Paper at the end of the initial research phase identifying the policy questions in order to elicit a response from management as to the desirability of more specific work on Bank policy. The second half of the attached list (items 34 to 56) contains the issues papers currently envisioned. It also includes some more technical questions, such as project analysis and fiscal policy, that do not require management decisions.

February 20, 1973

3. Review by Management

I will arrange for adequate technical review of all development policy and issues papers, jointly with Warren Baum in the appropriate areas. In addition there should in most cases be a review with management, which I assume that you will conduct on selected topics. Most items of operational policy would, presumably, be reviewed by Burke. We are discussing a process with Jim Kearns which would embody adequate review at the technical level and opportunity for review at the Vice-Presidential level before the paper is forwarded for your review. (For particularly sensitive papers these broader forums would be skipped.) I hope you will also be able to continue to review some of the joint sector work programs of CPS and DPS -- particularly in Population, Urbanization, and Industry -- which contain both research and policy agendas.

*McN agrees -  
Chairman to  
Chairman  
Yes*

4. Scheduling

I estimate that there should be about a dozen policy papers of sufficient importance for your review per year. I would like to go over the inventory with you to identify those topics which you would like to discuss and to establish a format and preliminary schedule. Some time before the end of the fiscal year it would also be useful to review with you the priorities for further policy work so that papers can be commissioned. As a way of monitoring progress, we plan to submit a quarterly report which will show progress on the papers listed and identify new topics approved for inclusion.

Attachment

HBC:csn

President's Council

cc: Messrs. M. Haq  
H.G. van der Tak

## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

(As of February 1973)

## I. Policy Papers

<u>Subject</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Start</u>	<u>Complete Draft</u>
<b>A. General and non-sectoral</b>					
1. Financial policy of of the Bank	Management and ED's	Liquidity and interest rate policies	P&B (Adler)	Done	Done
2. IDA lending policies	Management and ED's		DPS-PPD	Done	Done
3. Lending to higher income countries	Management and ED's		DPS-PPD	January 1973	March 1973
4. Bank role in financing capital goods exports from LDC's (Israeli Proposal)	Management	Preliminary paper	DPS-PPD	Started	Done
5. Bank role in small and least developed economies	Regions, Management, and ED's		DPS-PPD	March 1973	May 1973
6. Issues in Bank/IDA retroactive financing	Regions, Management, and ED's		DPS-PPD	Started	March 1973
7. Local cost financing	Regions, Management		DPS-PPD	Started	May 1973
8. Financial sector paper (including Capital Markets)	IFC, Management. (Then, depending on review, Bank Management.)	Reviews LDC financial institutions' development and major policy options for IFC and Bank in giving assistance for this purpose.	IFC (Gill) (in coordination with Capital Markets Coordination Committee)	Started	March/April 1973
<b>B. Agriculture and Rural Development</b>					
Rural development	Management and ED's	Will look into possible new arrangements for Bank assistance to small farmers.	CPS (Yudelman)	Started	August 1973
10. Land reform	Management (and ED's)	Incorporates results of No. 44.	CPS (Yudelman)	January 1973	December 1973
11. On-farm mechanization	Management (and ED's)	Uses results of India and Pakistan research study.	CPS (Yudelman)	Mid 1973	June 1974
12. Credit to small farmers	Management (and ED's)		CPS (Yudelman)	January 1973	December 1973
<b>C. Education and Human Resources</b>					
13. <sup>Education</sup> Sector policy paper	Regions, Management, and ED's	Still tentative. Would incorporate results of papers below plus various other less important papers.	CPS (Ballantine)	June 1973	1st half of 1974 ?
14. Policy alternatives in educational development	Regions, CPS and DPS	Implications of recent studies of the education process for Bank activities.	DPS (Simmons)	Started	September 1973
15. Nutrition operations <i>* Population Center (Jan 1973)</i>	Regions, Management, and ED's	A plan of action for the Bank Group.	CPS (Berg/Baldwin)	Started	1st half of 1974?
<b>D. Industry, DFC's and Mining</b>					
16. Criteria for Bank support of public DFC's	Regions, CPS Management	Will carry forward work of Prof. Mason.	CPS-DFCD	May 1973	July 1973
17. Criteria for Bank Group acceptance of DFC sub-projects	Regions, CPS	Will emphasize economic criteria.	CPS-DFCD	September 1973	November 1973
18. Effectiveness of various types of Bank Group and other assistance to industry	Regions, Management	Will look into comparative merits of direct financing, DFC's, IFC, other sources.	CPS-IDP (Moore)	July 1973	March 1974



## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY/3 AND FY/4

Subject	Main Audience	Special Comments	Major Responsibility	Start	Complete Draft
Appropriate share and timing of Bank Group assistance to industry	Regions, CPS, DPS	Timing refers to level of development of countries.	CPS-IDP (Moore)	July 1973	March 1974
20. International division of labor for selected industries	* Regions, CPS, DPS <i>Man.</i>	Best location for selected industries, based on labor, raw materials, demand, transport and trade factors.	CPS-IDP (Moore)	July 1973	March 1974
21. Mining policy paper	Management and ED's	Will incorporate results of paper below	CPS-IDP (Bosson)	March 1973	May 1973
22. Summary recommendations on Bank policy in mineral sector	Management	Based on results of DSD-organized conference of January 1973 and work of consultant (Prof. Wilson of MIT)	DSD (Boskey)	Started	March 1973
23. Industrial sector policy paper	Management and ED's	Followup 1972 paper, with emphasis on income distribution and employment issues. Will incorporate results of papers Nos. 50 and 51.	DPS (Hughes)	April 1973	December 1973
24. Bank role in natural resource development and enclave projects	Management	Policy note on long-term issues in mining and related sectors, starting from papers Nos. 21 and 22 above.	DPS-PPD	February 1973	June 1973
<b>E. Public Utilities</b>					
25. Urban water supply pricing	Regions, CPS		CPS (Warford)	March 1973	January 1974
Financing nuclear power	Region, CPS, Management	Review of latest developments and implications for procurement under Bank/IDA financing	CPS (Friedman)	January 1974	March 1974
→ <i>Rural electrification program</i>					
<b>F. Tourism</b>					
27. Sector policy paper	Management and ED's	Depends on outcome of studies Nos. 55, 56, and 57.	CPS (-)	January 1974	May 1974
<b>G. Transport and Urbanization</b>					
28. Highway sector lending	Regions, Management	Studies case for sector rather than project by project lending for highway development.	CPS (Jaycox)	January 1973	October 1974
29. Lending for railways	Regions, Management	Will examine major problems in RR lending and proposed ways of handling them.	CPS (Jaycox)	April 1973	December 1974
30. The private automobile	Regions, Management	The economics of the private auto in LDCs and implications for Bank attitude.	CPS (Dunkerley)	Started	February 1973
31. Bank policy in urban transport	Management and ED's		CPS (Dunkerley)	Started	February 1974
32. Urban land policies	Regions, Management	Will recommend urban land use policies and betterment levies in connection with Bank urban projects.	DPS (Keare)	Started	February 1974
33. Bank policy on financing for sites and services projects	Management and ED's		CPS (Dunkerley)	May 1973	October 1973

*Road construction - result.*

## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

II. Issues Papers					
Subject	Main Audience	Special Comments	Major Responsibility	Start	Complete Draft
<u>neral and non-sectoral</u>					
34. Economic analysis of projects )	Regions, CPS	Both papers to provide a Bank-wide methodology.	CPS (van der Tak)	Started	April 1973
35. Measurement of shadow prices )		Possible important policy implications.	CPS (van der Tak)	Started	Mid-1973
36. Pricing of public services	Regions, CPS	Will review conflicting policies and recommend more general standards.	CPS (van der Tak)	July 1973	February 1974
37. The Bank and the environment	Regions, CPS	Major issues facing the Bank in application of environmental criteria in projects.	CPS (Lee)	April 1973	October 1973
38. <u>Housing sector</u>	Regions, Management	Will identify factors relevant for defining "target population" for which the Bank should finance <u>sites and services projects.</u>	DPS (Keare)	Started	August 1973
→ <u>Work Programs</u>					
39. The financial system and public finance	Regions, DPS	Examines relevance of selected fiscal and financial instruments from standpoint of twin objectives of efficiency and equity in different types of economies.	DPS (Yenal)	December 1973	June 1974
40. Public works as a policy instrument	Regions, Management	Identification of circumstances in which public works programs can be used for reducing unemployment.	DPS (Hofmeister)	February 1973	June 1974
<u>B. Agriculture and Rural Development</u>					
41. African rural development	Regions, CPS, DPS <u>Mano</u>	Will draw general policy conclusions from review of various African rural development projects, several with Bank Group involvement.	DPS (Reutlinger)	Started	August 1973
42. Tractor mechanization	Regions, CPS, DPS	Impact of land tenure and farm technology on tractor mechanization policy of governments and implications for Bank operations.	DPS (Donaldson)	Started	June 1973
43. Rural credit	Regions, CPS, DPS <u>Mano</u>	The impact of access to markets, extension services and technology on credit policy for small farmers.	DPS (Lele)	Started	June 1973
44. Land tenure	Regions, CPS, DPS <u>Mano</u>	Factors relevant for land reform under Latin American conditions.	DPS (Eckstein)	Started	November 1973
<u>C. Education and Human Resources</u>					
45. Educational implications of employment and income distribution policies	Regions, CPS, DPS		CPS (Erder)	Started	September 1973
46. Non-formal education for rural development	Regions, CPS, DPS <u>Mano</u>		CPS (Ballantine)	March 1973	July 1973

## INVENTORY OF PAUERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED -FY73 AND FY74

<u>Subject</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Started</u>	<u>Complete Draft</u>
47. Employment and income distribution	Regions, DPS, CPS M	Examines appropriateness of present international aid instruments in meeting employment/income distribution objectives.	DPS (Turnham)	January 1974	June 1974
48. Issues in family planning	Regions, DPS, CPS M	Identification of policy variables which exercise critical impact on effectiveness of family planning programs.	DPS (King)	January 1974	December 1974
<u>D. Industry, DFC's and Mining</u>					
49. Small-scale industry	Regions, CPS, IFC M	Discussion of policy issues facing Bank Group in promoting small-scale industry.	DPS (Hughes)	Started	April 1973
50. Industry in small least developed countries	Regions, CPS, DPS, IFC M	Discussion of major policy factors and the Bank's role	DPS (Hughes)	April 1973	June 1973
51. Government policy and development banks	Regions, CPS, DPS, IFC	Impact of government policy on resource allocation and mobilization decisions of DFC's.	DPS (Gulhati/Hughes)	Started	April 1973
<u>E. Public Utilities</u>					
52. Lending policy for village water supply and sewerage	Regions, CPS M	Objectives and methods of lending for this purpose.	CPS (Shipman)	Started	February 1974
53. Contribution of telecommunications to development	Regions, CPS, DPS	Findings could have important policy implications.	CPS (Warford)	Started November 1972	June 1974
<u>tourism</u>					
54. Terms of lending for tourism	Regions, CPS, IFC		CPS (Christie)	January 1973	April 1973
55. Benefits of tourism for LDC economies	Regions, CPS, IFC		CPS (Menezes)	January 1973	September 1973
56. Economics of special fiscal and other incentives for tourism investment and operations.	Regions, CPS, IFC		CPS (Odone)	April 1973	January 1974



## OFFICE MEMORANDUM

(2)

TO: Mr. Robert S. McNamara  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: Policy Papers

DATE: February 20, 1973

1. Following its terms of reference, the Policy Planning and Program Review Department has prepared the attached inventory of policy papers. It covers all aspects of development policy, both general and sectoral. The list was prepared in close consultation with the groups in the Bank responsible for the papers listed, including CPS, DPS, and P&B. Its main purpose is to advise you of the existing pipeline of policy work and to elicit guidance as to priorities.

2. Scope of Policy Analysis

(a) Policy Papers. The 33 papers listed in this group typically explore possible lines of Bank action in relation to the policies of developing countries. Most of them will require some form of decision by the management and, in some cases, the Executive Directors. The remainder are designed as background papers to guide project selection or Bank advice on development policies in particular sectors. Many of the latter will be incorporated in future Sector Program Papers.

(b) Issues Papers. There is a large backlog of policy topics on which analysis is needed as a basis for advice to governments or for our lending operations. In the newer subjects such as housing, rural development, land tenure, and income distribution, some research is necessary before the proper policy options of countries or the Bank can be identified. To assure that the policy work is responsive to our management needs, it is planned to prepare an Issues Paper at the end of the initial research phase identifying the policy questions in order to elicit a response from management as to the desirability of more specific work on Bank policy. The second half of the attached list (items 34 to 56) contains the issues papers currently envisioned. It also includes some more technical questions, such as project analysis and fiscal policy, that do not require management decisions.

3. Review by Management.

I will arrange for adequate technical review of all development policy and issues papers, jointly with Warren Baum in the appropriate areas. In addition there should in most cases be a review with management, which I assume that you will conduct on selected topics. Most items of operational policy would, presumably, be reviewed by Burke. We are discussing a process with Jim Kearns which would embody adequate review at the technical level and opportunity for review at the Vice-Presidential level before the paper is forwarded for your review. (For particularly sensitive papers these broader forums would be skipped.) I hope you will also be able to continue to review some of the joint sector work programs of CPS and DPS -- particularly in Population, Urbanization, and Industry -- which contain both research and policy agendas.

4. Scheduling

I estimate that there should be about a dozen policy papers of sufficient importance for your review per year. I would like to go over the inventory with you to identify those topics which you would like to discuss and to establish a format and preliminary schedule. Some time before the end of the fiscal year it would also be useful to review with you the priorities for further policy work so that papers can be commissioned. As a way of monitoring progress, we plan to submit a quarterly report which will show progress on the papers listed and identify new topics approved for inclusion.

Attachment

HBC:csm

cc: Messrs. M. Haq  
H.G. van der Tak/*Baum*

## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

(As of February 1973)

## I. Policy Papers

<u>ct</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Start</u>	<u>Complete Draft</u>	
<b>A. <u>General and non-sectoral</u></b>						
1.	Financial policy of of the Bank	Management and ED's	Liquidity and interest rate policies	P&B (Adler)	Done	Done
2.	IDA lending policies	Management and ED's		DPS-PPD	Done	Done
3.	Lending to higher income countries	Management and ED's		DPS-PPD	January 1973	March 1973
4.	Bank role in financing capital goods exports from LDC's (Israeli Proposal)	Management	Preliminary paper	DPS-PPD	Started	Done
5.	Bank role in small and least developed economies	Regions, Management, and ED's		DPS-PPD	March 1973	May 1973
6.	Issues in Bank/IDA retroactive financing	Regions, Management, and ED's		DPS-PPD	Started	March 1973
7.	Local cost financing	Regions, Management		DPS-PPD	Started	May 1973
8.	Financial sector paper (including Capital Markets)	IFC Management. (Then, depending on review, Bank Management.)	Reviews LDC financial institutions' development and major policy options for IFC and Bank in giving assistance for this purpose.	IFC (Gill) (in coordination with Capital Markets Coordination Committee)	Started	March/April 1973
<b>B. <u>Agriculture and Rural Development</u></b>						
9.	Rural development	Management and ED's	Will look into possible new arrangements for Bank assistance to small farmers.	CPS (Yudelman)	Started	August 1973
10.	Land reform	Management (and ED's)	Incorporates results of No. 44.	CPS (Yudelman)	January 1973	December 1973
11.	On-farm mechanization	Management (and ED's)	Uses results of India and Pakistan research study.	CPS (Yudelman)	Mid 1973	June 1974
12.	Credit to small farmers	Management (and ED's)		CPS (Yudelman)	January 1973	December 1973
<b>C. <u>Education and Human Resources</u></b>						
13.	Sector policy paper	Regions, Management, and ED's	Still tentative. Would incorporate results of papers below plus various other less important papers.	CPS (Ballantine)	June 1973	1st half of 1974?
14.	Policy alternatives in educational development	Regions, CPS and DPS	Implications of recent studies of the education process for Bank activities.	DPS (Simmons)	Started	September 1973
15.	Nutrition operations	Regions, Management, and ED's	A plan of action for the Bank Group.	CPS (Berg/Baldwin)	Started	1st half of 1974?
<b>D. <u>Industry, DFC's and Mining</u></b>						
16.	Criteria for Bank support of public DFC's	Regions, CPS Management	Will carry forward work of Prof. Mason.	CPS-DFCD	May 1973	July 1973
17.	Criteria for Bank Group acceptance of DFC sub-projects	Regions, CPS	Will emphasize economic criteria.	CPS-DFCD	September 1973	November 1973
18.	Effectiveness of various types of Bank Group and other assistance to industry	Regions, Management	Will look into comparative merits of direct financing, DFC's, IFC, other sources.	CPS-IDP (Moore)	July 1973	March 1974



## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

<u>Subject</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Start</u>	<u>Complete Draft</u>
19. appropriate share and timing of Bank Group assistance to industry	Regions, CPS, DPS	Timing refers to level of development of countries.	CPS-IDP (Moore)	July 1973	March 1974
20. International division of labor for selected industries	Regions, CPS, DPS	Best location for selected industries, based on labor, raw materials, demand, transport and trade factors.	CPS-IDP (Moore)	July 1973	March 1974
21. Mining policy paper	Management and ED's	Will incorporate results of paper below	CPS-IDP (Bosson)	March 1973	May 1973
22. Summary recommendations on Bank policy in mineral sector	Management	Based on results of DSD-organized conference of January 1973 and work of consultant (Prof. Wilson of MIT)	DSD (Boskey)	Started	March 1973
23. Industrial sector policy paper	Management and ED's	Followup 1972 paper, with emphasis on income distribution and employment issues. Will incorporate results of papers Nos. 50 and 51.	DPS (Hughes)	April 1973	December 1973
24. Bank role in natural resource development and enclave projects	Management	Policy note on long-term issues in mining and related sectors, starting from papers Nos. 21 and 22 above.	DPS-PPD	February 1973	June 1973
<u>E. Public Utilities</u>					
25. Urban water supply pricing	Regions, CPS		CPS (Warford)	March 1973	January 1974
26. Financing nuclear power	Region, CPS, Management	Review of latest developments and implications for procurement under Bank/IDA financing	CPS (Friedman)	January 1974	March 1974
<u>F. Tourism</u>					
27. Sector policy paper	Management and ED's	Depends on outcome of studies Nos. 55, 56, and 57.	CPS ( - )	January 1974	May 1974
<u>G. Transport and Urbanization</u>					
28. Highway sector lending	Regions, Management	Studies case for sector rather than project by project lending for highway development.	CPS (Jaycox)	January 1973	October 1974
29. Lending for railways	Regions, Management	Will examine major problems in RR lending and proposed ways of handling them.	CPS (Jaycox)	April 1973	December 1974
30. The private automobile	Regions, Management	The economics of the private auto in LDCs and implications for Bank attitude.	CPS (Dunkerley)	Started	February 1973
31. Bank policy in urban transport	Management and ED's		CPS (Dunkerley)	Started	February 1974
32. Urban land policies	Regions, Management	Will recommend urban land use policies and betterment levies in connection with Bank urban projects.	DPS (Keare)	Started	February 1974
33. Bank policy on financing for sites and services projects	Management and ED's		CPS (Dunkerley)	May 1973	October 1973

## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED - FY73 AND FY74

II. Issues Papers

	<u>Subject</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Start</u>	<u>Complete Draft</u>
A.	<u>al and non-sectoral</u>					
34.	Economic analysis of projects )	Regions, CPS	Both papers to provide a Bank-wide methodology. Possible important policy implications.	CPS (van der Tak)	Started	April 1973
35.	Measurement of shadow prices )			CPS (van der Tak)	Started	Mid-1973
36.	Pricing of public services	Regions, CPS	Will review conflicting policies and recommend more general standards.	CPS (van der Tak)	July 1973	February 1974
37.	The Bank and the environment	Regions, CPS	Major issues facing the Bank in application of environmental criteria in projects.	CPS (Lee)	April 1973	October 1973
38.	Housing sector	Regions, Management	Will identify factors relevant for defining "target population" for which the Bank should finance sites and services projects.	DPS (Keare)	Started	August 1973
39.	The financial system and public finance	Regions, DPS	Examines relevance of selected fiscal and financial instruments from standpoint of twin objectives of efficiency and equity in different types of economies.	DPS (Yenal)	December 1973	June 1974
40.	Public works as a policy instrument	Regions, Management	Identification of circumstances in which public works programs can be used for reducing unemployment.	DPS (Hofmeister)	February 1973	June 1974
B.	<u>Agriculture and Rural Development</u>					
41.	African rural development	Regions, CPS, DPS	Will draw general policy conclusions from review of various African rural development projects, several with Bank Group involvement.	DPS (Reutlinger)	Started	August 1973
42.	Tractor mechanization	Regions, CPS, DPS	Impact of land tenure and farm technology on tractor mechanization policy of governments and implications for Bank operations.	DPS (Donaldson)	Started	June 1973
43.	Rural credit	Regions, CPS, DPS	The impact of access to markets, extension services and technology on credit policy for small farmers.	DPS (Lele)	Started	June 1973
44.	Land tenure	Regions, CPS, DPS	Factors relevant for land reform under Latin American conditions.	DPS (Eckstein)	Started	November 1973
C.	<u>Education and Human Resources</u>					
45.	Educational implications of employment and income distribution policies	Regions, CPS, DPS		CPS (Erder)	Started	September 1973
46.	Non-formal education for rural development	Regions, CPS, DPS		CPS (Ballantine)	March 1973	July 1973

## INVENTORY OF PAPERS WITH SIGNIFICANT POLICY RELEVANCE UNDERWAY OR PLANNED -FY73 AND FY74

	<u>Subject</u>	<u>Main Audience</u>	<u>Special Comments</u>	<u>Major Responsibility</u>	<u>Started</u>	<u>Complete Draft</u>
47.	Employment and income distribution	Regions, DPS, CPS	Examines appropriateness of present international aid instruments in meeting employment/income distribution objectives.	DPS (Turnham)	January 1974	June 1974
48.	Issues in family planning	Regions, DPS, CPS	Identification of policy variables which exercise critical impact on effectiveness of family planning programs.	DPS (King)	January 1974	December 1974
<u>D. Industry, DFC's and Mining</u>						
49.	Small-scale industry	Regions, CPS, IFC	Discussion of policy issues facing Bank Group in promoting small-scale industry.	DPS (Hughes)	Started	April 1973
50.	Industry in small least developed countries	Regions, CPS, DPS, IFC	Discussion of major policy factors and the Bank's role	DPS (Hughes)	April 1973	June 1973
51.	Government policy and development banks	Regions, CPS, DPS, IFC	Impact of government policy on resource allocation and mobilization decisions of DFC's.	DPS (Gulhati/Hughes)	Started	April 1973
<u>E. Public Utilities</u>						
52.	Lending policy for village water supply and sewerage	Regions, CPS	Objectives and methods of lending for this purpose.	CPS (Shipman)	Started	February 1974
53.	Contribution of telecommunications to development	Regions, CPS, DPS	Findings could have important policy implications.	CPS (Warford)	Started November 1972	June 1974
<u>F. Tourism</u>						
54.	Terms of lending for tourism	Regions, CPS, IFC		CPS (Christie)	January 1973	April 1973
55.	Benefits of tourism for LDC economies	Regions, CPS, IFC		CPS (Menezes)	January 1973	September 1973
56.	Economics of special fiscal and other incentives for tourism investment and operations.	Regions, CPS, IFC		CPS (Odone)	April 1973	January 1974



Chen

February 16, 1973

Mr. Robert S. McNamara

Hollis B. Chenery

BRAZIL - Outstanding Policy Issues

1. The main issues facing us in Brazil are the likely effect of our operations in bringing about a fairer distribution of the benefits of growth, and also the extent to which our lending program helps to fill a gap brought about - to some degree - by the external debt policies of the authorities. Substantial progress has been made by the Region - as shown in the rather lucid CPP - in making proposals which will "support efforts within the country toward economic growth and social equity" (December 1971 Postscript). Moreover, a major economic report, with a special volume devoted to the Northeast, is nearing completion.
  
2. The brunt of our influence in Brazil at the present time should be directed at social justice. In view of the size of our lending program (according to Attachment 4, we would be providing 22 percent of the external loan commitments forecast for 1973-78, excluding "financial credits"), it is not unrealistic to expect some - and in some areas a significant - redirection of policies as a result of our program. One indication of the extent to which the program is directed at the basic problems of Brazil is the proportion of the operations program aimed at the Northeast, which has a per capita GNP of about \$200, or less than half the national average of \$420, and 30 percent of the population. Although substantial transfers are made by the Central Government to the Northeast, we can and should make a contribution in substantially increasing the efficiency of the use of these resources. The table on page 42 shows that about one-third of our proposed operations would be in the Northeast, a modest proportion in relation to the size of the problem, especially if it is considered that some projects included are of indirect relevance to the Northeast (Amazon settlement and the two enclave-type mining projects). Another consideration in favor of a larger Northeast program is the increasing disparity which is likely between incomes of the Northeast and those of the rest of Brazil. If the CPP projection of an 8.5 percent annual growth rate of GNP is maintained, with a roughly similar rate for the Northeast, per capita GNP outside the Northeast would be in the range of \$900-1,000 by 1980 compared to about \$350-400 in the Northeast. A broad-based approach, the elements of which are shown in the report on the Northeast, is needed in order to avoid such a gap and the tensions to which it is likely to lead.
  
3. Aside from the regional distribution of our operations, there is the general issue of social equity, which deserves more emphasis than in the presently proposed program. The table on page 41 shows the operations program divided by major purposes. My major comment is that the part of the program aimed at lower income groups ought to be substantially expanded at the expense of the "institution-building" part of the program. Here are our specific comments on the first two categories shown on page 41:

a. Lower Income groups (20 percent of the operations program). Although significant progress has been made since the last review, much of this part of the operations program consists of projects not yet identified, and on which there may therefore be slippage. The program ought to be larger and the maximum possible input of staff time ought to be made in order to avoid slippage in the initial projects:

- \$43 million in FY74-76 for three land settlement schemes. The intention is to give each settler, most of whom are either already in the areas or will hopefully be brought from the Northeast, a plot of about 40 hectares, which ought to generate an annual income per family of about \$400.
- \$25 million in FY75 for Northeast education. The project is not yet identified but is supposed to provide vocational skills for those ending school at age 15, as part of the on-going reform of education.
- The nutrition projects are well in the future and not identified.
- \$35 million in FY74 for Minas Gerais water supply. This is aimed at small towns of more than about 2,500 inhabitants; the tariff structure would be roughly progressive in relation to the size of the town and the income of the users.
- \$15 million in FY76 for sites and services in the Northeast: not yet defined but aimed at minimum level salaried or employed workers.
- \$40 million in FY77 for Northeast feeder roads: an important project in order to help increase agricultural output, but not specifically aimed at lower income groups.

b. Institutional and policy reforms (44 percent of the operations program). The bulk of the lending in this category is for railroads and in telephones, areas where we expect substantial reforms. While the reforms are important, I wonder whether as large a proportion of our program is needed to achieve these purposes, and also whether we are likely to be successful in obtaining such reforms:

- \$5 million in FY75 for agricultural research. This is clearly of high importance, especially if some of the proposed research can be channelled - as is intended - to techniques for the dry-land Northeast (Sertao).



- \$160 million in FY74 and FY76 for telephones: the proposed program seems very large in relation to the objective (to get the telephone company to use International bidding), which now appears unlikely to be achieved in view of informal commitments to ITT and Ericsson.
- \$65 million in FY74 for textile plant modernization and a nitrogen plant intended to reduce fertilizer costs in the Northeast; both are important objectives.
- \$270 million in FY74 and FY75 for highways and railways. A good feature of this program is that the lending for highways is conditional upon a reorganization of the railroads - and hence the establishment of rational transport policies - but the railroad objective will be difficult to achieve.
- \$80 million in FY74 for the first portion of Sao Paulo beltway: this is an old issue. It now appears that progress on creating the metropolitan transport authority - a key condition for the proposed loan - is disappointing.
- \$15 million in FY75 for Curitiba urban development, consisting of an expressway for buses only.

4. As regards the second point, the increase in the current account balance of payments deficit shown in Attachment 4 for the period 1973-78 is almost entirely due to the very rapid rise in interest payments: a very rough estimate would be that at least half of these interest payments are due to "financial credits" for the private sector and state enterprises. The question is the extent to which the Bank can help to bring about a change in the management of external debt. The resulting debt service ratio, which includes amortization of the "financial credits", is very high indeed and would rise from 51 percent in 1972 to 67 percent in 1978 (Attachment 4). However, if there are no unforeseen developments in Brazil or in world capital markets, the amortization of the "financial credits" can be expected to be rolled over, bringing down the debt service ratio to 18 percent in 1972 and 26 percent in 1978. Even though the foreseeable debt service is still large, and a part of the outstanding financial credits are owed by state enterprises (and thus formally official debt), my own preference is that we should avoid spending too much of our already somewhat limited influence upon Brazilian policy-making on the short-term external financial issue, but rather on the social justice question.

cc: Messrs. Knapp, Aldewereld, Baum, Williams, Adler

cc: Messrs. Alter, Wiese, Avramovic, Skillings

cc: Messrs. Stern, Haq

PPKuczynski/rs0



Mr. Hollis B. Chenery

March 1, 1973

J. P. Hayes

Follow-up to Primary Exporters Paper.

1. You asked me to let you have, by February 23, a work program following Mr. McNamara's commitment to the Board to undertake certain studies.
2. The last three weeks were largely taken up by the budget, Board discussions of the primary exporters studies and quite a lot of miscellaneous jobs arising out of these discussions, British, Berne Union and Japanese Eximbank visits, and so on. Progress is slow, moreover, because of the difficulties of getting other departments to take on work which is not already in their work programs.
3. I have nevertheless had useful consultations with Jean Baneth and Stanley Please on tea, and John Hulley is working on an outline draft of the study, which will then need to be filled out with information to be obtained from Regional Offices. On cocoa, we are less well advanced. Mr. Yeung of Commodities Division is due to produce, by the end of June, an analysis of the general supply-demand situation. The present feeling is that we should not ask him to turn aside to work in detail on costs and alternative opportunities in the producing areas. Louis Goreux says that he would not be free to work on cocoa until the summer at the earliest, and I am not sure that he would want to work on this kind of study. An agricultural survey mission to Ghana, probably needed to generate supplementary data, has been postponed at least until August or September, and may not happen then. I fancy that there is a lot of data to be had in various places, but we need the right kind of person to work on them. I am checking whether we have any spare consultant funds for this year. I believe that we only have about \$20,000 of uncommitted travel funds, and we shall have claims for that amount twice over.
4. On industrialization studies, you have received a copy of Ravi Gulhati's memo of February 16, and on integration policy Bela Balassa's memo of February 13.
5. So far as we are concerned with studies of export promotion, Vaidya had preliminary discussions with UNCTAD and GATT (though not with the Trade Centre) last week, and collected the relevant studies we didn't know already. I have had an oral but not yet a written back-to-office report. He was able to brief Shamsher Singh, who is paying a more extended visit to Geneva this week and next.
6. I will try to give you a further progress report before I leave for England on March 11.

cc. Messrs. Stern, Tims.

JPH:fm

FEB 7 1973

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

OFFICE OF THE PRESIDENT

CC: Hays - Doering  
J Flinn  
Nag

MEMORANDUM FOR MR. CHENERY

Done 2/8/73

Mr. McNamara would like to receive a work program for carrying out the recommendations outlined in paragraph seven of the paper "Development Policy for Countries Highly Dependent on Export of Primary Products," as amplified by him in a meeting of the Board of Directors on February 6, 1973.



Anders Ljungh  
February 6, 1973

Mr. Robert S. McNamara

February 1, 1973

Hollis B. Chenery

Draft Outline of the 1973 Annual Speech

Following their discussion with you last month, Ernie and Mahbub have prepared the attached outline after a preliminary check as to what basic material could become available. It is still a rough sketch of the kind of themes which might be included in the Annual Speech but I am sending it to you in case you would like to see it at this stage and give us your reaction before you leave next week.

I have some doubts as to the wisdom of taking up these aspects of the income distribution theme again this year when we will have relatively little new material. A year later you could cover most of these ideas with much greater authority. Assuming that you want to stay in this general area, I think we could do somewhat more with the tradeoff between growth and distribution and tie it into a clearer statement of Bank objectives in its second five-year program.

Attachment

cc: Messrs. E. Stern (o/r)  
M. Haq  
P.P. Kuczynski  
Wm. Clark

MHaq/HBChenery:csm



DRAFT OUTLINE OF THE 1973 ANNUAL SPEECH

1. Introduction: Link up with the major themes in the 1972 Speech. Two aspects to mass poverty and income distribution - external and internal.
2. External:
  - (i) World income distribution. Accelerated growth in income disparities between the rich and the poor nations.
  - (ii) Need of the LDCs for more trade (draw on primary exporter paper) but growing barriers (examples). Compulsions for a more equitable sharing of benefits from exploitation of natural resources.
  - (iii) Trade not enough; aid also essential (refer to ODA estimates). International community has generally distributed aid in accordance with need with the exception of India (Mr. Chenery's article). But past, present and future levels of aid are inadequate and any major attack on poverty would require more resources (as well as new methodology).
  - (iv) Interdependence of world prosperity. Can the rich nations maintain their accelerated growth while a growing majority of mankind remains impoverished - analysis from economic, political and social angle.
3. Poverty Problems Within: Poverty has many faces. To move from description to policy, one must distinguish between the problems of urban and rural poverty.

- . Material on rural-urban income
- . Distribution of public services - rural/urban
- . Social aspects of rural and urban poverty
- . Migration

4. From Diagnosis to Policy Formulation: This section should link the diagnosis of the problem to the need for new policies by emphasizing that:

- . a direct attack on poverty must be mounted as the indirect filter-down effect of growth rates takes too long and is inadequate;
- . a comprehensive program for such a direct attack can be formulated by the developing countries themselves: the international world can only help those who demonstrate the will to change;
- . given the initiative in the LDCs, there are a few selected areas where the bilateral and multilateral donors, including the Bank Group, can play an increasingly active role so as to combine economic growth with greater distributive justice.

5. Reaching the Rural Poor:

- (i) Nature of rural poverty - numbers involved, magnitude of poverty.
- (ii) Integrated rural development programs - mistakes made, lessons learnt, successes achieved.

- (iii) Raising agricultural productivity of the small farmer (credit, extension, inputs). World land availability and use outlook - contrast between Asia and other LDCs. Critical role of land reforms - experience in selected countries.
- (iv) Role of publicly financed works in reducing rural unemployment.
- (v) The special problem of the landless.
- (vi) How to bring relevant education to the rural areas.

6. Urban Poverty:

- (i) Degradation of the cities - migration data; public services; why do people move.
- (ii) Absorptive capacity of the modern sector. Adaptive technology. Labor absorption in industry. Public works.
- (iii) Provision of low-cost housing can help both employment and distributive justice:

Estimates of total world requirements of housing.

Cost of providing adequate housing to the poor masses.

Role of public works programs in enlisting community self-help in building low-cost housing.

Site and service projects.



(iv) Spatial planning. New towns. Regional planning.  
Land use.

(v) Municipal reform. Local authority. Administrative  
improvement. Municipal tax base.

7. Bank Group <sup>Program</sup> ~~role~~: Some indication of the qualitative targets of Bank's  
next five year plan (74-78).

- Inter Country - stress least developed.

- Within Country -

Mr. Robert S. McNamara

February 1, 1973

Hollis B. Chenery

IDA Policies

1. Attached is the revised paper on IDA Policies reflecting the comments and suggestions made on the previous draft. When we have received your revisions, we will put the paper into final form for distribution to the Executive Directors.

2. Please note the following assumptions for IDA lending in FY73. India, Indonesia, Bangladesh and Pakistan receive their full allocation of \$632 million out of \$1,040 (respectively 39, 11, 6 and 5 percent). The remaining countries receive the "minimum" program of \$476 million, making a total of FY73 IDA commitments of \$1,108 million. In averaging this with lending in FY72 a rounded average of \$1,050 million has been used. The number of operations assumed for FY73 (68) is consistent with this volume of lending.

cc: Mr. J. Burke Knapp  
Sir Denis Rickett  
Mr. John Adler  
Mr. Ernest Stern  
Mr. Haq

Haq:HC Chenery:di



# Record Removal Notice



<b>File Title</b> Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1973 (January - April)		<b>Barcode No.</b>  30235180		
<b>Document Date</b> Jan. 29, 1973	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> From: Hollis Chenery To: Robert McNamara				
<b>Subject / Title</b> Shirley Boskey				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 26, 1973

FROM: Hollis B. Chenery *HBC*SUBJECT: Indian foodgrain situation and the ability of the United States to respond to potential emergenciesGeneral Conclusions

1. In the event of an emergency food situation developing in India because of failure of the spring crop due in late April, the United States would be in a position to supply considerable quantities of wheat out of the 1972/73 crop. This would entail a running down of the stocks to a low level, but in consideration of the almost certain larger winter wheat crop which will start being available in June and the probability of a larger U.S. spring wheat crop later in the year, stocks would be replenished in a relatively short time. Sorghum from the new crop will also become available in spring and could be exported to India by mid-1973.

2. The recent Indian purchase of grains has been done on commercial terms at a cost of \$200 million; the Indian Government has repeatedly stated that they will buy all the needed grains on these terms. However, the foreign exchange used in the grain purchase represents one fifth of the Indian foreign exchange reserves which at \$1 billion at the end of 1972 amounted to five months' imports. The reduction of India's foreign exchange reserves is not in itself detrimental to economic development, but may induce the Government to restore and maintain such large reserves exactly for the purpose of meeting major emergencies without dependence on foreign assistance. To the extent that a policy of maintaining large reserves requires the containment of imports other than foodgrains, this may retard economic growth. Imports of foodgrains in the near future, specifically if desired on concessional terms, would largely have to be sought from the United States. This, however, might be difficult both because of political reasons and because the present PL480 budget makes no provision for India.

The Current Indian Foodgrain Situation

3. The failure of the monsoon during the second half of 1972 is presently estimated to have reduced the autumn grain harvest by 10 million tons. On January 15, 1973 the Government-held buffer stock of grains stood at 2.5 million tons down from 9 million in mid-1972. The Indian Government has contracted the purchase of over 2 million tons of grains<sup>1/</sup> due to begin arriving at Indian ports early February. This amount is considered by

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<sup>1/</sup> The U.S. supplied over 800,000 tons of wheat and sorghum, Argentina about 700,000 tons of wheat and Canada about 550,000 tons of wheat also.

President has seen

official Indian sources to be large enough to insure sufficient supplies of grains until the spring crop becomes available in late April. Imports have been made on strict commercial terms at a cost of about \$200 million including shipping. Transportation problems in the exporting countries are not as bad as anticipated, because the industry has mobilized additional resources to move the extra amount of grains. The freight rate, however, is reported at \$15 per ton, about 50 percent higher than a year ago.

4. The spring wheat crop is expected by the Indian Government to yield about 31 million tons, an increase of 3-4 million tons from last year's spring harvest. This estimate is 1-2 million tons lower than the forecast made in December 1972. While it is too early to make an accurate evaluation of the crop outcome, it is becoming increasingly clear that failure to harvest 31 million tons of wheat will call for further imports in the next few months. The Indian Food Minister, Mr. Ahmed, stated in a recent interview that "we are reviewing the position all the time" and that "if imports are required we import."

#### Grains Supply in the United States

##### a. Current 1972/73 Position

5. The U.S. Department of Agriculture currently estimates that the wheat carryover stock at the end of the marketing year (June 30, 1973) may be around 12.8 million tons, 1/ the lowest level since 1967 when it amounted to 11.6 million tons. USDA officials consider the estimated carryover stock "on the low side of safe." There is no exact information on the minimum acceptable level of wheat stock; however, in 1952, wheat stocks fell to their lowest level of about 7 million tons, representing about 40 percent of U.S. yearly domestic consumption. A similar carryover stock/US consumption ratio would allow the 1973 carryover stocks to decline to about 8.5 million tons. A decision by the U.S. Government to allow wheat stocks to drop to this level would make available for export over 4 million tons out of the current 1972 crop.

6. There will be very little extra rice available for exports from the 1972 U.S. crop above the estimated 2 million tons to be shipped in 1973. Stocks at the end of the marketing season (July 30, 1973) are expected to drop to 200-300,000 tons.

7. U.S. stocks of feedgrains (mainly maize and oats, and smaller quantities of barley and sorghum) are ample, although sorghum is at present in short supply. However, a new sorghum crop will be harvested in the spring.

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1/ This assumes that no major new exports will be contracted from now to the end of the marketing season.



b. U.S. Government Measures for the 1973/74 Grain Crops

8. The U.S. Department of Agriculture, in an effort to boost wheat production and to counter the big increase in domestic prices, has announced on January 11, 1973, the removal of the farmers' requirement to set aside acreage in order to qualify for price support payments. This action could add an extra 15 million acres - about a third more than the wheat acreage harvested in 1972 - for growing spring wheat and feedgrains in 1973. Also in a further move to encourage the release of grain stocks, the U.S. Government has decided not to extend the loans on the remainder of the 1971 crop and first-year price support loans on the 1972 crop beyond present maturity dates this summer.

9. How much more wheat these measures will bring about is difficult to quantify. The USDA does not expect that all the 15 million acres of set-aside land will go into wheat production. Because of a serious shortage of protein feed stuff, with prices doubling in the last six months, they are aiming at an increase of soybean acreage by some 5-6 million acres and they hope that some of the soybeans will be planted on wheat set-aside acreage. Moreover, about 75 percent of U.S. wheat is winter sown and the release of the set-aside acreage will give only an additional 1 million acre of winter wheat (equivalent to some 900,000 tons of wheat) which was over-planted and would not have been harvested.

10. The USDA, in order to increase the production of feedgrains, has announced measures which are expected to bring back under cultivation about 12 million of the 36.6 million acres set aside in 1972 under the feedgrain program. It is probable that further action in this sector may be taken if the world grain shortage worsens.

11. An acreage allotment for the 1973/74 rice crop of slightly above 2 million acres was announced on December 29, 1972 by the USDA. This represents an increase of 10 percent over the 1972/73 crop allotment. It is however, much lower than the acreage allotted in 1968/69 and 1969/70 when, in a less serious shortage situation, 2.4 million acres and 2.2 million acres were sown respectively. Assuming normal yields, the acreage increase would result in only about 200,000 tons more rice available in 1973/74 than in 1972/73.

RMarsili:WTims:OPrice:SSingh:mb

Clearance and cc: Mr. E. Stern



Mr. Robert S. McNamara

January 25, 1973

Hollis B. Chenery

Briefing Notes for the Board Discussion on the Primary Exporters' Study

Attached is a set of briefing materials covering points that may be raised in the Board discussions on January 30. We are also checking with some of the Directors to see what questions they are likely to raise.

We need to do further work on the application of the criteria for investment in commodities facing inelastic demands. I do not think it is possible to reduce the policy guidance to a set of simple criteria, as is attempted here and in the tea paper sent to the Board on December 20. We therefore plan to carry out a test application for one of the major commodities, such as tea. I am revising Hayes' briefing memorandum on this point before forwarding it to you.

Please let me know if you would like to schedule a discussion of these points before the meeting.

Attachment.

HBC/dg

cc: Mr. J. P. Hayes  
Mr. E. Stern

*Post-Board Follow-up:  
Hayes and Ferguson*