Folder Title: Irving S. Friedman Chron files - Correspondence 09

Folder ID: 1784927

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

Series: Presidential chronological files of Economic Advisor Irving Friedman

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 14, 2013

Friedman Presidential Chronfiles - Mar. 1 - Je. 31, 1970

DECLASSIFIED

WBG Archives

Copy to Mr. Kamarck 6/29

Mr. Friedman

JUN 25 1970
9 a.m.

June 24, 1970

Mr. McNamara:

You may be interested in the attached memorandum prepared by Mr. Schulmann.

JHA

Attachment

cc: Messrs. Aldewereld, Rickett,
Friedman, W. Clark

John H. Adler

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

OFFICE MEMORANDUM

TO: Mr. John H. Adler

DATE: June 23, 1970

FROM: Horst Schulmann /HS.

SUBJECT: Visit to Bonn and Frankfurt

1. As suggested, I talked to various people in the Kreditanstalt, the Bundesbank and the Federal Ministries during my stay in Germany, mainly about German development assistance, problems of aid coordination, the economic outlook at mid-year and the short-term prospects for capital exports.

2. My contacts included:

in the KfW (June 1/2): Mr. Gutowski (Economic Adviser), Mr. Aust (Chief, Economics Department), Mr. Stein (Chief, Statistical Division), Mr. Bröder (Chief, Credit Secretariat II), Mr. Forell (Chief, Division for Export Credits);

in the Bundesbank (June 2): Mr. Schlesinger (Director, Economics Department), Mr. Scholl (Chief, Balance of Payments Division);

in the Ministry of Economics (June 4/5): Mr. Hankel (Director, Money and Credit Department), Mr. Hiss (Chief, Principles Division), Mr. Elson (Chief, Capital Aid Division), Mr. Tietmeyer (Chief, European Division) 1/;

in the Ministry of Finance (June 5): Mr. Schüler (Director, Principles Department), Mr. Bommarius (Budgeting Officer, Development Assistance);

in the Ministry for Economic Cooperation (June 5): Mr. Neufeldt (Liaison Officer), Mr. Eckardt (Budgeting Officer).

3. Reception was kind throughout although I had to arrange some appointments at rather short notice. Discussions were frank, partly because I have known many of the people I talked to for a long time, partly because I made it clear that I had not come for official negotiations but to get a better idea of the working of the German aid machinery and to test some ideas that need not necessarily reflect the position of the Bank Group.

1/ Mr. Koinzer, who is responsible for liaison with the World Bank Group, was on leave of absence.

German Development Assistance 1/

4. The German authorities seem to take considerable pride in last year's aid performance (total net disbursements to LDC's equalled 1.44 per cent of GNP). They are not worried about the deterioration of the quality of German aid (decreasing share of official flows as a percentage of GNP), and they are confident that the volume of private flows will not shrink drastically in 1970 although they are aware of the rather special factors that were at the bottom of the 1968/69 events. Reasons given: the growing preference of German firms to invest abroad; the persistent tendency towards net long-term loan capital exports; the backlog of undisbursed export credits.

5. Since the days of Ludwig Erhard there has always been a strong school advocating that private aid is superior to official aid, both inside and outside the academic community. The latter, officially represented by the Scientific Advisory Council of the Ministry for Economic Cooperation, has recently reversed its previous position and come out strongly in favor of official aid. The Pearson Report was frequently mentioned but there were no wholesale supporters among the people I talked to. Again and again the argument was advanced that Germany's aid performance is better than average and that there is no compelling reason for a swift change of policies as long as other donors, particularly the U.S., lag behind in their efforts.

6. The budget for 1971 and the medium-term financial plan for 1970-74 have now reached the cabinet level. Cash payment authorizations in the budget of the Ministry for Economic Cooperation will be slightly higher than indicated in the 1969-73 plan. Since the proposed authorizations for 1970 have been cut by $22 million as part of the present stabilization program, the nominal growth rate for 1971 will be impressive (about 12 per cent) but still insufficient if the 0.7 per cent target for official development assistance is to be reached towards the end of the seventies. There is some room for optimism, however, since the commitment authorizations for technical assistance and development loans have not been cut back in 1970 and will continue to grow at 11 per cent in 1971--provided the Ministry for Economic Cooperation can convince the (over-concerned) Ministry of Finance that this will be consistent with the frame set by the cash payment authorizations planned for 1970-74.

7. The chief reason for the uncertainty surrounding the relation between commitments and disbursements would seem to be the absence of any major planning and programming effort. The German authorities are fully aware of this and the responsibilities of the planning division in the Ministry for Economic Cooperation will be considerably widened in the near future. On the financial side, the present situation is this: the cash payment authorizations in the medium-term financial plan are the outcome of an inter-ministerial bargaining about the growth rates of the individual ministries' budgets. At best, there

---

1/ This section is essentially a follow-up to my draft paper on the same subject, dated 4/3/70, and will be incorporated in a revision of the latter.

is a loose connection between the programs to be implemented and the amounts actually allotted. Rather the opposite is true, at least in the case of development assistance: it was only after the Ministry of Finance had been pushing very hard for some time that the Ministry for Economic Cooperation produced a set of figures that purported to show the proposed increase in commitment authorizations to be compatible with the cash payment authorizations in the medium-term financial plan.

8. There are various reasons for the absence of an effective planning and programming mechanism--some technical, some fundamental. First, there is the fragmentation of responsibilities in the development field, often deplored and the subject of much controversy at the recent convention of the Social Democratic Party. Time seems to be working in favor of centralization. As of May 15, 1970 the relations between the Ministry of Economics, responsible for capital aid and liaison with the World Bank Group, and the Ministry for Economic Cooperation will be regulated, among others, by the following principles:

- All requests for capital aid will be brought immediately to the attention of the Ministry for Economic Cooperation;
- At all stages of project preparation the ministries involved will work closely together;
- The Ministry for Economic Cooperation will develop a medium- and long-term plan of the regional and sectoral distribution of total official development assistance; the Ministry of Economics will cooperate on all questions of capital aid;
- Where the Ministry of Economics is responsible for decisions and statements in the field of multilateral aid, these will be coordinated with the Ministry for Economic Cooperation; visitors from the World Bank Group will first be received by officials of the Ministry of Economics.

Second, planning and programming has been hampered till now by the principle that requests for capital assistance are the responsibility of the recipient country. There have, of course, been numerous cases in which the corporate lobby initiated projects, but until recently the Kreditanstalt, as the executing agency in the field of capital assistance, has not done any active identification work, and presently its activities in this respect are done more or less clandestinely lest unwarranted hopes on the side of potential recipients are wakened.

Third, since commitments are made in two stages (the "political" decision being taken in Bonn, the "economic" decision in Frankfurt) the time lags between the original decision to commit a loan and the actual disbursements are rather unstable. No thorough attempt seems to have been made to develop a disbursement model; the Ministry of Finance is now pushing for one, and I got the impression that both there and at the Kreditanstalt it would be greatly appreciated if the World Bank would make its experience in the field available to its member countries.

Fourth, financial planning need not be as rigorous as would seem to be the case at first glance since an excess of disbursement requirements over cash authorizations can be met in various ways (utilization of amortization payments or KfW credits) and since unspent balances can be carried forward.

Fifth, manpower planning does not seem to be a matter of great concern in the KfW (but is causing some concern in the field of technical assistance) because resources can always be shifted from the domestic division of KfW to the foreign business. Anyway, KfW officials do not foresee a rapid increase in the volume of capital aid they are requested to process; they also point out the trend towards a large share of program loans.

Aid Coordination

9. At present, little help can be expected from the German authorities in constructing a detailed global aid matrix because their planning horizon does not allow a breakdown of future flows by type, region and terms.

10. As to aid coordination on the country level, the German officials seem to be quite satisfied with the work of the consortia and consultative groups. They point out that multi-year commitments are impossible under the present budget law and that such pledges would weaken the little leverage donor countries have. The latter would also be true if the donors were to disclose their (internal) planning figures to the recipients. It was doubted whether this would really help the planners in the developing countries in putting their development programs on a firmer basis; the apparent tendency for planning horizons in the LDC's to shrink, which may well be a by-product of the donors' unwillingness to make information about likely aid flows available to individual recipient countries, was also cited as an argument against the need for such information. That donors exchange their lending programs, if any, was also not considered very practical, at best in the form that a "public trustee" (the World Bank, e.g.) aggregate the information provided by the individual donors as to show in anonymous form the medium-term pattern of aid flows by sectors and regions. This might lead donors to revise their lending programs on a later stage of the planning process and thus help to avoid some of the present distortions in the aid patterns (although aid distribution would remain au fond a political decision). No firm views were expressed about the Pearson Commission's recommendation that IDA should take other flows of development finance into account in its own lending operations.

Further Points of Interest

11. Although there are still some hardliners who insist that loan terms should be related to "what the traffic will bear"--either the recipient country's debt service capacity or the rate of return of the individual project--the number of those advocating softer terms for development loans is rapidly increasing. It was admitted that the DAC's activities have had a strong pedagogical impact in this respect.

12. In spite of the great value attached by the German authorities to the recipient's performance as a guide to aid allocations, no formal criteria seem to have been developed which would make inter-country comparisons possible. Rather, performance is evaluated on a case-by-case basis, and how judgements are finally made did not become clear during the course of my discussions.

13. It was agreed that the ex-post evaluation of projects was a matter of high priority, but since Germany is a late-comer in the development business the number of projects suitable for ex-post auditing is still small. The Ministry for Economic Cooperation has, at various occasions, asked outsiders to re-evaluate projects but their findings do not seem to have thrown serious doubt on the original KfW appraisals, if only because the reappraisals were of a lower standard.

14. In its general economic work the Economics Department of the KfW relies heavily on the World Bank's Economic Reports ("We could not do better") but occasionally diverges from the Bank's policy conclusions.

The Economic Outlook

15. The present boom is probably the strongest in Germany's postwar economic history. Although the rate of inflation has long exceeded the critical level and is now close to 4 per cent, it is not very likely that more pronounced stabilization efforts will be made. It is felt that further cuts on the expenditure side of the Federal budget would be incompatible with the Coalition's program of inner reforms, and the Free Democrats are strongly opposed to any tax increases. Of the major industrial countries, Germany still has the smallest price increases; an overdose of fiscal restraint would quickly bring her back into an untenable surplus position on current account. Fears are already widespread that the tight money policy will soon backfire; in recent months, short-term capital imports outweighed long-term capital exports. More recently, large amounts of "hot money" have flown into Germany after the revaluation of the Canadian dollar, forcing the Bundesbank to resume operations in the forward market. Chances for another DM-revaluation appear small although revaluation is no longer a bad word. It is generally expected that, aside from some palliatives, no further policy measures will be taken, and none are asked for by the two most influential pressure groups, the Federal Association of German Manufacturers and the German Labor Union Council. Thus, the prospects are for a continuation of mild inflation (mild by international standards), over-full employment, rapid growth and a near equilibrium in the current balance.

Capital Exports

16. Given the dominant role of the banking system in the bond market, both as investor and issuer, the rapid deterioration of the capital market situation after the revaluation and the introduction of stiffer monetary policies is no surprise. Nobody seems to expect, however, that things could become as bad as they were in 1965/66, if only because the Bundesbank's room for maneuver is more limited.

17. During the first four months of 1970, long-term capital exports have remained at a surprisingly high level, reaching altogether 4.6 billion D-Marks (as compared to almost 8 billion D-Marks one year ago). While non-financial institutions and private households exported almost as much as long-term capital as last year, the banking sector has recently become a net importer of long-term capital.

18. The bond market is now also dominated by private investors. The share of foreign bonds is down to the level of 1968. It is not expected that market conditions will improve soon.

19. As for the longer-term outlook, some people feel that capital flight might become a factor of some importance if the "Socialists" continue to rule in Bonn. Others consider this utter nonsense and point out that the government's plans to reduce the inequities in the formation of wealth should have most beneficial effects on the capital market and help to increase the demand for both domestic and foreign bonds. On verra.

European Currency Union

20. This is a fashionable topic these days. Though the official German attitude towards such plans is still quite cool at present many observers feel that time is working against the Germans and that the currency union will have become reality by 1985 the latest. Quite obviously recent U.S. economic (and political) performance has helped to strengthen self-confidence in the Common Market Countries, one by-product of which is the total absence of concern about the international effects of the recession in the U.S. It is argued that the French, by strongly endorsing all plans for closer monetary cooperation in the EEC, simply continue to pursue their rather peculiar ideas about the role of the U.S. dollar in the world economy through the backdoor of the Common Market. (One of the EEC Commission's most fervent spokesmen for a European Monetary Union, Mr. Barre, happens to be French.) The EEC Commission, otherwise a strong opponent of exchange rate variations, seems to think of the common European Currency as flexible vis-à-vis all other currencies, including the U.S. dollar which, some people expect, would be continually devalued and soon lose its reserve currency status. At the very least, this would seem to require a lot more fiscal and monetary discipline of the "Roman" members of the Common Market than they have been willing to exercise in the past.

cc: Mr. Blaxall
Mr. Colaço

HSchulmann:omc

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 19, 1970

FROM: Irving S. Friedman

SUBJECT: "What is the justification of the World Bank Group financing commodities that are in surplus supply?"

We had promised a paper on this topic before the Ghana cocoa project was discussed. This paper is by no means the last word on the subject, more work will be done, but I do hope you will find it of some use.

Incidentally, this paper was done before I went into hiding to finish the Debt Study draft.

ISF

President has seen

JUN 23 1970 (Returned)
9 30

FORM NO. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 19, 1970

FROM: Irving S. Friedman ISF

SUBJECT: "What is the justification of the World Bank Group financing commodities that are in surplus supply?"

1. Both the Bank and the borrowing countries are obviously interested in financing projects that will be financially viable and economically profitable when they begin producing. Equally obviously, when it comes to projects that are to produce primary commodities for export sale on a more or less competitive global market,1/ a project that faces good market prospects, meaning growing demand and a stable, "remunerative" price, will be preferred - other things being equal - to one that does not.

2. Why then, one must ask, is the Bank at times in the position of proposing to finance a project to produce an export commodity which is either "in surplus supply" (the quotation marks are used advisedly) at that time or in which "surplus supply" is expected to develop in the future, or both? When this, or the subject question, is asked we must recognize that the term "surplus supply" often is being used loosely, i.e., the concern being expressed really is that in the appraisal of the proposed project the price is projected to trend downward in the future (and therefore this must mean that we are expecting a "surplus supply").

3. As I will try to make clear later, an automatic equating of a projected falling price with an assumed "surplus supply" usually represents a misunderstanding of what is being forecast. The projected low price in the typical case really represents a long term equilibrium (market clearing) price level (a "surplus" would represent a temporary disequilibrium situation) which we believe will discourage excess production (or capacity) from developing in relation to expected demand at the same price. The effect of a future possible surplus situation (but temporary and indeterminate as to timing, as will be shown below) is implicitly taken into account through the "sensitivity exercise" which regularly appears in project appraisals, whereby we observe the effect of prices above (possible temporary "shortage") and below (possible temporary "surplus") the estimated equilibrium price on the economic rate of return of the project.2/

1/ To avoid unnecessary complexity and length this memorandum is limited to considering only the case of commodities which are for export and have a world market. The case of import substitution (e.g., in sugar or grains) is a variant and is not taken up. Neither, for obvious reasons, is the case of commodities produced under long-term contract.

2/ Improving the basis for arriving at these sensitivity price ranges is one of the current objectives of the Trade Policies and Export Projections Division of the Economics Department, which is responsible for our long-term commodity projections.

4. The reply to the critic who is using the term "surplus supply" loosely, therefore, is that we do not expect a surplus to materialize if the assumed price is reached, but the possibility of a surplus is taken into account to insure that even under such conditions the project will be viable and will meet our criterion of an acceptable rate of return.

5. I would like to consider the question a bit more, however, on the assumption that it might not represent simply a general concern with a projected falling price. In this way it will be possible to bring out some additional aspects of the subject that need to be understood.

6. In the typical situation the reasons why the Bank might propose to finance a project to produce a commodity in "surplus supply" would be that (a) the present "surplus supply" is not expected to endure in the future or at least beyond a certain point, or the "surplus supply" is not expected to so adversely affect the price that the project is ruled out; (b) no alternative opportunities for a more attractive investment are available at that time in the borrowing country; and (c) the project should be financially viable and should produce an acceptable economic rate of return under the foreseeable conditions.

7. In fact, as has already been suggested, surplus supply in most commodities is a disequilibrium situation with a limited life span, even if we are speaking of installed capacity, i.e., readily available potential output (in the latter case actual output may disguise the pattern because production may be controlled). The life span of surpluses is limited because they have a price, as well as a volume, dimension and if prices are permitted to fall, surplus supply, allowing for time lags in the reaction and adjustment of production and consumption, will disappear.1/ This can occur relatively quickly in annual crops (e.g., grains and certain fibers) although it can take longer in tree crops2/ and minerals (in terms of capacity).

8. Also in fact, a relatively permanent (sometimes called structural) surplus supply in a commodity has tended to occur mainly in cases where there has been unilateral or multilateral government intervention in the price mechanism; for example, in cases such as:

(a) where governments with a large share of world production in a commodity have maintained a high domestic and sometimes also a high world price and have been willing to stock the resulting surplus output (e.g., as in the case from time to time of some commodities where the U.S. Government has had price-support policies, for some agricultural commodities in the EEC countries, and until recently in the case of coffee by Brazil);

1/ To avoid unnecessary complications we are ignoring seasonal variations in the supply-demand of annual crops.

2/ When a "surplus" is due to a bumper crop because of exceptionally good weather, the correction can be quick even in the case of a tree crop such as cocoa.

(b) where the U.S. encouraged large expansions of mine capacity to supply its minerals stockpile and it then took years for consumption growth to catch up with capacity after stockpile procurement ceased;

(c) where an international commodity agreement was maintaining a given world price by export controls but had not yet succeeded in matching the export controls with domestic production controls, as in the case of the International Coffee Agreement before the formation of the Diversification Fund and the related adoption of production goals (although these instruments still remain to be tested).

9. Bank-financed commodity projects are analyzed with regard to their world market environment not on the basis of present demand-supply-price conditions but of projected, future conditions. Usually, any individual Bank project or group of projects is an insignificant or small part of the expected overall expansion in world supply, demand or trade and therefore the key variable in the economic appraisal from the marketing point of view will be the average price level that is expected to prevail in the years when the project comes into production.

10. Most projects, however, require several years or more from approval to the time they come into substantial production. Tree crops require even more time, because after planting there are gestation periods of several years (sometimes as much as seven) before full production. Given the state of the art in price forecasting, however, if the price is free to move it is usually impossible in practice (with some exceptions)1/ to project with any high degree of reliability the exact timing of a temporary disequilibrium in world supply-demand in an annual crop or a mineral as much as three or more years ahead, or the exact timing of a disequilibrium in a tree crop several years beyond its gestation period. The lack and unreliability of available data and other information, and the existence of man-made substitutes that compete with many agricultural and mineral raw materials, greatly complicate the problem. In practice, therefore, the forecast price for the period beginning when production from a project commences essentially must assume a supply-demand equilibrium situation where the price is one that clears the market. The fact that a projected price level under such a condition may differ from the price level in the base period will typically be due to a judgment, formed on the basis of investigation of the economic, technological and other relevant aspects of the commodity in question, that the

---

1/ One exception may be, for example, where known capacity, in the case of mines or trees, is so high in the base year that demand (assuming low price elasticity) may take years to catch up - as happened in some minerals after the Korean War. Another example could be where a natural phenomenon such as frost or blight may suddenly destroy so many trees in a given tree crop that it would take many years for supply to catch up with demand (again assuming low price elasticity) at the long-term equilibrium price.

base period had elements of disequilibrium, or to the influence of expected changes in costs of production due to expected changes in yields, productivity, technology, transportation and the price of substitutes, as the case may be, or to expected changes in demand. To illustrate with recent examples, we expect a long-term price fall in natural rubber prices not because of an expected future "surplus" in natural rubber (indeed, we are more afraid of a possible shortage, since this could accelerate a shift to synthetic substitutes and cause an unwarranted fall in natural rubber's share of the market for all kinds of rubber) but because of the possibility of a fall in the cost of certain competing synthetic rubbers (which, through higher yields, we believe the natural rubber producer can meet). Similarly, we do not expect a "surplus" in palm oil, but rather that through higher yields (and hence lower costs) it will become more attractive in price and therefore more attractive technologically to the food processing industry, so that it will increase its share of the market. In the case of cocoa, our price projection represents a fall from the base period only because that period was one of relatively short supplies and high prices.

11. On the other hand, in cases where government or international authority is expected to intervene and perpetuate a surplus through accumulating and financing stocks, a "surplus supply" can be predicted over the long run.1/ Even in such cases, however, the mere fact of such surpluses does not per se determine the associated price. When stocks are strongly held, and some control is exercised over supply, one can have "surplus supplies" for some time without a drastic fall in price (see U.S. and Brazilian stockholding policies in some periods). It is also possible to have strongly held stocks in government hands and a "competitive" international price (see recent U.S. policies on cotton stocks and prices). In effect, the price forecast in such cases (including all cases where an international commodity agreement is in effect) is based on an analysis and judgment of the probable long-term price policies of the authorities in question and their ability to make them stick.

12. In short, to return to the original question, whether a commodity is or will be "in surplus supply" is taken account of in arriving at decisions regarding the financing of commodity producing projects - but as this memorandum has endeavored to show, the existence of "surplus supply" does not automatically or necessarily mean that a proposed project should not be financed.

1/ A qualification should be made here, namely, that when a government accumulates stocks unilaterally, the private sector in that country may hold somewhat lower stocks than normal.

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

OFFICE OF THE PRESIDENT

June 18, 1970

Dear Mr. Jenks:

This is in reply to Mr. Morse's letter of May 11 issuing an invitation to designate a member of my staff to prepare a paper and to participate in the Meeting of Experts on Fiscal Policies for Employment Promotion, with special reference to the developing countries. I am happy to accept this invitation.

Our paper will address itself to the topic: "Review of extant fiscal policies in developing countries to examine whether they promote, inhibit or are neutral towards increased employment." We would not, of course, try to prepare in the time available a definitive study on the subject, but we will try to put together what we do know about this problem giving special attention to these policies as they arise in areas in which the World Bank is particularly interested and involved, for example, in agriculture.

The paper will be prepared in the Domestic Finance of Developing Countries Division of the Economics Department. Responsibility for its preparation will be jointly shared by Mr. Stanley Please (Chief of the Division) and Mr. George Beier.

Mr. Please will participate in the meeting.

Sincerely,

Robt S. McNamara

Robert S. McNamara

Mr. Wilfred Jenks
Director-General
International Labor Office
Geneva, Switzerland

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

June 15, 1970

Discuss this letter with Mr. Kamarck:

Will these people be available? Write more tentatively. Who will be called to work on this problem. Put together what we know; would want to make clear we would not have a definitive study ready and then indicate the people who would be preparing the paper <u>without</u> expressing uncertainty as to who would attend the meeting.

Mr. Robert S. McNamara June 12 1970

Irving S. Friedman

Invitation from ILO

I am sorry that there has been a delay in preparing this reply to Mr. Morse, however, I did not want to commit ourselves to doing a paper unless we not only thought it worthwhile but that we would have the people to do it. This involved waiting for some people to come back to the office who were abroad.

Dear Mr. Morse,

I wish to thank you for the invitation to designate a member of my staff to prepare a paper and to participate in the Meeting of Experts on Fiscal Policies for Employment Promotion, with special reference to the developing countries. I am happy to accept this invitation.

The paper will be prepared in the Domestic Finance of Developing Countries Division of the Economics Department. Responsibility for its preparation will be jointly shared by Mr. Stanley Please (Chief of the Division) and Mr. George Beier. A decision regarding participation in the meeting will be made later and your office will be notified accordingly.

I accept your suggestion that the paper should be a "Review of extant fiscal policies in developing countries to examine whether they promote, inhibit or are neutral towards increased employment." However, I expect that the paper will give special attention to these policies as they arise in areas in which the World Bank is particularly interested and involved, for example, in agriculture.

Sincerely,

Robert S. McNamara

Mr. David A. Morse
Director-General
International Labour Office
Geneva, Switzerland

ISFriedman/AMKamarck/dm
June 12 1970

cc: Mr. Kamarck

May 15 1970

Mr. Kamarck D-529

Would you please prepare a reply on this -- I presume it would be someone from either Fiscal or Population Divisions, if at all.

Form No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP	Date May 15 1970

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Kamarck	D-529

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

Remarks

Would you please prepare a reply on this -- I presume it would be someone from either Fiscal or Population Divisions, if at all.

From

Irving S. Friedman

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date 5/15/70

NAME	ROOM NO.
Mr. Friedman	A1221

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

REMARKS

Irving:
I believe this is for your side of the house to handle.

RHD

MAY 15 1970
10:45 a.m.

From
Richard H. Demuth

5/14

INTERNATIONAL LABOUR OFFICE — BUREAU INTERNATIONAL DU TRAVAIL

GENEVA

Dear Mr. McNamara,

The Governing Body of the International Labour Organisation has decided to convene a Meeting of Experts on Fiscal Policies for Employment Promotion, with special reference to the developing countries, and has asked me to invite you to select a person to participate in it. The Meeting will be held in Geneva, probably from 4 to 8 January 1971.

This Meeting is envisaged as a part of the supporting activities for the ILO's World Employment Programme. I think you will agree that the impact of fiscal measures on employment, and the scope that may exist for promoting additional productive employment through fiscal measures, have been inadequately studied in the literature.

You are cordially invited to designate a member of your staff or an outside expert to prepare a paper for the Meeting and to participate in it. I hope you will agree that, both as an author and as a participant in the Meeting, the person designated by you should serve in an individual, and not a representative, capacity.

A list is enclosed of the other international agencies that will be asked to select participants in the meeting or to prepare papers for it. It is envisaged that the ILO will publish a volume of the contributed papers.

Mr. R. McNamara,
President,
International Bank for Reconstruction
and Development,
1818 H Street N.W.
WASHINGTON, D.C. 20433.

(Etats-Unis)

I suggest that the person nominated by you should prepare a paper on "A review of extant fiscal policies in developing countries to examine whether they promote, inhibit, or are neutral towards increased employment", but if you believe that some other topic is more appropriate, I should be grateful to have your suggestions. I enclose a copy of a paper "Suggestions for Writers of Papers" which may be helpful.

It is necessary for the finished paper to be sent to the ILO by the end of September 1970 so that it can be translated and distributed to all participants at the Meeting in time to permit study in preparation for discussion at the Meeting.

While the Office would not wish to prescribe the length of papers, it is hoped that they would be between 2,500 and 12,500 words in length. Papers may be prepared in either English, French or Spanish.

Sincerely,

David A. Morse
Director-General

INTERNATIONAL ORGANISATIONS BEING INVITED TO SELECT PARTICIPANTS IN INTERNATIONAL LABOUR ORGANISATION MEETING OF EXPERTS ON FISCAL POLICIES FOR EMPLOYMENT PROMOTION

(Provisional list)

United Nations

Food and Agriculture Organisation

United Nations Industrial Development Organisation

International Monetary Fund

International Bank for Reconstruction and Development

International Labour Organisation

<u>Meeting on Fiscal Policies for Employment Promotion</u>

SUGGESTIONS FOR WRITERS OF PAPERS

The Meeting is to be devoted to the discussion of papers on fiscal policy for the promotion of employment in developing countries. It is suggested that the papers deal with fiscal policy as an incentive-disincentive system affecting behaviour as it touches on the quantity and quality of employment of labour.

Implicit, as well as explicit, taxes and subsidies that have employment effects may be dealt with in the papers, and the papers may cover indirect, as well as direct, effects on employment.

Set out below are three topics (including one labelled "Miscellaneous") with sub-topics in the form of questions. These may be helpful in the preparation of papers. You are invited to suggest preparing a paper under any of these headings. It is hoped that there will be a reasonable balance in the distribution of papers among these headings. This would be helped if you could suggest more than one topic on which you would be willing to write. The ILO would then indicate its preference without delay.

The questions are intended to be useful as suggesting topics on which papers may be prepared. They may be grouped in any way that is thought to be helpful. The questions should not be considered to be comprehensive or confining. If writers of papers desire to develop other facets of the subject-matter of the Meeting, this is acceptable.

While the meeting will be mainly concerned with the impact of fiscal measures on the volume of employment, it may be useful to give some attention also to their impact on the skill-structure of employment. Attention should be given to the impact on the number of hours of work available as well as on the number of people working. And the meeting should be concerned as much or more with self-employment as with wage-earning employment.

I. Fiscal policy as an instrument of resource allocation to promote employment

Can fiscal policy be effective in achieving resource reallocation towards more labour-intensive output mixes? What considerations determine the relative effectiveness in this context of fiscal measures designed to affect (a) the demand for, (b) the supply of, (c) the methods of production of, labour-intensive commodities?

Is labour intensity inversely correlated with size of firms? If so, can fiscal policy incentives affect mean firm sizes? From the standpoint of maximising employment, is there some plant size that is optimal? Can fiscal policy tend to cause such a size to be achieved? Does this optimal size vary among industries? What other variables than industry affect its magnitude?

Can employment be increased by the spatial redistribution of labour? Can tax subsidy incentives achieve spatial redistribution by affecting either the demand for or the supply of labour or both? Is fiscal policy equally effective on both schedules? Should different fiscal policies be employed on the two sides of the market? Which? Would the quantity of employment in a country be increased (decreased) if fiscal policy were applied to affect rates of migration into or out of the country?

Can employment be increased by the spatial distribution of economic activity or of factors that are complementary to labour? Does fiscal policy that increases the rate of capital formation increase or diminish employment? (Is capital complementary to labour or is it labour's substitute?) If sometimes one and sometimes the other, can the conditions be defined that determine which it is?

Can fiscal policy cheapen the cost or otherwise increase the use of commodities that are complements of labour, e.g. intermediate goods in labour-intensive industries?

What are the employment effects of taxes on investment versus taxes on consumption? Is the production of consumption goods more (or less) labour-intensive than the production of investment goods? Can (should) fiscal policy influence the allocation of resources between these sectors?

Within the agricultural sector, should (can) fiscal policy shift resources from labour-extensive to labour-intensive crops?

If enlarged employment is to be a goal of fiscal policy and if export commodities and domestically-consumed commodities are differentiated according to their labour-intensities, should (can) fiscal policy reallocate resources between these two sectors? If so, what will balance-of-payments goals inhibit the application of such a fiscal policy? (with fixed exchange rates? with crawling pegs? with fluctuating rates?)

In the export product sector, some destination-countries take labour-intensive goods and others take labour-extensive goods. Should fiscal policy attempt to restructure the destination-structure of exports (favouring some destination-countries, and disfavouring others)?

Can fiscal policy be an effective instrument for re-training (aiding the exchange of skills for which demand is declining for skills for which demand is rising)?

II. The technical aspects of fiscal policy to promote employment

Are taxes to be preferred to subsidies as promoters of employment?

Which tax or subsidy incentives would be most effective in achieving more labour-intensive factor combinations?

When are taxes in kind more appropriate than taxes in money for generating employment?

To achieve the object of higher levels of employment, are differential or uniform tax rates to be preferred? For example, would employment taxes that were non-uniform and differentiated by the number of employed persons per unit of capital increase the quantity of employment?

A fiscal policy that seeks to alter behav[illegible]re an increase in employment will be effective only to the extent that evasion does not occur. How is a tax system aiming at employment-promotion to be designed to minimise evasion?

Which fiscal instruments to promote employment will be cheaply and easily administered and enforced?

Will the incidence of a tax effect its utility as a resource allocator and as an employment promoter?

Does the goal of increased employment say anything about whether taxes should be progressive? proportional? regressive?

Taxes can be levied (or subsidies granted) on final products, intermediate products, inputs, processes, incomes, persons, imports, exports, and other objects. Which objects of taxation are most appropriate to the goal of employment promotion?

Tax incentives can take the form, among others, of deductions and exemptions for computing tax liability and tax credits. Which forms are more appropriate for promoting employment? Exemptions can be permanent (indefinite) or temporary. Which is more appropriate for promoting employment? Subsidies can be grants or low-interest (including free-interest) loans. Which is more appropriate for promoting employment?

A tax on capital goods (to cause its price to rise relative to that of labour) and a subsidy to the employment of labour are alternative strategies. On what principle is the choice to be made between these two?

Should training and retraining costs be treated as an investment expense for computing tax liability? Can depreciation of human capital be usefully allowed as a deductible item for computing tax liability?

III. Miscellaneous

Can a review be done of extant fiscal policies in developing countries to provide response to the question: do these policies promote or inhibit employment, or are they neutral with respect to employment.

Does the construction of fiscal policy to promote employment necessarily require the ex ante determination of the causes of less employment than the desired quantity of it? If so, will those causes vary among countries? Are they institutionally-determined? or can universal and general statements be made? If general statements can be made, does this imply that the same fiscal policy instruments will have the same effects everywhere? If so, will they be merely the same directional effects everywhere (so that strong statements can be made about algebraic signs), but with different magnitudinal effects in different places and times?

Is labour over-priced, relatively, and capital under-priced in developing countries? That is, do the private costs of inputs diverge from their social costs? If so, are suboptimal factor combinations chosen? If so, should governments be advised to correct this by aiming, and providing incentives for private enterprises to aim, at maximising the social rather than the private rate of return on investments, utilising a system of "shadow" prices? What would be the fiscal implications of such a policy and how might resulting fiscal problems be solved?

Does the difficulty of varying technical coefficients (factor proportions) tend to make real-world factor combinations more - or less - labour-intensive than they would be if technical coefficients were flexible? If it tends to make combinations less labour-intensive, can fiscal policy make coefficients more flexible?

Should employment policy seek to reduce the supply of, as well as to increase the demand for, labour? Should fiscal policy be employed to produce incentives for certain people to remain outside the labour force? What feasible and acceptable incentives might be suggested?

Does technological change have adverse employment effects? If so, should (can) fiscal policy diminish the rate of technological change?

Will fiscal policies that promote employment have income re-distributional effects? Will labour's share rise or fall?

Is the level of unemployment affected by the rate of growth of the population? Affected in which direction? Affected by what processes? If employment and population growth rates are correlated, can fiscal policy affect employment by affecting population growth rates?

If, given that in different occupations there are demand schedules of different elasticities, uniform legal minimum wages produce more unemployment than a well-designed system of non-uniform legal minimum wages, can fiscal policy (e.g., differentiated taxes or differentiated subsidies) diminish the harmful employment effects of uniform legal minimum wages?

Will the quantity of employment be affected by the quantity of formal schooling and vocational training? If so, can fiscal policy affect the amount of schooling and vocational training? Can it affect the composition of enrolment (primary, secondary, university and other post-secondary education; vocational schools, technical colleges, apprenticeship training, in-plant training)?

Can (should) fiscal policy affect the level of wages and salaries and the magnitudes of differentials between wages and salaries in different occupations? Can fiscal policy "adjust" the effects of other policies that diminish the quantity of employment?

Will tariffs on "wage goods" cause the price of labour to rise and adversely affect the quantity of employment by striking most heavily at labour-intensive industries?

Can taxes and subsidies be used as instruments to reduce accident and illness rates that adversely affect the quantity of employment?

Should (can) fiscal policy affect the "structure" of employed persons - relatively advantaging, say, the young? the unskilled? the old? the long-term unemployed? women? By what techniques can this be done?

Is unemployment among university graduates a special problem of developing countries? If so, cann fiscal policy instruments be applied here?

Should fiscal policy whose goal is to increase employment attempt to affect the quantity of multiple job-holding and the quantity of overtime work?

Have fiscal policies applied in the richer countries of the world tended to diminish (increase) the quantity of employment in developing countries?

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (thru Mr. Friedman) DATE: June 17, 1970

FROM: Andrew M. Kamarck

SUBJECT: The Development of Capital Markets

Mr. Gaud's memorandum to you of June 8, 1970 on the above subject seems to me to give appropriate emphasis to many of the important aspects of this matter as they affect the World Bank Group. In contrast to the Capital Markets Unit which years ago existed in the Bank (and which produced some fairly useless non-operational studies), the Capital Markets Office proposed by Mr. Gaud would be explicitly "operational". The emphasis is right in proposing an action program and on a few countries to begin with. I also agree with Mr. Gaud's conclusions that I.F.C. would be a good location for the proposed office within the Bank Group.

As I said in my memorandum to Mr. Friedman on the 1971 budget: "There appears to be a definite need for some organization to provide technical assistance in ... the development of private capital markets ... on a regular basis, say along the lines of the Fund's Central Bank Advisory Service." The Capital Markets Office, I take it, would meet this need.

During the past few years, the Economics Department's Domestic Finance of Developing Countries Division has been devoting attention to the private savings mobilization problem in our country economic work (e.g., Iran, Philippines, Taiwan, India, etc.). This work has focussed on issues relating to the development of a structure of financial institutions, financial instruments and financial policies - that is to say, on the development of a capital market in the wider sense, i.e. rather than the more limited problem of the development of a securities market. The division has also attempted to give operational significance to its work by collaborating closely with area departments, the Development Finance Companies Department and with the Agricultural Credit Division of the Agricultural Projects Department.

What has been very clear from past experience and what we have been persistently emphasizing, is that work on the development of capital markets requires the collaboration of those who come at the matter from different directions - the legal, the accounting, the institutional, as well as from the economic. It seems to me that the proposed office could meet the clear need for a capital markets unit to provide technical assistance as well as act as a catalyst for this purpose. I would certainly expect a close relationship to develop between members of this office and those in my department who are involved in these matters. I therefore support both the specific recommendation made by Mr. Gaud and the more general argument in his memorandum by which he reaches this recommendation.

I concur in this note.

I.S.F.

cc: Mr. Gaud

Mr. Friedman

JUN 8 1970
5 pm

Mr. Robert S. McNamara June 8, 1970

William S. Gaud

The Development of Capital Markets

You asked me the other day for a recommendation on how the Bank Group should organize to assist the development and growth of capital markets in the LDCs.

Today this is everyone's business and no one's responsibility. What is needed is to put someone in charge and hold him responsible for moving ahead.

There are a number of departments and offices in the Bank and IFC which are interested in the capital markets problem and can contribute to its solution. On the Bank side this would include at least the Development Finance Companies Department, the Area Departments and the Economics Department. In IFC it would include the Investment Departments, the Marketing Department and the Economic Advisor.

No one of these seems to me the proper locus for this assignment. Each of these units has other major responsibilities. Capital market development is a tough job, calling for great imagination, ingenuity and initiative. It is a full time job and should be treated as such. It is not so treated today anywhere in the Bank Group.

Furthermore, since so many Departments and offices are involved in this matter in one way or another, the capital markets unit should not be buried in any one Department. It should have as wide a reach as possible and should occupy a fairly high rung on the bureaucratic ladder. Otherwise it may have trouble getting the assistance and cooperation it needs.

This argues for the establishment of a special capital markets unit in either the Bank or IFC. Capital market development is a matter for both the private and the public sectors, and a Bank office might have more reach and prestige than an IFC office. But if this is to be an operational office (and it should be) its activities will be more closely related to the normal activities of IFC than to those of the Bank. And there are probably more IFC officers than Bank officers engaged on a day-to-day basis on matters that bear on capital market development.

To me, IFC is the preferable choice. I recommend that the responsibility be vested in IFC, and that a "Capital Markets Office" be set up to handle this function.

The staff need not be and should not be large. Its head should be operationally inclined -- not a research type and not report happy. Thre are already many reports on the general problem, and a fair number on the situation in particular countries. What is needed is an action program.

I would start by concentrating on a very few countries and trying to figure out what needs to be done to develop and strengthen their capital markets. They should be countries which have a relatively high potential for development in this field, are interested in developing that potential and want our help in doing so.

A number of countries meet these criteria -- notably Brazil, Iran, Korea and Taiwan. There may be others. But if we are to start at the country level with the idea of coming up with specific answers to specific problems, even four countries may be too many to start on.

When Mr. Kharadjou of the Industrial and Mining Development Bank of Iran was here he asked the Bank Group to send out to Iran a three man team consisting of a lawyer with some knowledge of the securities field, a broad-gauged and operationally minded economist and a securities man. He wanted them not to make a report, but to spend a couple of months or more in Iran ferreting out specific matters that had to be dealt with if Iran is to develop its capital market, and recommending ways of dealing with them. He expressed the view that if we did this sort of thing on a country by country basis we would in time acquire an expertise, and a knowledge of the basic problems involved, that we could apply to other countries.

His prescription appeals to me. He may or may not be right about the composition of the team. But I believe his approach is sound and that we should adopt it -- whether in Iran, in Korea, in Taiwan or elsewhere. We are more likely to get results by doing this than be setting up a staff and telling it to deal with the development of capital markets in general.

The development of capital markets requires a combination of technical assistance, institution building and capital assistance. Sometimes it will be IFC that can best handle a specific assignment and sometimes it will be the Development Finance Companies Department or some other Bank Department. It goes without saying, that by creating a "Capital Markets Office" in IFC I don't mean to arrogate to IFC responsibility for carrying out all the individual programs and projects requiring Bank Group action.

I am sending copies of this memorandum to all members of the President's Council, plus Bill Diamond (who will not return to town until June 11) and Mr. Kamarck. It has been cleared with no one.

cc: President's Council

Mr. Diamond

Mr. Kamarck

WSGaud:jm

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** June 11, 1970

FROM: Irving S. Friedman ISF

SUBJECT: Persistent Inflation and the World Bank

The following is not an attempt to make a systematic statement on the subject but rather to throw out quickly some ideas to help stimulate others, including myself, and hopefully to be of some kind of help in preparing the Board papers on lending rate and transfer to IDA. There has been no attempt to work out new projections based on different assumptions regarding inflation such as rates of changes in prices and interest rates, although at some point this may prove to be most illuminating. It also does not deal with the effect of increases in our lending rate both on the Bank's financial flows or on particular recipient countries.[1]

In a period of inflation all corporate institutions run the risk of depreciation in their financial structure. However, where real assets, such as buildings and equipment, are involved, various kinds of depreciation and obsolescence allowances reflect the management's judgment on the future course of inflation. In such cases a firm is not likely to neglect, at least, the replacement costs of its physical assets. On the other hand such institutions usually produce products in the form of goods and services which in inflationary periods enable them to pass on to buyers, not only the increased costs which have already taken place, but also, at times, the anticipated future inflation.

The World Bank, like other financial institutions,has both its assets and liabilities in money instruments. Such institutions are particularly vulnerable to the erosion of the real value of their capital and reserves unless special provision is made,such as the establishment of extraordinary reserves or an increase of ordinary reserves to meet this contingency. However, the World Bank is also additionally vulnerable because of its non-commercial character. It is not likely to adjust its own lending rate to maximize profit. Financial intermediaries have usually done well in inflation, at least until the point when they feel that they cannot raise their lending rates higher for various special reasons, such as reaction of their traditional borrowers or fears of competition from other extraordinary sources of funds, e.g. use of Euro-dollar funds by American firms or repatriation of capital from abroad. (A paradox is that the developing countries which borrow from the

---

[1] It is also assumed that the World Bank would not call upon the United States to make additional payments to it on the theory embodied in the maintenance of value provisions of the Bank's Articles. This Article would presumably be operative for the U.S. in case of a change in the foreign exchange value of the U.S. dollar which may for all practical purposes be ruled out. As current international discussions indicate such changes are more likely to be in the form of revaluation upward of other currencies, e.g. German mark and Canadian dollar, not requiring action by the U.S. vis-a-vis the Bank.

JUL 8 1970 President has seen

10a — (Returned)

Bank are building up real assets which are usually in effect a hedge against inflation, but this does not help the Bank except in the sense that they improve the long-term debt servicing ability of the country.)

The World Bank is also faced by a dilemma regarding the initial called-up capital plus accumulated reserves. This equity is used both as a basis for profit making and as a source of financial strength enabling it to borrow funds from capital markets and other sources which in turn can be lent to various LDC borrowers. A sound financial policy would seem to require that the Bank protect such equity from erosion by inflation. The Bank has other special problems such as uncertain access to capital markets and the desire to minimize its lending rates compatible with its own financial soundness. These considerations reinforce the argument that its net income should be used in such a way as to help protect this equity from erosion by inflation, since by doing so it strengthens its financial position and reputation. On the other hand it is a development institution eager to avoid over-burdening its borrowers with external debt servicing.

Commercial banks protect themselves by investing at the margin at rates of interest higher than their deposit rates. In other words they have what we would call a positive spread, large enough to make profits including accumulation of reserves. Furthermore, in commercial banks there is a rough parallelism between the length of maturities of the deposits and its loans. This is particularly helpful in periods of inflation as it enables interest rates to be adjusted frequently, if necessary, to protect the banks' profits. In the World Bank we have much less flexibility in adjusting our lending rates and maturities. From the viewpoint of our borrowing countries, moreover, we are pulled to extending maturities and lengthening grace periods, while inflationary conditions in capital markets pushes us toward medium-term borrowing.

Inflation also has the effect of increasing the size of our lending operations and correspondingly the size of our borrowing operations. Because the Bank is engaged in development, in effect it provides inputs in the form of goods and services, principally, of course, the former. The physical needs of the developing countries have little to do with inflation in the creditor countries. Indeed, we have seen that the absorptive capacity of our Part II countries has steadily increased during this period of inflation in the developed countries. However, the cost of the goods and services needed by the LDCs reflect this inflation in the developed countries -- more money has to be paid for the same amounts while at the same time in physical terms the amounts themselves are becoming larger. Thus, generally speaking, the size of our loans will have to become larger and the total of loans made larger than projected. On the other hand to finance a rising level of loans it will take more borrowing unless, of course, there is an increase in capital subscriptions or called-up capital. (I am ruling out the obvious alternative of simply holding down the Bank's activities. This one solves our financial problem but has unacceptable consequences for the development process.)

This increased borrowing by the Bank may have significant effects on our debt equity ratio unless our annual additions to reserves are sufficient to maintain the purchasing power of our equity.

As long as interest rates are rising it is possible, as we have learned from experience, to meet part of the problem by borrowing and then investing undisbursed proceeds in short-term assets in the developed countries. Indeed, whole or part of such net earnings could be segregated into a special reserve to meet the inflation contingency if so desired. However, there is always the risk that short-term interest rates, even during inflationary periods, can revert back to more normal relationship with long-term rates. The fluid and, at times, chaotic conditions which have tended to prevail in capital markets in the last few years have afforded opportunities for profit making which may not prevail in the future, even if inflation persists. (Moreover, the borrowed funds are likely to have a maturity period longer than the short-term assets in which the undisbursed funds are kept.)The former profits could even become losses. This may seem to argue that holding large cash balances in relation to undisbursed amounts is too risky. However, as you know, I feel that this is a price worth paying to avoid the possibility of being caught with inadequate cash balances because of difficulties in the capital markets or of needing to cut back our lending. My own expectation is that as long as inflationary conditions prevail capital market conditions will remain uncertain, but that, given our wide variety of potential sources, there will be opportunities to raise capital in the magnitudes needed. Inflation does generate funds which flow to one capital market or another. The techniques for raising it may, of course, require adjustment to local conditions as evidenced by our own recent and contemplated transactions.

Another result of the inflation and the need for increased lending and increased borrowing assumed above, is that the proportion of "free" money in the total of funds used to make new loans is reduced, thereby diminishing net income in the longer run; unless, of course, the "free" money is increased by the members.

Another way of putting some of the points made above is that the Bank as a debtor is not helped by inflation as other debtors. Not only are its assets financial but they do not increase in their earning capacity with the inflation nor increase in capital value.

Another complicating feature is that as loans to Part II countries become more important in our portfolio the capital markets may pay even more attention than before to our capital and reserves, as well as uncalled subscribed capital. As noted above, the magnitudes of our capital and reserves will look less impressive to investors as prices rise. It will look even less impressive if our lending and borrowing rise more sharply than projected in response to inflationary conditions while the margin between our funded debt and uncalled subscribed capital becomes smaller. However, this is not to over-state the point since the remaining margin is still large.

Perhaps it should be added that similar to the erosion in our equity is the erosion in the value of our income stream. Here too the income, which is largely determined by past and present lending, may well buy substantially less in goods and services. Perhaps this and related points are all summarized in saying that it may take $4 billion of Bank lending after a few years to do the job of what we now plan to do with $3 billion, while the flows of funds into the Bank from our past loans are unfortunately fixed.

Another consequence of inflation is that it means the perpetration of a negative spread. The investor in Bank bonds may react in such a way as to increase the cost of borrowing to the Bank. Then the interest coverage can be expected to worsen. The ratio of reserves to funded debt might also markedly deteriorate.[1]

On balance I believe that inflation is making the operations of the Bank more difficult, but not yet sufficiently more difficult to warrant cutting back our lending programs. However, we should incorporate into our projections on commitments and borrowings an assumption that prices will rise in the developed countries by 4 or 5 percent a year and then recalculate what should be regarded as appropriate levels of cash and securities and reserves. It may also be useful to demonstrate that our present policy of augmenting reserves does offset the price inflation, thus emphasizing the importance we give to defending the financial structure of the Bank. The implications for the immediate papers on profit transfers and lending rates could be minor since these decisions are taken annually. But these papers should, at least, reflect our awareness that the persistance of inflation may require a reconsideration of present policies in the future.

---

[1] Another complication coming from the differential pattern of inflation in the various developed countries is that the pattern of procurement by members may turn in such a way as to make certain countries, such as the United States, even more worried than they have been about the untied aspects of Bank lending. It is for such reasons that the willingness of the U.S. to consider untied aid at this time is particularly important and adds urgency to accomplishing something before attitudes reflect the consequences of a persistent inflation.

cc: Mr. Knapp
Mr. Aldewereld
Mr. Adler
Mr. Blaxall

Mr. Robert S. McNamara June 8, 1970

Gunter K. Wiese

Inter-Agency Collaboration - Recent Demarches you May Wish to Mention in your Meeting with Mr. Herrera

1. In view of your impending lunch with Mr. Herrera I want to inform you of an agreement reached recently with representatives of the IDB and the CIAP regarding an experiment in coordinated use of country economic analysis.

2. On May 10, Messrs. Alter and Demuth agreed to distribute the Bank's Economic Report on Chile in green cover to CIAP and, through CIAP, to the other financial agencies (including AID). The agencies will comment on the factual and analytical content of the report so as to insure that it reflects their expertise. More importantly, on the basis of the report and any additional investigations which CIAP deems necessary, the CIAP staff will prepare a paper to serve as the basis for discussion at CIAP's next Chile country review.

3. The procedure to be tested by this experiment would offer two advantages: (a) it would require the agencies to arrive at a mutual awareness of the nature and factual basis of each other's country positions; and (b) it would promote more efficient use of country economic data. Were the new procedure to be adopted definitively, CIAP staff would not repeat in their own country studies factual material already provided in respective Bank reports, except in the event of discrepancies.

4. We have also initiated staff discussions with the IDB on Ecuador on the basis of our recent draft Economic Report. IDB staff has also already participated in the Bank's recent economic mission to Peru. In addition we have proposed to the IDB a joint review of steel projects in Latin America from the point of view of regional integration. The initial response to our proposal has been positive.

JUN 9 1970
10 a.m.

cc: Messrs. Knapp, Demuth, Friedman

RFHipskind:gc

Mr. McNamara

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

OFFICE MEMORANDUM

TO: Files

DATE: June 5, 1970

FROM: Irving S. Friedman ISF

SUBJECT: Visit of Mr. Ernest Stern of A.I.D. and Mr. Wieczorowski re Economic Work

Mr. Ernest Stern, Assistant Administrator, Office of Program and Policy Coordination of A.I.D., together with Mr. Robert E. Wieczorowski, called to discuss the possibility of closer cooperation between A.I.D. and the Bank on economic work. Mr. Stern began by pointing out that this was the continuation of a conversation we had had a number of months ago, when he first assumed his present responsibilities.

Mr. Stern indicated that A.I.D. was anticipating a reorganization. In ths connection it had given considerable thought to phasing out of certain parts of their country economic work by greater reliance on Bank economic reports. From our previous conversation he gathered that this was possible but he wished to explore further this possibility. A.I.D. would continue to have a major economic group specializing in those matters which were of particular concern to the U.S. A.I.D. is planning to retain substantial field missions in certain countries with some reductions in size. Mr. Wieczorowski raised the question as to the kind of relations we have with other donors on these economic matters.

I told them that we welcomed the use of our economic reports by our donor countries as well as personal exchanges between Bank economic experts and their corresponding numbers in the donor countries. This had first come up back in 1965-66 in discussions with officials of the newly formed U.K. Overseas Development Ministry. We had suggested to them that they could look to us for economic reports on the LDC member countries of the World Bank Group. Similarly, when the Swedish and the Japanese authorities asked for advice on the formation of economic staffs in connection with their newly expanded aid programs, we had suggested that they could economize on their own personnel by taking advantage of the economic reports of the Bank. We had expressed similar views to other important donors, such as the Canadians, Germans and the French, as well as previous top A.I.D. officials. There were many indications that our reports were being used by other donors, thus avoiding duplication of effort by them. We had also made the point to these donors that, if informed in advance, we could cover in any report areas of particular concern to them in more detail than might otherwise be done, e.g.maritime shipping. This would give the donor country greater assurance that the forthcoming Bank report on a particular country would serve its purpose.

In the meantime, there had been the expanded use of consultative groups and the use of the economic reports by such groups, as well as close staff relations with donor country experts.

I outlined our plans for both the expansion of the scope and depth of the economic reports and the scheduling. Mr. Stern said that A.I.D. had tended to bunch their economic reports for budgetary reasons, but thought this budgetary need would not impede their reliance on Bank reports.

Mr. Stern expressed his appreciation for our cooperative attitude and said that he would be coming back with examples of reports they were doing and needed, so that we could examine more specifically to what extent the Bank reports would meet the U.S. need.

We also discussed briefly a subject which we had broached on previous occasions with A.I.D. officials, namely, closer collaboration between the two institutions in the fields of basic research. I expressed the view that in this way the basic research programs of both institutions could be improved, as well as economies of staff achieved. Mr. Stern said he completely agreed, and would be happy to get together on this as well.

cc: Mr. McNamara
Mr. Knapp
Mr. Demuth
Mr. Kamarck

Mr. Robert S. McNamara June 5 1970

Irving S. Friedman

Attendance at Board Meeting

I plan to return from Montreal on Tuesday morning, arriving at Friendship airport at 8:20 am. This should get me to the office well before the Board meeting and hopefully in time for the briefing session.

ISF

Mr. Robert S. McNamara

June 2, 1970

Irving S. Friedman

Economics Staff Chart

You may find this useful in discussions on the budget and for other purposes.

cc: President's Council

Mr. Robert S. McNamara June 2, 1970

Irving S. Friedman

Economics Staff Chart

You may find this useful in discussions on the budget and for other purposes.

ECONOMICS STAFF

Isaiah Frank, Consultant

The Economic Adviser to the President
Mr. I.J. Friedman

Frank Tamagna, Consultant

T.H. Silcock
Economic Editor

ECONOMICS DEPARTMENT

A. M. Kamarck, Director
A. Stevenson, Deputy Director

Consultants
B. Balassa
G. Lovasy

Statistical Services Division

A.E. Tiemann
R.A. McPheeters

C.G. Goor

External Debt Section
H. Paulson
K. Caden
C. Doultsinos
B. Florendo
A.A. Helne
E. Hope
H. Martin
A. Perella
L. Sanonte
C. Slappey
D. Thijssen

N. Hicks

Statistics Section
A. Kundu
H. Al-Sharbati
L. Fairall
C. Giatrakos
J. Gholl
S. Hui
V. Lara
F. Lejano

Programming Section
H. Angel
E. Abellon
J. Bradley
E. Coner
S. Condliffe
A. Durrani
J. Kieser
B. Krishna
H. Pan
H.H. Schneider
G. Slade
J.Z. Yen

Trade Policies and Export Projections Division

A.J. Macone

D. Elz
T. Geer
A.C. Huang
R. Marsili
D. Ryan
S. Singh
K. Takeuchi
R. Taylor
B. Varon
F. White

Economics of Urbanization Division

R. Westebbe

S.K. Bhatia
P. Brigg
K. Mera
R. Zafiriou

Economics of Industrialization Division

H. Hughes 1/

J. [illegible]
[illegible]. Keough
L. Neufeld
A. Nowicki
[illegible]. Schronk

Sector and Projects Studies Division

H.G. van der Tak

S. Snell

Agriculture
S. Reutlinger
G. Ablasser
P. Duane
A.C. Egbert
T. Hussain
H. Kim
R.C. Manning

Transportation
J. de Weille
C.G. Harral
I. Isaac
A.P. Israel
L.H. Miller, Jr
A. Ray

Education
R. Thias
S. Holm

Public Utilities
D. Anderson

Quantitative Techniques and Analysis Division

P.D. Henderson

N. Carter
R.J. Cheetham
E.P. Holland
A. Shourie

Comparative Data

E. Levy

J. Eory
Y. Franchet
L. Laffey
S. Lee
A. Leoni
G. Novak
J. Vial

Population Studies Division

E.K. Hawkins

I. Hume 2/
T. King
D. Miller
G. Zaidan

Domestic Finance of Developing Countries Division

S. Please

G.J. Beier
P. Eklund
V.P. Gandhi
M. Joshi
E. Meldau
S. Schebeck
E. Stolber
M. Ahluwalia

ECONOMIC STUDY GROUPS

Development Finance Study Group

U. Sacchetti

F. Heidhues
J. Hulley
B. Rao
J. Saxe
E. Yudin

Basic Research Center

L. Goreux

A. Condos
J. Duloy 3/
S.K. Singh
R. Vaurs

Creditworthiness Study Group

B. de Vries

D. Budhoo
M. Devaux
V. Dubey 4/
T. Klein
J. McGibbon

Development Programs Study Group

R. Sundrum

A. Elsaas
S. Kao
I. Sakura

1/ Acting Chief
2/ Young Professional
3/ Due in by June 1, 1970
4/ Transferring July 1, 1970

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 28, 1970

FROM: Irving S. Friedman

SUBJECT: BRAZIL: Agricultural Sector Review

ISF

As requested I have looked into the questions raised by Mr. Forbes Watt on the Brazil Agricultural Sector Review.

If I can summarize briefly, Mr. Forbes Watt was commenting on the first draft, which was considerably revised after review by the working party set up for this purpose. The first draft could possibly be faulted on such grounds as not paying enough attention to problems of rural poverty or over-emphasizing the all-importance of agricultural interest rate policy, or not calling for more specific government actions to promote agriculture, or not giving enough attention to the possibility of development of irrigation, and stressing too much dependence on rain-fed agriculture. However, these are the kind of questions which frequently come up in the course of drafting any sector report, as well as general economic reports. The final version which went to Brazil is more balanced and more specific in its recommendations on public policies plus having a broader horizon on social problems, such as land tenure and employment.

I believe that Mr. Forbes Watt's angry memorandum was not necessary to bring about the improvements of the first draft and the final draft in this sector study. It would probably have taken place in the normal course of events.

President has seen

(Returned) JUN 3 1970
4.15p.m.

May 25 1970

Mr. Hulley

G-1031

A reply to the attached notes would be most appreciated. With reference to the UN report, please contact Mr. Sundrum if you have any difficulty.

Two notes from McNamara dated May 23 1970

Replies handed to McNamara's office
5/28/70

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

May 23, 1970

MAY 25 1970

MEMORANDUM FOR MR. FRIEDMAN

I understand that all of Israel's bonds are "price indexed." Please send me a description of the formula used.

Robert S. McNamara

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

May 23, 1970

MAY 25 1970

MEMORANDUM FOR MR. FRIEDMAN

Please obtain for me the UN report referred to in the attached article.

RSMcN

Robert S. McNamara

y United

. LISTS 19 STATES AS LEAST DEVELOPED

UNITED NATIONS, N. Y., May 9 (UPI)—The United Nations has listed 19 nations, 16 of them African, as the least developed nations of the world.

The list, contained in a report for next week's meeting of the United Nations Economic and Social Council, was determined on the basis of literacy, gross national product and manufacturing production.

In addition to the 16 African countries, two Asian countries and Yemen were listed.

The African nations were Botswana, Burundi, Chad, Dahomey, Ethiopia, Gambia, Guinea, Lesotho, Malawi, Niger, Rwanda, Somalia, the Sudan, Tanzania, Uganda and Upper Volta. The Asian nations were Afghanistan and Laos.

In each of the 19 nations, the report said, less than 20 per cent of the adult population is literate. Per capita gross national product is less than $100, and manufacturing accounts for less than 10 per cent of total production.

Malawi Tells Asians to Get
New Pe[illegible]

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED

E/AC.54/L.36
17 April 1970

ORIGINAL: ENGLISH

COMMITTEE FOR DEVELOPMENT PLANNING

SECOND UNITED NATIONS DEVELOPMENT DECADE

Special measures to be taken in favour of the least developed among developing countries

Report of a Working Group of the Committee for Development Planning

Note: In accordance with a decision taken by the Committee for Development Planning at its sixth session (E/4776, para. 109), this report is being circulated to members of the Committee for approval through a written procedure.

70-09061

/...

CONTENTS

ANNEXES

/...

INTRODUCTION

1. In accordance with the decision taken at the sixth session[1] of the Committee for Development Planning, in response to General Assembly resolution 2564 (XXIV) of 13 December 1969 on special measures to be taken in favour of the least developed among developing countries, the Working Group of the Committee on the Least Developed among Developing Countries met at the Palais des Nations at Geneva from 23 to 26 March 1970.

2. The Working Group, consisting of Gamani Corea, J.A. Lacarte, J.H. Mensah, Jean Ripert (Chairman) and Zdenek Vergner, was established by the Committee for Development Planning from among its membership, pursuant to the above-mentioned General Assembly resolution. In view of the inability of Mr. Gamani Corea to be present, Mr. M.L. Qureshi attended in his place with the agreement of the Committee.

3. For the successful discharge of the Working Group's tasks, the organizations and bodies of the United Nations system and other interested intergovernmental organizations were requested by the Committee to submit succinct, policy-oriented statements on the special measures needed in their fields of competence in favour of the least developed countries. The Working Group wishes to express its appreciation to these organizations for responding promptly and making a useful contribution to its deliberations.

4. The analysis and evaluation of the problems of the least developed countries by the Working Group, as well as its views, conclusions and recommendations on the special measures to be taken in favour of these countries are set forth in the following paragraphs.

1/ Official Records of the Economic and Social Council, Forty-ninth Session, Supplement No. 7, paras. 108-109.

I. THE NEED FOR SPECIAL MEASURES IN FAVOUR OF THE LEAST DEVELOPED AMONG DEVELOPING COUNTRIES

5. While developing countries as a group face more or less the same general problems of underdevelopment, the difference between the poorest and the relatively more advanced among them is quite substantial. While the recommendations of the Committee for Development Planning regarding the Second United Nations Development Decade[2/] concern all developing countries, the capacity of these to benefit from general development measures varies widely. The least developed among them cannot always be expected to benefit fully or automatically from such general measures adopted in favour of all developing countries. Some special supplementary measures are therefore called for to remove the handicaps which limit the ability of the least developed countries to derive significant advantages from the Second Development Decade.

2/ Official Records of the Economic and Social Council, Forty-ninth Session, Supplement No. 7.

/...

II. CHARACTERISTICS OF THE LEAST DEVELOPED AMONG DEVELOPING COUNTRIES

6. The nature and relative magnitude of the obstacles to development differ from region to region and country to country and the problems of any country are peculiar to its own conditions. However, apart from the very low levels of per capita gross domestic product, there are certain basic general constraints to economic and social development which are typical of the least developed economies and which are readily identifiable.

7. On the production side, these economies tend not only to be characterized by the predominance of agriculture and/or primary activities, in terms of the percentage contribution of such activities to gross domestic output and the share of the economically active population in them, but also - what is perhaps more important - by the predominance of subsistence activities. Also significant in these economies is the general prevalence of a low level of labour productivity in agriculture and, especially, in food production.

8. A corollary of the predominance of primary activities is the low level of industrialization. The share of manufacturing in gross domestic output is often not more than 10 per cent for most of these countries. The lack of a sufficiently diversified production structure is associated with a concentration of exports in primary commodities and minerals, with manufacturing exports being at best insignificant. Often two major export items account for as much as 70 per cent of the total export value. The excessive dependence on a narrow range of primary exports prone to year-to-year fluctuation in prices increases the vulnerability of these economies to the vicissitudes of international commodity markets. Fluctuations in export earnings introduce an added element of difficulty into medium-term national development planning.

9. Given their existing production structures, such economies cannot benefit significantly from trade measures geared to manufactures and semi-manufactured products, unless at the same time measures to stimulate industrial production and diversification are adopted.

10. A most important characteristic of these countries, and especially the poorest among them, is a low level of education and an insufficient adaptation of the education system to development needs. The literacy rate - the proportion

/...

of the literate population in the total - tends to be below 20 per cent. One consequence is a general lack of skills for the organization and management of the over-all developmental effort. The participation of the indigenous population in the development process is consequently very limited. Furthermore, the capacity of the economy to absorb and assimilate technological advances is low. There is a scarcity of technical and managerial cadres. The shortage of skills has often been remedied by resort to the employment of foreign technicians. The fact that suitable training facilities and trained personnel are not available in sufficient numbers also affects the efforts of the public sector to manage development in its multiple forms. In the least developed countries, even where there are national plans, well-formulated projects and the machinery to implement them are most often lacking. The basic statistical data are frequently missing, and comparatively little is known about the nature and extent of domestic natural resources. Not only has the planning infrastructure established in the 1960s not taken root, but more important, there is a lack of adequate institutional and physical development infrastructure - a prerequisite for increased production and exchange of goods and services.

11. The over-all administrative and govermental organization is weak, a consequence of the lack of trained manpower. With large subsistence sectors, low personal incomes and few corporate enterprises, the least developed countries lack a broad tax base for raising public revenue, and revenue is derived signficantly from export and import levies. The capacity of these countries to mobilize domestic resources and diversify public budget sources is therefore also serverely limited. The potentially catalytic effect on over-all development of public outlays for building up social, economic and human development infrastructure is thereby blunted. Nor are the vital supporting services of financial institutions available for mobilizing domestic resources.

12. Economic infrastructure, such as communications, power generation facilities, water works, harbours and roads, is either in a rudimentary stage of development or inadequate. Transportation costs tend to be high, resulting in a fragmentation of the national economy. The constraining effect on development of the rudimentary stage of facilities and services is particularly acute in those least developed countries which also happen to be landlocked.

/...

13. The generally low levels of development also permeate the social field. Low standards of health and inadequate health services, for example, are a prominent feature in these countries. While the available statistics are inadequate, they do indicate that levels of nttrition are often grossly insufficient, measured both in terms of caloric intake and protein requirements. Reference to such indicators as crude death rate, infant mortality rate, or life expectancy point to the same deficiency. The available health services - judged, for example, by the number of inhabitants per doctor - are also in a poor state in certain countries.

14. Another characteristic of the least developed countries, though by no means confined to these countries alone, is that they tend to be small, whether measured by population or by national income, and usually lack diversity in their national resource endowment. The establishment or expansion of competitive industries also tends to be restricted by the smallness of the national markets.

15. Most of the characteristics mentioned above are generally manifested at low levels of development and are also associated with stagnation or very low rates of growth. This situation introduces a vicious circle which can only be broken by a vigorous and integrated approach.

III. IDENTIFYING THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

16. It is by no means easy to formulate objective criteria for identifying the least developed among developing countries. The Working Group, however, considers that precise criteria and procedures for identifying such countries are essential, if a concrete expressed is to be given to the political will to implement special measures in their favour. Given on the one hand the urgency of the situation of some of these countries and the need for immediate action if the measures are to affect the pace of their development in the 1970s, and on the other hand the fact that no readily usable index is available, the Working Group has found it necessary to suggest a tentative approach for the criteria and procedures to be used in identifying the "hard core" cases among these countries. The Working Group is conscious of the limitations to this approach and the fact that it may be subject to justifiable criticism on various grounds. In the opinion of the Working Group, the criteria used should be pragmatic and policy-oriented. Above all, it wishes to stress that the identification criteria and the approach to be employed should be flexible and subject to continual review in the light of new information. It hopes that the procedures and criteria recommended here will be viewed as tentative and be elaborated further and refined within any review machinery that may be set up or within the over-all machinery for reviewing the criteria and the progress of the Second United Nations Development Decade.

17. Three steps towards the identification of the least developed among the developing countries might be suggested:

(a) A "hard core" of those countries which are qualified as the least developed by reference to all the selected criteria could be identified. For such a group of countries, comprehensive and integrated action programmes would be necessary:

(b) Some other developing countries not within the first group might be classified as relatively least developed within a specific field of action because they fall below a defined cut-off point in some selected development indicator. This group of countries might qualify for some specific action geared to the identified problem areas:

/...

(c) A third group of countries which at the international level would not be considered as being "hard core" cases or even least developed by reference to the selected sectoral criteria indicated under (b), but which might yet qualify as relatively least developed within a given region and thereby merit special treatment. This might be particularly relevant within the context of regional co-operation arrangements.

18. For the measures to be effective they must be accepted by the international community and applied in a concentrated manner so as to provide the greatest possible advantage to the beneficiary countries. The criteria to be used in identifying the "hard core" cases should be highly selective to ensure that only countries in real need of special assistance are covered. In principle, the most satisfactory approach would be to use a single comprehensive composite development indicator to identify this "hard core" of the least developed among the developing countries. The classification of all developing countries by reference to such an index in order to identify the least developed countries is, however, technically complicated and, with present information, very difficult. It poses problems of weighting various social and economic indicators, such as the degree of diversification of production and export, the level of infrastructural development, the availability of skilled and managerial manpower, and the level of caloric intake. Moreover, the statistical data required for such an exercise are very often inadequate in those countries and their coverage does not make possible the inclusion of all the major strategic variables necessary in such an index.

19. The Working Group is conscious of the shortcomings of using _per capita_ gross domestic product as a yardstick for measuring the level of development. As has been stressed in the most recent report of the Committee for Development Planning, this index "does not fully reflect such conditions of development as income distribution or structural change".[3/] It provides, however, a rough and ready indicator of the productive capacity of an economy and its ability to provide needed services. Unlike a composite index, the _per capita_ gross domestic product is more readily comprehensible and more appealing as the indicator that comes closest to providing some quantitative impression of the level of

3/ _Ibid._, para. 16.

development. Moreover, the Working Group has been struck by the fact that at the low levels of per capita gross product there tends to be a close correlation between income per capita and other development indicators; thus the use of both kinds of indicators yields by and large the same results. The Working Group is therefore of the opinion that in spite of the shortcomings adduced above, per capita gross product, supplemented by other appropriate variables which help to bring out more adequately the other relevant aspects of the various dimensions of economic and social development, provides a useful point of departure for classifying the "hard core" least developed countries.

20. While the low level of per capita gross product generally correlates highly with under-development in terms of such criteria as infrastructural development, availability and level of skills or any other classification criteria, yet for a reliable identification of the "hard core" least developed countries per capita gross product should be used in conjunction with the literacy rate and the share of gross domestic product originating in manufacturing. The average real rate of growth of gross domestic product attained over the last five years should be used as a minor adjustment criterion, especially in deciding the border-line cases.4/ The selection of a country should initially be made by reference to a per capita gross product cut-off point of around $100 in 1966. In order to be included in the "hard core" group, the countries falling below the $100 per capita gross product level should be tested by reference to the two major "adjustment" indicators - a literacy rate of 20 per cent or less and a share of manufacturing in gross domestic product of 10 per cent or less. In the tentative exercise undertaken by the Working Group, though Burma, the Democratic Republic of the Congo,

---

4/ Literacy ratio has been used since it gives an indication of the stock of indigenous manpower that is available and/or can be trained to participate in the over-all development process of a nation. The share of gross domestic output originating in manufacturing reflects the degree or lack of structural transformation of an economy. The employment of the rate of growth of domestic output as a minor adjustment criterion can be justified on the grounds that, at low levels of development, a low rate of growth may often be symptomatic of inadequate development of suitable development infrastructure. These indicators together with per capita income, therefore, provide simple minimum pointers for the identification of the "hard core" least developed countries.

India, Indonesia and Nigeria qualified under the *per capita* gross product criterion, they have been excluded from the "hard core" list since their literacy rate and/or manufacturing share in domestic output exceeded 20 per cent and 10 per cent respectively.

21. In any such exercise, there may be two border-line cases, above and below the *per capita* gross product cut-off point. Border-line cases - that is, countries with under $100 *per capita* gross product but in which one of the indicators is slightly above the "adjustment" criterion should, in the opinion of the Working Group, be included in the list, especially if their real growth rate of gross domestic output over a period in the 1960s averages about 3 per cent or less per annum. Haiti, Mali and Nepal have been included in the list for this reason. Countries where *per capita* gross product is above $100, but not more than $120, and which qualify under the major adjustment criteria have been included. The Central African Republic and Togo are examples of such countries. The Working Group wishes to draw attention to the situation of those developing countries which have very rudimentary statistical coverage[5/] and which may not therefore be covered in the application of the identification criteria. There is, however, a strong presumption that most if not all of them fall within the "hard core" group. The Working Group therefore recommends that the Committee for Development Planning request the Economic and Social Council to arrange for a special investigation of these countries with a view to establishing relevant criteria to facilitate the decision on their inclusion.

22. The countries tentatively identified as "hard core" least developed countries are listed in annex I. The Working Group wishes to emphasize the tentative nature of this list which has been compiled on the basis of the rather inadequate data available to it. However, the Group also wishes to stress that by any classification criterion the countries included in this list would be considered as least developed. It recommends that the Centre for Development Planning, Projection and Policies of the United Nations Secretariat, in consultation with the relevant organizations within the United Nations system should, using the criteria, examine the available information with a view to suggesting modofications to the list. The criteria and procedure themselves should, as stated earlier, be further examined and refined within the appraisal machinery.

5/ To be identified on the basis of further work.

/

23. In identifying countries, which although not belonging to the "hard core" group might benefit from special measures geared to resolving specific obstacles, the combination of per capita gross product and other relevant reference indicators would also be necessary. The Working Group is of the opinion that in such specific areas the competent organizations of the United Nations system and other intergovernmental bodies should elaborate their own criteria and procedures for identifying such countries and the appropriate measures needed within their respective fields of competence.

24. Within the regional context, measures should be conceived for helping the relatively less advanced developing countries in order to minimize excessive differences among countries. For example, Paraguay and Ecuador within the Latin American Free Trade Area, and Honduras within the Central American Common Market, while not qualifying as least developed among developing countries at the global level, since their per capita gross products exceed $200 (1966), already receive some preferential treatment. The case for privileged treatment is even stronger with regard to Bolivia, since the per capita gross product of that country is quite close to the cut-off point for the global "hard core" least developed countries. Here, too, the competent regional and national authorities are in a better position to devise measures to suit their own peculiar conditions.

IV. MEASURES TO BE TAKEN IN FAVOUR OF THE LEAST DEVELOPED AMONG DEVELOPING COUNTRIES

25. The major effort for removing the obstacles to the social and economic development of the least developed countries, no doubt, must primarily be made by these countries themselves. However, given their limited capacity in terms of physical resources and skilled manpower, and the of the formidable tasks involved in organizing and managing their over all national development, the international community has a special obligation to supplement the national efforts. It can contribute significantly by assisting with financial and technical means on favourable terms for improving the absorptive capacity of these countries. For countries belonging to the "hard core" group the adoption and successful implementation of special international measures in the 1970s would spell the difference between stagnation and a dynamic economy endowed with adequate infrastructural prerequisites for sustained development over a long period.

26. In its report on the Second United Nations Development Decade mentioned above, the Committee for Development Planning concentrated on measures addressed to all developing countries. The Working Group wishes to stress that the implementation of these measures is of high significance for the least developed countries. It considers, however, that special supplementary measures are needed if the least developed countries are to benefit significantly from the general measures. The granting of special privileges to the least developed countries ostensibly discriminates against other developing countries. But, given the peculiar conditions of the least developed countries and their limited capacity to benefit fully from measures valid for all developing countries, failure to accord them these temporary but essential advantages would be tantamount to discriminating against them. The objectives of both sets of measures, in fact, are the same: the acceleration of economic and social progress and the general improvement of living standards.

A. Special measures

27. The identification of the major characteristics of the "hard core" least developed countries in itself provides pointers to the types of programmes and

/...

measures required. The Working Group is of the opinion that, given the conditions of these countries, their problems should be approached in a balanced, comprehensive and concerted manner. A balanced approach country by country is called for because, given the differences in prevailing conditions, no unique policy package can be applicable to all countries. Such an approach should not, however, preclude regional or multinational solutions to common problems. A comprehensive approach covering both economic and social aspects is required because, in these countries, more than in other developing countries, social and economic problems tend to be closely intertwined and the social and economic constraints on development are therefore equally intractable. A concerted or co-ordinated effort is necessary because, if the measures proposed are to have the greatest over-all development impact, both national and international efforts must be applied within the framework of an action-oriented programme with emphasis on project content and implementation. Given the generally weak machinery for managing and administering national development efforts in these countries, their capacity to co-ordinate aid receipts in order to ensure the concerted approach required is rather limited. Special attention should therefore be given as a matter of urgency at the national and international levels to co-ordination. At the national level, special support should be given to measures aimed at improving the national co-ordinating capacity. At the international level, such an effort could benefit significantly from better co-ordination of the development programmes of the United Nations system.

28. While technical assistance has a crucial role to play in these countries, financial assistance should also have an important place if the least developed economies are to benefit fully from international co-operation. The need of such countries for infrastructural development entails outlays that exceed their budgetary and resource capacity. The Working Group wishes to stress that the principle applied in aid programmes that aid flows are considerably influenced by the recipient country's ability to utilize aid effectively, should be interpreted broadly, in the light of the least developed countries' need for increased aid in order to improve their capacity to use it more efficiently. The urgent need for infrastructural development and the long gestation involved, indicate the importance of ensuring that the volume, terms and conditions of financial assistance are appropriate. In this connexion, since the least

/...

developed economies belong to the group of developing countries which qualify, under the conditions of the World Bank Group, for the type of loan granted by the International Development Association (IDA) - fifty-years maturity with ten-year grace period, free of interest, but with a three quarters of 1 per cent administrative charge - the flow of resources to IDA should be increased. As a rule financial aid to these countries should systematically be given on soft terms, preferably by grants, or at least with a grant element of 80 per cent.

29. In most of the "hard core" least developed countries, the utilization of financial assistance could be accelerated and made more effective if it were closely linked with technical assistance. For example, aid packages should include assistance to the planning, financing and implementation phases of projects and programmes. Measures adopted to supplement national efforts should therefore focus primarily on the provision of technical assistance to alleviate the skilled manpower constraint on development. Givern that these countries are at a relatively early stage of development, their need for assistance should be viewed in a longer term perspective. Programming of such assistance to ensure continuity would enhance its effectiveness. Consideration should also be given to the provision of food aid in support of development projects.

30. While the objective of financial and technical assistance has been to improve the absorptive capacity of the recipient economy, some of the rules and conditions governing such assistance have sometimes negated its very aim. The terms of loans in some cases resulted in a heavy debt-servicing burden which constrained the ability of the economy to borrow further. With regard to technical assistance, the insistence on counterpart personnel for experts and the quick phasing out of projects with the consequent recurrent cost burden on the recipient have sometimes led to the creation of new difficulties with regard to absorptive capacity. Even with food aid the requirement that recipient countries defray local transporation and distribution costs may have limited the ability of the least developed countries, especially the land-locked ones, to benefit from this type of aid.

31. In order to minimize the constraining effect of aid conditions and rules on the scarce skilled manpower and limited budgetary resources, the Working Group recommends that donors give consideration to:

/...

(a) Providing total financing, that is covering local costs of projects or programmes;

(b) Making rules and conditions governing counterpart obligations more flexible while stressing provision for training as part of the over-all national training effort;

(c) Financing maintenance of existing projects.

32. The limitation of the national market of some of the least developed countries constitutes an important constraint on their prospects for expanding their production base. The relatively advanced partners should be willing not only to grant concessions to the least developed members but also to take positive measures, through appropriate regional institutions and with the support of the international community, to improve the capacity of these least developed countries to benefit substantially from regional co-operation. Improving the capacity of the least developed partners implies the adoption and implementation of concrete measures for an equitable location of regional or multinational industries in these countries. This will be especially important with respect to measures to counteract the polarization tendencies of such arrangements which work to the disadvantage of the least developed partners.

33. A regional approach to development should not be limited to trade co-operation. Institutions which might otherwise have been beyond the capacity of one small country could be shared to mutual advantage. The least developed countries and other developing countries should take decisive steps to join together in the establishment of joint institutions for specific problem areas. Multinational projects for agricultural research among countries located in the same ecological zone, technological institutes, tourist, industrial and investment promotional facilities, and information collecting and dissemination centres, are cases in point. The form of regional co-operation should be kept flexible, so as to facilitate diverse groupings for different purposes. Multilateral and bilateral donors should adopt a more systematic way of facilitating regional groupings. The existing regional institutions should be supported with financial and technical assistance to allow them to contribute effectively to the regional effort.

/...

B. Some fields of action

Institutional improvements

34. In order to create or strengthen the national services essential for development, the most immediate measures should be taken to develop and improve the public administration machinery for managing and servicing the economic and social development effort. National financial institutions and tax administration services should be developed and equipped to stimulate and promote a more efficient mobilization and utilization of scarce domestic and foreign resources. In this regard, institutional reforms should be undertaken to improve the effectiveness of the national planning machinery. Efforts should also be made to improve co-operation between public and private sectors, so as to facilitate the optimal use of national resources.

Pre-investment work

35. The lack of knowledge about the nature and extent of natural resources prevents the exploitation of national potential resources. As part of the task of developing the least developed economies, efforts should be made to expand pre-investment surveys and feasibility studies with a view to launching a full scale programme for developing these resources. Aid donors should provide the expertise and the financial support needed for such undertakings.

36. By way of improving knowledge of the country efforts should be made to collect a minimum basic set of economic and social statistics considered essential for the planning of the national development effort.

Human or social infrastructure

37. In the long run, the critical shortage of all types of skills can be relieved only through the adoption of national training programmes. It is only when indigenous trained manpower is available that self-sustained development can begin. The training should not be restricted to formal or vocational instituions, but should be extended through appropriate measures and incentives to include on-the-job training. Appropriate curriculum reform

should be undertaken. Since most of the least developed countries cannot support an adequate number of properly equipped training facilities, other developing countries should facilitate the training effort of these countries by opening up their own facilities to them or co-operating with them in the joint establishment of regional institutions and the sharing of experience on common problems.

38. Cultural and social constraints to development should be minimized through appropriate education and social reforms. Social relations that adversely affect motivation and willingness to adopt new ideas should be progressively changed by such action.

39. In the least developed countries, environmental and other handicaps have adverse effects on the quality of life. Any effort to accelerate the rate of economic activity will therefore meet with serious obstacles, unless such elements as communicable diseases and malnutrition which have a profound bearing on general public health are controlled. The Working Group attaches high priority and great significance to the alleviation of these problems. It therefore recommends that the Food and Agriculture Organization of the United Nations (FAO), the World Health Organization (WHO), the World Food Programme (WFP), the United Nations Children's Fund (UNICEF) and other relevant organizations initiate special programmes to improve their situation. In this connexion, the Working Group notes with satisfaction the concrete proposals being put forward by the WFP secretariat with regard to food aid transportation that would reduce the cost of such aid to some of the land-locked, least developed countries, and action by the UNICEF secretariat to increase assistance to such countries.

Economic infrastructure

40. A fundamental factor in stimulating development is perhaps the provision of minimum infrastructural facilities. For example, transport and communication links can contribute significantly to the integration of the national market and thus facilitate efforts to monetize the subsistence sector. Infrastructural facilities stimulate economic development by bringing about administrative and economic integration, permitting greater mobility of men, products and funds and thereby promoting the production of intermediate and investment goods.

/...

Pre-investment surveys, possibly of a regional character, coupled with effective follow-up action should therefore be undertaken on a priority basis in order to assure the development and strengthening of transport, postal and telegraph services. Provision of training facilities for the personnel in these fields will have to be made at the national as well as the regional level.

41. While most infrastructural services cannot be imported, neighbouring developing countries can help the least developed, land-locked countries by facilitating and guaranteeing their transit rights. Improvement in the coastal countries' harbour, rail and road facilities would also help to reduce the generally high overland transportation costs. Joint power projects can also be envisaged.

Production

42. The Working Group wishes to stress that the measures outlined above have been aimed at providing the basic minimum production-supporting infrastructure for stimulating over-all economic and social development. It is for this reason that the Working Group has throughout underlined the application of an integrated comprehensive and concerted approach by the international community. Such action should be conceived within the national development programmes.

(1) Agriculture[6/]

43. Any effort to increase agricultural productivity and output should aim at a reduction of the prevalence of subsistence activities and of the fragmentation of the national market by means of an appropriate development of economic and social infrastructure. Some of the possible areas of action in agriculture are listed below:

(a) Transforming the subsistence sector by:

(i) Measures for increasing productivity in food and livestock production;

(ii) Production-supporting measures, such as feeder road construction, establishment of co-operatives and other rural undertakings, improvement of marketing facilities and multidisciplinary research surveys in support of public extension services;

6/ Including animal husbandary, fisheries and forestry.

(b) Diversification of agriculture by:

(i) Application of research to the introduction of new crops and livestock breeding;

(ii) Improving the competitiveness of export crops;

(c) Measures to improve nutritional levels through improvement of the food value content of staple food. This should be combined with rural education, especially of women and youth.

(2) Industry

Some of the fields of action where assistance is required in manufacturing and mining are listed below:

(a) Mining:

(i) Mineral resource surveys;

(ii) Promotion of investment in mineral exploration and exploitation;

(b) Manufacturing:

(i) Exploitation of natural resources and their further processing; special attention should be paid to agro-industries;

(ii) Promotion of selective export oriented industries through the attraction of foreign capital and skills, with special attention to imparting these skills to the local population and the encouragement of production cum marketing arrangements;

(iii) Strengthening of industrial institutions in the areas of identification, evaluation, financing and promotion of projects as well as technology and training.

Trade

44. In most, if not all of the least developed countries, the ability to participate in international trade is limited by weak productive capacity and rudimentary commercial infrastructure. It must be recalled that an important object of the present exercise of the Working Group is to help these countries to improve their capacity to produce in order that they may participate more energetically in international co-operation and trade. Special measures are therefore required not only to assist them in the commercial field

both at the international and regional level, but, what is more important, to stimulate their production for export. Some of the measures that might be taken are listed below.7/

(1) Primary commodities

(a) Measures to improve the immediate export-earning possibilities of the least developed countries:

(i) Commodity arrangements to cover the major export products of interest to the least developed countries;

(ii) Favourable treatment of the least developed countries in all commodity agreements, in terms of the allocation of basic quotas, in the redistribution of deficits in quota fulfilment and exemption from quota cuts;

(iii) Appropriate compensation by the international community for losses arising from the implementation of a generalized preference scheme for exports from developing countries.

(iv) Taking into account of the special interest of the least developed countries in the formulation and implementation of a generalized preference scheme;

(b) Support for national and regional efforts at the promotion of diversification, and at the improvement of quality and productivity through the provision of suitable inputs and resources.

(2) Manufactures

(a) General removal of tariff and more especially non-tariff barriers to processed raw materials from developing countries especially those of interest to the least developed;

(b) Export-promotion, especially through action by developed countries to stimulate imports from these countries;

(c) Provision of inducement to private investors to establish export-oriented industries in the least developed countries,

---

7/ Besides the information made available by the organizations of the United Nations system and other intergovernmental bodies, the Working Group had at its disposal the "Report of the Group of Experts on special measures in favour of the least developed among the developing countries", Geneva, 24 November to 5 December 1969 (TD/B/288).

/...

Regional Co-operation

45. Appropriate measures should be taken within regional groupings for the least developed among developing countries. To them the opportunity to participate in regional co-operation arrangements will give an initial occasion for expanding international trade. It will also provide the necessary learning process and time for them and for their partner developing countries not only to increase their mutual trade but also to improve their competitive position, so that they participate more actively in international trade in the future. The Working Group therefore welcomes declaration 23 (II) of the United Nations Conference on Trade and Development (UNCTAD)8/ calling on the developed countries and others to facilitate regional co-operation arrangements through appropriate policies, and recommends that the resolution be given immediate effect. Some of the relevant measures are listed below.

(1) Trade liberalization measures:

(a) Special concessions to the least developed countries in terms of tariff removal schedule or accession to common external tariff;

(b) Least developed countries should be accorded preferential access to the markets of their partners;

(c) Waivers or concessions invoked for balance-of-payments reasons by the more developed partners should not apply to exports of least developed partners.

(2) Trade supporting measures:

(a) Establishment of regional financial institutions for ensuring equitable infrastructural development;

(b) Attraction of investors to the least developed partner countries through the development of regional or multinational industrial projects within the framework of equitable regional industrial allocation and/or financing schemes.

8/ For the full text see Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. I, Report and Annexes (United Nations publication, Sales No.: E.68.II.D.14), Annex 1.

/...

C. Appraisal machinery

46. The concept of least developed countries is necessarily a relative one. The obstacles to the economic and social development of these countries are also continually changing, thereby necessitating changes in the policy measures. There will, therefore, be a need for continual global assessment of the problem of the least developed countries within the broader framework of the Second United Nations Development Decade. In the course of such global and regional reviews, the emerging obstacles to development should be identified and appropriate remedial action recommended. This should also provide, as stated above, the occasion for continuing re-examination of the criteria, indicators and classification of these countries, in the light of changing circumstances.

/...

ANNEXES

ANNEX I

PROVISIONAL LIST OF THE "HARD CORE" LEAST DEVELOPED COUNTRIES[a/]

Africa

Botswana
Burundi
Central African Republic
Chad
Dahomey
Ethiopia
Gambia
Guinea
Lesotho
Malawi
Mali
Niger
Rwanda
Somalia
Sudan
Togo
Uganda
United Republic of Tanzania
Upper Volta

Middle East

Yemen

East and South-East Asia

Afghanistan
Laos
Nepal

Caribbean and Central America

Haiti

---

a/ The list may be modified on the basis of further work. For the criteria and rationale used to designate these countries as "hard core" least developed countries see paragraphs 16-24.

/...

ANNEX II

SOME CRITERIA FOR IDENTIFYING THE LEAST DEVELOPED AMONG DEVELOPING COUNTRIES[a]

	Initial identification criterion	Major adjustment criteria		Minor adjustment criterion	Other
Group and country	Per capita GDP 1966 ($US)	Share of GDP originating in manufacturing (1966)	Literacy ratio (1960s)	Rate of growth of GDP 1960-1967	Population in millions 1968
Group I. Developing countries with per capita GDP of $US 100 or less, 1966					
A. Those with literacy rate of 20 per cent or less and a manufacturing share in gross domestic product of 10 per cent or less					
Africa					
Guinea	96[b]	6	10	...	3.8
Botswana	94	10	...	...	0.6
Sudan	94[b]	6	13	4.5[c]	14.8
Uganda	84	8	10	4.5	8.1
Gambia	82	6	...	...	0.4
Niger	82	6	3	...	3.8
Lesotho	78	1	...	...	0.9
Chad	69	4	8	...	3.5
Dahomey	69[b]	4	8	...	2.6
Somalia	65[b]	4	5	...	2.7
Tanzania, United Republic of	62[b]	5	18	4.3[d]	12.6
Ethiopia	61	7	8	4.8[e]	24.2
Malawi	49	7	...	1.0[f]	4.3
Burundi	45	4	...	...	3.4
Upper Volta	44	6	8	...	5.2
Rwanda	42[b]	4	...	...	3.4
Middle East					
Yemen	50	3	10	...	5.0
East and South-East Asia					
Laos	59[b]	4	15	...	2.8
Afghanistan	55[b]	8	8	...	16.1
B. Those with literacy rate of more than 20 per cent or a manufacturing share in GDP of more than 10 per cent					
Africa					
Congo (Dem. Rep. of)	96	15	...	...	16.7
Nigeria	75	6	33	4.5[e]	62.7
Mali	68	12	3	...	4.8
Caribbean and Central America					
Haiti	82	12	10	2.8[g]	4.7
East and South-East Asia					
Indonesia	97	12	43	2.2	112.8
Nepal	91	11	8	...	10.7
India	80	15	28	1.0	523.9
Burma	62	9	60	3.4	26.4

/

SOME CRITERIA FOR IDENTIFYING THE LEAST DEVELOPED AMONG DEVELOPING COUNTRIES[a]
(continued)

	Initial identification criterion	Major adjustment criteria		Minor adjustment criterion	Other
Group and country	Per capita GDP 1966 ($US)	Share of GDP originating in manufacturing (1966)	Literacy ratio (1960s)	Rate of growth of GDP 1960-1967	Population in millions 1968
Group II. Developing countries with per capita GDP from over $US 100 to $US 150, 1966					
A. Those with literacy rate of 20 per cent or less and a manufacturing share in GDP of 10 per cent or less					
Africa					
Mauritania	128	3	3	...	1.1
Cameroon	124	8	13	...	5.6
Sierra Leone	123[b]	6	10	5.8[h]	2.5
Togo	118	6	8	...	1.8
Central African Republic	105[b]	7	18	...	1.5
B. Those with literacy rate of more than 20 per cent or a manufacturing share of more than 10 per cent					
Africa					
Kenya	110	11	23	...	10.2
Madagascar	101	4	35	...	6.5
East and South-East Asia					
Ceylon	140	7	75	3.7	12.0
Thailand	134	12	70	7.6	33.7
Cambodia	127	10	30	4.7[f]	6.6
Korea, Republic of	123	17	71	7.9	13.0
Pakistan	116	11	20	5.6	109.5
Viet-Nam, Republic of	111	11	45	5.4[i]	17.4

Source: Yearbook of National Accounts Statistics, 1968, vol. II (United Nations Publication, (Sales No.: E.70.XVII.3). United Nations Monthly Bulletin of Statisctics, December 1968, United Nations Conference on Trade and Development, "Identification of the least developed among the developing countries" (TD/B/269 and Corr.1), United Nations Educational, Scientific and Cultural Organization, Statistical Yearbook, 1966, United States Agency for International Development, Economic Data Book.

a/ For their application in the selection process, see paras. 16-24.
b/ 1963.
c/ 1962-1964
d/ Former Tanganyika only.
e/ 1960-1966.
f/ 1960-1963.
g/ 1960-1962.
h/ 1963-1965.
i/ 1960-1965.

/...

ANNEX III

LIST OF PARTICIPANTS

Members of the Working Group

J.A. Lacarte, Ambassador of Uruguay to Argentina

J.H. Mensah, Minister of Finance and Economic Planning, Ghana

M.L. Qureshi, Member, Planning Commission, Pakistan, and Special Adviser, African Development Bank

Jean Ripert, Director General, National Institute of Statistics and Economic Research, France

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

United Nations

United Nations Secretariat

A. Kwame Pianim, Economic Affairs Officer, Centre for Development Planning, Projections and Policies, Department of Economic and Social Affairs; Secretary of the Working Group

Economic Commission for Asia and the Far East

V.M. Bhatt, Chief, Research and Planning Division and Co-ordinator of Regional Co-operation

Economic Commission for Europe

P.J. Carré, Division of General Economic Research

E. Cohen, Assistant Economic Affairs Officer

United Nations Conference on Trade and Development

Jack Stone, Director, Research Division

S. El-Naggar, Deputy Director, Research Division

A. Lasso de la Vega, Research Division

/...

United Nations Industrial Development Organization

R. Magloire, Associate Industrial Development Officer, Industrial Programming and Policies Division

United Nations Children's Fund

G. Sicault, Consultant

United Nations High Commissioner for Refugees

Jacques Cuénod, Inter-Agency Programme Co-ordinator

United Nations Institute for Training and Research

Richard Symonds, Representative in Europe

World Food Programme (Joint UN/FAO programme)

V. Marrama, Economic Adviser

African Institute for Economic Development and Planning

D. Carney, Project Manager

Asian Institute for Economic Development and Planning

D.N. Saxena, Fiscal and Monetary Expert

Specialized agencies

International Labour Organisation

C. von Stednik, Chief, Field Department

J. Reynaud, Chief, Operations Management Branch, Field Department

United Nations Educational, Scientific and Cultural Organization

H. Ben-Amor, Division of Applied Social Sciences

World Health Organization

M. Sachs, Chief, Programme Co-ordination

Elinor Kamath, Liaison Officer, Programme Co-ordination

/...

International Bank for Reconstruction and Development

Abdel G. El Emary, Special Adviser to the President

International Monetary Fund

Edgar Jones, Director, Geneva Office

Pierre Simonet, Assistant to Director, Geneva Office

Universal Postal Union

S. Joshi, Secretary, International Bureau

International Telecommunications Union

A.V. Kotov, Chief, Euro-Asian Division, Technical Co-operation Department

World Meteorological Organization

Hermann Sebastian, Director, Technical Co-operation Department

General Agreement on Tariffs and Trade

H. Dittmann, Assistant Director General

Other intergovernmental organizations

European Economic Community

D. Frisch, Chief, Development Studies Division, Directorate General for Development Aid

Organisation for Economic Co-operation and Development

Edgar Kröller, Head, Financial Policies Division, Development Department

Organization of American States

G.J. Schamís, Director, European Regional Office

D. Chadwick Braggiotti, Deputy Director, European Regional Office

-----

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 13 1970

FROM: Irving S. Friedman

SUBJECT: Budget -- General Economic Staff

Mr. Adler has informed me of your decision on the Budget. I appreciate that I can still make recommendations for changes in the distribution of personnel among the divisions of the Economics Department and the Study Groups within the over-all ceiling. I have, however, limited myself to a few marginal suggestions, not involving actual movements of personnel, but rather vacancies.

As you know, I have felt for some time the need for significant restructuring in the work of the Bank Economic Staff with a view to eliminating any overlapping and to ensure that we had our order of priorities right. Ordinarily I would now be making suggestions for some significant restructuring, but in view of Mr. Chenery's coming to the Bank in the relatively near future and his expectation that he will be making recommendations for the restructuring of the economic staff, it did not seem wise to have the economic staff concerned go through two major changes in a relatively short period of time. It is for these reasons that I have confined myself to minor suggestions.

I would like, however, to comment particularly that I had hoped to achieve a substantial increase in the staff of the Basic Research Center and an increase in the allotment of staff for Development Programs.

ISF

cc: Mr. Adler

Mr. Robert S. McNamara | April 24 1970

Irving S. Friedman

Council on Foreign Relations

Attached hereto is the draft paper by Tex Goldschmidt which was discussed the other night at the meeting of the Council on Foreign Relations, plus the agenda which he drew up for the discussion. Please ignore my underlinings and markings.

I intend to send to him comments and material necessary to correct his misunderstandings about the Bank and most particularly Bank/Fund relations. Perhaps it should be emphasized he regards this as not only a confidential document but even more important, a preliminary draft.

Att:

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

REMIND:

Send copies to Mr. McNamara and Mr. Clark, with transmission note making specific points.

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: April 14, 1970

FROM: Irving S. Friedman

ISF

SUBJECT: Visit to Pakistan - March 24-31

I had originally planned to report orally on my visit to Pakistan but have thought that it might be more useful to set forth briefly some of my major impressions of my week's visit there. I will not attempt to summarize my exchange of views with the authorities on the new Plan as such; needless to say, they urged more assistance via the Consortium and a comprehensive water management and flood control program for East Pakistan. I stressed by specific examples the applicability of the experience of other countries to Pakistan, pointed to the need to deal effectively with those social problems which were creating bottlenecks for further production and sustained growth; the inevitable interrelations among planning, monetary and fiscal policies and the increased staff capacity in the Bank to help deal with these "newer" problems. On other aspects like the availability of more external assistance and what we were planning to do in East Pakistan, I was guided by what I had been told in Washington (Votaw and Sadove) and by Blobel and his team in Pakistan.

I was warmly received by all, including General A.M. Yahya Khan, President of Pakistan, the Governor of East Pakistan, the Minister of Finance, Governor of the State Bank (with whom I stayed in Karachi), senior civil servants in Islamabad, Lahore and Dacca, the academic community and the business community. Among other things I addressed the Pakistan Institute of Development Economics in Karachi and the Economics faculty in Dacca (on Easter Sunday evening!), and had a chance to visit the Comilla Experimental Station. I found at every level people eager to have a full and free exchange of views.

(1) Contrary to some views expressed in Washington and echoed in some quarters in Pakistan my judgment is that Pakistan will not divide into two separate countries as a result of present difficulties. The government by calling for elections based on "one man one vote" is in effect recognizing that East Bengal will have the majority in any new constitution-making assembly and consequently any new legislature. Unless this decision is rescinded this should go a long way to meet the resentment in East Pakistan against West Pakistan and the central government.

(2) A decision to go ahead with the Fourth five-year plan on a flexible basis should help in diminishing the corrosive effect the discussions of this plan seems to have had on the unity of the country. In private conversations, at least, I found little willingness to defend the numbers in the program. Like so many other development programs, the planners had started with targets and resource allocations to achieve such targets without attempting to rework the numbers in light of more realistic assumptions on resource availability (both domestic and foreign). The numbers, however, had become matters of serious contention, particularly among spokesmen (official and private) for the different regions. Once the current constitutional crisis is more or less passed, whether in the form of a new civilian government or a decision by the military that it must continue in office, there will be the opportunity for a serious look at the Pakistan economy and its prospects. This might take the

President has seen APR 16 1970

form of presenting and assessing the annual budget rather than a new plan, but this remains to be seen.

(3) The President and the Governor of East Pakistan (a former Admiral of their Navy) are aware that the high level of military expenditure is an overwhelming burden for the Pakistan economy. Both insisted that Pakistan would be very happy to see some political settlement with India that would make possible a major reduction in such expenditure. On a number of occasions the view was expressed (as, I'm sure, on other occasions) that mediation by the World Bank in the various disputes between Pakistan and India, particularly with respect to the Eastern rivers would be most welcome. The view was expressed that India would most likely continue to be unreceptive to such moves. However, there is some talk of strengthening the military forces in East Pakistan, particularly increased participation of East Bengalis. This, however, seems something for the rather distant future.

(4) In East Pakistan the hope was strongly expressed that the Bank would play a very wide and influential role in their economy. My impression is that they would welcome the kind of role we are playing in Indonesia. A number expressed the view that the Bank had relatively neglected East Pakistan in the past, but did not believe that this represented a reason why the Bank's role should not be more significant in the future, not only financially but in terms of advice on policy and technical assistance. Such views were echoed by the academic and business communities as well as at the political and senior official level. In Islamabad also, the general view was that the Bank could play an even more important role than in the past in Pakistan affairs.

(5) They asked my views on certain specific points. For example, the exchange rate system, the future of their currency and banking system, fiscal policy, foreign trade policy, relation between the center and the various provinces in the future with respect to such matters, etc. My general position was that a realistic exchange rate was urgently necessary as had been expressed previously by the Fund and Bank staff, and that many of the difficulties that Pakistan was now facing were due to the continuation of a bad exchange system. As for their fiscal policy, it was necessary to raise more resources for development and that for any transfer of resources among the provinces to be possible, sufficient taxing authority had to be left to the center so that it would have the revenues for redistributing income among regions -- contrary to what was being advised by many in East Pakistan who seemed to favor a central government with very little tax-raising authority. I also advised strongly against the adoption of more than one currency as some were suggesting, and was in favor of keeping a free trade area among the provinces and a common external tariff policy, leaving it to the budgets to do the job of taxation and subsidization rather than mainly using the exchange system, tariffs and quantitative restrictions to achieve the same ends. I found that the State Bank of Pakistan was working industriously and intelligently on how to adapt the central banking system to the likely new constitutional situation of more autonomy for the increased number of provinces. There were, of course, lots of analogies with the U.S. Federal Reserve System. (Their present central banking system looks federal, but actually is much more centralized than the U.S. Federal Reserve System.) Similarly, a high degree of coordination of the new provinces in West Pakistan is envisaged in certain key areas like WAPDA. My basic advice was to avoid intransigent positions

and the need for collaboration because I could not see that anyone in Pakistan would benefit from having a central government incapable of governing and provinces acting like sovereign states in economic and financial matters. I made a point of talking to people privately who were regarded as "hard liners" in these matters, a number of whom I had known from previous association. In all cases they conceded, after discussion, the need for mutual accommodation.

(6) The economic situation in Pakistan is showing some signs of revival, particularly in industry in West Pakistan. However, businessmen in East Pakistan are still concerned about moving ahead while the political situation remains uncertain. They are also rather troubled by the boycott between East Bengal and India. The political leaders and officials say the reason for the maintenance of this trade boycott is for bargaining purposes with India, particularly over the Eastern rivers. Many references were made to the Farraka dispute.

(7) I was especially intrigued with the comments made to me in a very brief interview by the head of the East Pakistan Chamber of Industry and Commerce. He emphasized that everything should be done to increase the income of the poor farmer in East Pakistan; only through increasing agricultural income could a market be established for industry in East Pakistan. Everyone is, of course, eager to have the benefits of the "green revolution" in East Pakistan, although their plans for spreading the "green revolution" are not yet convincingly thought through. The Comilla cooperative is seen as a model. The fact that it has taken so many years to become effective even with dedicated leadership and good administration, which may be difficult to duplicate in large numbers, is appreciated, but officials still talk as though the spread of this experiment to other parts of the province could take place rather quickly. They welcome the advice of our people on water, agriculture, industry, etc., and I hope that we will be able to provide the staff to do the large-scale job on a continuing basis that needs to be done.

(8) The longer-run impact of the renewal of parliamentary government combined with a reassigning of top senior official positions is, of course, difficult to predict. There is much talk of people being moved into new posts, which is greatly facilitated by the creation of new provinces. The basic aim seems to be to break the near monopoly that people of West Pakistan or Indian origin have of the most important senior civil service posts. There were some who argued, particularly in Islamabad, that East Pakistan simply could not come up with talented people. I was rather impressed with the number of talented people I met in East Pakistan in a short period of time, but how many of such people are available I cannot say. However, I did feel and so said to the President, the Minister of Finance, the Governor of the State Bank, the Governor of East Bengal and others that it would be most useful for the success of future parliamentary government if the present regime were to take the hard decisions such as on the suggested exchange rate adjustments that had to be made. If too many difficult decisions were left for the new government, the chance of the right decisions being made would be greatly reduced and might well bring to an end the establishment of constitutional government. I was repeatedly told that the present government is prepared to make the hard decisions. The coming weeks will tell the story.

Distribution: President's Council
Mr. Cargill
Mr. Sadove

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 14 1970

FROM: Irving S. Friedman

ISF

SUBJECT: New York International Economists Club

On Friday afternoon I addressed the New York International Economists Club. As you probably know this is a group of mostly senior economists (with the rank of Vice-President, Senior Vice-President or Partner) from many large financial and industrial institutions, as well as a few from such institutions as the Council of Foreign Relations and Columbia University. There were present people from Chase Manhattan, First National City, Brown Harriman, Smith-Barney, U.S. Chamber of Commerce, Petroleum Institute, General Electric, etc. -- about 15 in all.

Given the audience I addressed myself nearly entirely to questions of development finance, with particular reference to the World Bank's lending activities and policies, the external debt problem, the Bank's borrowing activities and financial position and the Bank's activities in joint and parallel financing. Most of the discussion at the initiative of the other participants was on the external debt problem. Only a few were familiar with what the Peterson report had said about debt rescheduling and the proposed roles for the World Bank and the IMF. They did know the contents of the Pearson and Rockefeller Reports. Many different views were expressed on the external debt problem and how it might affect the Bank, ranging from one who thought that private loans would have to have a preferred position, to those who thought that rescheduling need not affect the Bank at all to one who quoted Mr. Black and Mr. Moore as saying that the Bank would have to engage in rescheduling as well as governments and private creditors. (Needless to say this was an off the record meeting.) I explained our current thinking, including why our members had accepted the concept of a preferred-creditor position for the Bank and the implications of a successful IDA replenishment for facilitating the external debt problem.

I also took the occasion to inform them of the work we are doing in the field of external debt, including our arrangements for the gathering and distribution of external debt statistics to various users depending on the degree of confidentiality. I feel that it is important for the financial community to know that we have become an authoritative center for the collection and analysis of external debt statistics and that any material which is published represents only the tip of the iceberg compared with the data available within the institution. Those present, given their backgrounds, readily understood why much of the statistical information we gather could not be published or even handed out on an informal basis without drying up many of our sources of information. I pointed to the gap in our statistics, namely short-term unguaranteed commercial credits, which were closely guarded bank secrets.

I enjoyed the give and take, particularly as more than half of those present were people I had known for many years and had discussed with them domestic and international financial problems on many occasions. I trust that I managed to strengthen the conviction of those present that the Bank is run with a deep sense of responsibility for maintaining a strong financial structure, while at the same time fulfilling its special responsibilities as a development finance agency.

President has seen 1970

FORM No. 58

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 6, 1970

FROM: Irving S. Friedman

SUBJECT: Back-to-Office Report on the Special Session of the International Coffee Council and Consultations with the ICO Secretariat

I believe you will find the attached note of interest.

ISF

President has seen

APR 13 1970 (Returned)
4:30 pm

FORM NO. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date March 27, 1970

NAME	ROOM NO.
Mr. Friedman	

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

REMARKS

You may be interested in reading this. It provides, among other things, a good example of the continuing tension in commodity agreements between exporting and importing members. We will follow up on the specific questions mentioned in paragraph 6.

MAR 31 1970

From A.M. Kamarck

Mr Kamarck
JL

OFFICE MEMORANDUM

DATE: March 25, 1970

TO: Mr. A.J. Macone

FROM: Shamsher Singh

SUBJECT: Back-to-Office Report on the Special Session of the International Coffee Council and Consultations with the ICO Secretariat

1. I was in London March 5-18, 1970, to attend the Special Session of the International Coffee Council, to exchange views with the ICO Secretariat on the Brazilian and world coffee situation and to discuss matters relating to informal cooperation between the Bank staff and the ICO Secretariat. The following are the main points of interest:

Council Session

2. Coffee prices rose sharply in the last quarter of 1969 after the full implications of the heavy frost in Brazil were realized. Accordingly, the ICO increased its export authorizations by as much as 5 million bags under its quota/price mechanism. However, these releases failed to influence the market. Consequently the special Sixteenth Session of the Council was convened to discuss and to deal with the current market situation. The consuming countries, who had requested the session, wanted the export quotas raised further with a view to placing larger quantities on the market so that the movement of coffee prices could be reversed to some extent. The exporting countries, particularly the Latin American group, felt that there was no technical reason for further intervention in the market because existing export quotas were well above the demand for consumption in the importing countries. They feared that further increases in quotas would lead to overstocking in the importing countries which, in turn, would have an adverse influence on the market next year. Therefore, they wished to make any new action contingent on an understanding being reached on the price/quota arrangements for the next 18 months, i.e., up to September 1971, rather than only for the remainder of the current marketing year, which ends September 1970. The importing countries were unwilling to commit themselves for 1970/71. Private talks among the delegations failed to bring about a reconciliation of the two viewpoints. Therefore, the Council adjourned and all decisions on the subject were put off until the next annual session of the Council in late August 1970, when price/quota arrangements will be discussed for the year 1970/71.

3. The ICO Secretariat had prepared a report on the current situation to serve as a basis for the deliberations of the Council Session. This document tended to support the viewpoint that the export quotas were already sufficiently large to meet demand for consumption from the importing countries. However, the Executive Director had made strong personal

efforts to obtain from the exporting countries increases in quotas as a gesture of cooperation. I was privately given to understand that the only exporting countries, other than Brazil, which still had sufficient stocks to benefit materially from the additional quota increases were Ivory Coast, Uganda and perhaps Tanzania.

Consultations on Market Situation

4. The ICO Secretariat wanted to discuss with me the Brazilian coffee situation. I gave them a copy of my draft paper on the coffee situation which is being prepared as one of the annexes to the report of the Agriculture Sector Mission to Brazil. In addition, I offered comments on the ICO draft papers on the market situation and in return received comments on my own paper.

Cooperation with ICO

5. I held detailed discussions with the ICO Secretariat on co-operation between the two organizations. The points covered included economic research matters such as exchange of information, identification and plugging of gaps in information and operational matters such as implementation of national coffee plans involving diversification projects. I will prepare a separate note on the subject.

6. The points on which the ICO has requested immediate help and which need early action on the part of various departments in the Bank are as follows:

a. Ethiopia

ICO would like information on the proposed Bank projects concerning coffee processing and penetration roads. (It is likely that in the case of washing project, ICO may be prepared to finance part of the local currency complement of the expenditures.) ICO is also interested in a joint assessment of the impact on coffee production of the existing Bank road projects in coffee growing areas.

b. Burundi

ICO would like to have progress reports on the coffee rehabilitation project.

c. Kenya

In its plan, Kenya has mentioned an IDA credit for financing of smallholders in coffee areas. ICO would like to know the exact Bank position.

d. El Salvador

ICO would like information on the Diversification Project involving livestock which was being considered by the Bank.

e. Guatemala

ICO would like to know the Bank's position and latest developments concerning the proposed diversification projects prepared by the FAO/IBRD cooperative program on which comments had been invited from the ICO. ICO is interested in financing warehousing for coffee and wishes to know if the Bank can prepare this additional project component.

f. Agriculture Projects

ICO would like to have details of the IBRD loans to agriculture in various coffee producing countries, a list of the projects in the pipeline, and the status of the cocoa rehabilitation projects in West Africa.

g. Coffee Policy Plans

ICO would like to have early comments from Bank staff on the national coffee policy plans submitted to them by Angola, Colombia, India, Kenya, Mexico and Tanzania.

cc: Messrs. Kamarck
Stevenson
Chief Economists

SSingh:rk

Mr. Robert S. McNamara April 3, 1970

Andrew M. Kamarck APR 3 1970

Attached Memorandum on International Institute for Cotton 5.30 p.m.

The attached memorandum on discussions on research with the International Institute for Cotton may be of some interest to you. The essential point is that there are at least three major areas of research on commodities that could be of help to developing countries:

(1) on production of food crops (the main emphasis of the Ford and Rockefeller financed institutes.);

(2) on production of non-food export crops;

(3) on improving the competitive quality of non-food export crops vis-a-vis synthetics or industrial countries' products.

I gather that we may get involved in (1) and this may be the priority field at this time for us, but I hope that we can keep the doors open for consideration, if a suitable case comes up, of (2) or (3).

cc: Messrs. Friedman
Demuth

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

OFFICE MEMORANDUM

TO: Mr. Andrew M. Kamarck

DATE: March 25, 1970

FROM: Antonio J. Macone

SUBJECT: Discussions with Representatives of the International Institute for Cotton (IIC) on Financing Research, March 6, 1970.

1. On March 6, 1970, Mr. Varon and I were visited by Messrs. R. Dunn and R. Lund of the International Institute for Cotton (IIC) and had a lengthy discussion with them on the general problems confronting cotton (the most severe of which is competition from man-made fibers), the activities of the Institute, and the need for research, both agronomic and technical, in cotton. The IIC is an inter-governmental organization founded in 1966, under the auspices of the International Cotton Advisory Committee (ICAC), whose major objective is cotton research and promotion, aimed at counteracting the vast activities of man-made fiber industries in these areas.1/ Mr. Dunn is the Institute's Executive Director; and Mr. Lund, who has recently retired from a senior position in the International Wool Secretariat, or IWS (a similar but older and more effective organization in wool2/) is a part-time adviser with the title of Special Assistant to the President (the President is Mr. R. Adame of Mexico). The Institute is no stranger to the Bank: we have had contacts with its staff on several occasions and have reported on its activities (as well as on those of the International Wool Secretariat) from time to time.3/ On March 5, 1970, Mr. Varon attended a technical presentation by the staff of the IIC on the Institute's recent activities.

2. The major problem faced currently by the Institute is the difficulty of increasing its resources (and activities) by attracting new members. It has become increasingly apparent to the Institute that obtaining significant

---

1/ The founding members were the United States, India, Mexico, the UAR, the Sudan, and Spain. Four more countries (Greece, Tanzania, Peru and, very recently, Brazil) have joined since then. (The Sudan and the UAR, however, have been unable to contribute their dues during the last two years, and have lost their membership.) Member countries contribute one dollar per bale of cotton exported to Western Europe and Japan - the promotion target areas, which account for nearly 60 percent of world cotton imports. The Institute's annual expenditures are estimated in the order of \$7-\$10 million, roughly half of which are obtained through members' contributions and the other half from cotton interests in importing countries cooperating in the research or promotion projects. (The U.S. has a similar national program for cotton research and promotion on a domestic scale.)

2/ Annual contribution from members are approximately \$35 million, compared to \$3-\$4 million in the case of the IIC.

3/ See, for example, Cotton: Current Situation, Major Issues and Recent International Discussions, Economics Department Working Paper No. 48, September 5,1969,pp.11-13, and Mr. Varon's memorandum to Mr. Macone, "Miscellaneous Contacts on Research and Development in Selected Fibers," January 6, 1970.

results in expanding the market for cotton would require the expenditures of large sums on research and development, far above the resources available to it at the present time. The present contact with the Bank was prompted obviously by the adoption of the Part II Decisions, but also coincides with a general effort by the IIC to seek assistance from all pertinent international organizations, including UNDP, UNIDO and FAO, in addition to the Bank.

3. Mr. Dunn began by noting that recent technical and market research (on a modest scale) had shown rather convincingly that the competitive position of cotton viz-a-viz man-made fibers could be strengthened by improving the physical properties of cotton through application of appropriate chemicals at the spinning stage and by technological innovations leading to the introduction or adoption of new spinning processes and machinery. However, greatly increased efforts in basic as well as applied research were needed. Moreover, since the adaptability or applications of a number of innovations (most of which were on the drawing-board or pilot stage) varied from one variety of cotton to another, it was also imperative to undertake, simultaneously, agronomic research in order to develop and breed cotton varieties best suited to these and other possible technical advances in the textile industry.

4. The visitors inquired whether or not financing such research, technical and agronomic, fell within the purview of the recent Decisions on the Stabilization of Prices of Primary Products.1/ We replied, referring in particular to Decision No. 2 on "Strengthening the Competitiveness of Primary Products," that, a priori, provided that there was adequate reason to expect that exports from developing countries would benefit from it, the Bank would give consideration to proposals for financing specific research projects in the areas they had outlined in general terms. We added that it was difficult to be more specific than this (to specify criteria for such assistance, for example,) at this stage, this being a new field of activity for the Bank and a complex field in itself, particularly from the point of view of cost/benefit analysis. The formulation of the relevant criteria and appropriate action could best be considered in relation to specific proposals. For this reason we welcomed the interest of organizations such as theirs which already had experience in this field.

5. They said that they understood this, but they nevertheless proceeded to seek tentative or preliminary views on a number of questions.

(a) "Would the Bank insist that the research it finances take place in developing countries?" We replied that, a priori (and in our personal judgment), the Bank would have no

---

1/ It may be of interest to note that their attention to the Decisions had been particularly drawn by the Bank statement at the Third Session of the Permanent Group on Synthetics and Substitutes (UNCTAD) in November 1969.

objection if part or possibly all of a particular research project was to take place in developed countries; a guiding consideration would be the place where such research could be carried out most efficiently. For example, the necessary equipment and personnel might be available only in a particular laboratory in a developed country. While there was no specific reference to this question in the Decisions, we did not think that it would pose a serious problem.

(b) "Could Bank assistance take the form of grants?" We replied that while it was our impression that the assistance envisioned in this case (as well as in relation to the other Decisions) was expected to be in line with normal Bank practices (namely, in the form of long-term loans), grants, under appropriate circumstances, were not ruled out. It seemed reasonable to assume, however, that the amount of the assistance requested would be a relevant consideration in this respect.

(c) "Could the Bank provide financial assistance directly to an inter-governmental organization such as the IIC?" We remarked that the crucial consideration was the nature of the research project in question and the institutional framework for carrying it out. We thought that the financial arrangements would have to involve governmental channels.

(d) "Could the Bank assist in the 'commercialization' of new technological innovations, e.g., in the introduction of improved cotton-textile processes and machinery?" We replied that if this meant assistance to a country to modernize its industry or to install new plants incorporating up-to-date technology, the answer would be positive. Such project proposals would be in line with the Bank's traditional lending activities and moreover could be evaluated in the traditional way. We noted that, in appraising any industrial project, the Bank naturally paid attention to the merits and appropriateness of the technology incorporated in it.

6. We concluded this exchange by remarking that in view of the technical questions involved in financing research, which obviously varied from commodity to commodity, experts and expert international bodies could play a role by developing concrete strategies and ideas and this would facilitate the formulation of appropriate policies in the Bank.

7. The visitors indicated that the IIC was in fact in the process of re-evaluating its activities and preparing a work plan, or strategy, for the next five years, with cost estimates. They proposed that, when this work is well along, they put their program before the Bank, as well as UNDP, FAO, etc., in order to establish whether or not and how individual organizations might assist in its implementation. We remarked that this seemed

to be a reasonable approach, and agreed, at their request, to keep in touch during the preparation of their work program.

Conclusions and Recommendations

8. The discussion summarized above indicates that advancing toward the implementation of the Part II Decisions on research requires further thought and work both on our part and on the part of the relevant international commodity bodies or national agencies. It is obvious, for example, that these bodies need guidance on how, and specifically for what, Bank assistance is available. On the other hand, we need their assistance since in the area of agronomic and industrial research, identifying a need for technical or agronomic research in general terms is relatively easy (and can be arrived at through commodity analysis) but the significant question is whether in a specific commodity there is what might be called "an effective need for research" - i.e., a situation in which the state of the technology, the results of prior research, the availability of proper institutions, and attitudes of prospective participants combine to provide a fertile environment for practical innovations of significant scope. This effective need can be identified and quantified best by the parties involved.

9. I believe we are now at a stage where it would be useful to discuss the implications of the issues raised above and possible further issues in the implementation of the Executive Directors' Decisions on research with the Agriculture Projects and the Industrial Projects Departments.

cc: Mr. Friedman
Mr. Demuth
Mr. Stevenson
Mr. Evans/Takahashi
Mr. Fuchs
Mr. Reutlinger

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

March 25, 1970

To: President's Council Members

Mr. McNamara would like to have your reaction to this proposal before he takes a decision. A discussion will be scheduled for the PC meeting on March 30.

L.E. Christoffersen

MAR 25 1970

12 noon

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 24, 1970

FROM: H. B. Ripman

SUBJECT: Reopening of Twelfth Floor Executive Dining Room

1. You have asked me to advise you on the cost, advantages and disadvantages of reopening the old Executive Dining Room on the twelfth floor of "B" building to supplement our present dining facilities. I know that you realize that operating duplicate facilities is costly. How costly depends on how and to what extent the two dining rooms are used, but we estimate that if operated as we recommend, (para. 14 below) the cost of operating the two dining rooms would be $158,000 per year or an additional cost for reopening the 12th floor Dining Room of about $45,000 per year. To this, during the first year, must be added about $60,000 in start-up costs required to make needed alterations (e.g. new drapes, new carpet, new vinyl) and to purchase additional equipment (e.g. china, glasses and linens) which needed replacement before the twelfth floor facility was mothballed.

2. Since the resignation of our Executive Dining Room Manager (Mr. Both) in January we have been considering the possibility of employing a food management firm to manage our entire food service operation. Three different firms have submitted proposals and a recommendation will be submitted to you this month. We believe it possible that such professional management may enable us to reduce the costs of operating both the Cafeteria and Executive Dining Room and hold the additional cost of opening a second Executive Dining Room to a minimum.

3. In considering how best to re-introduce the use of our old dining room and in estimating the cost of doing so we reviewed our total food service facilities.

Cafeteria Facilities

4. Our old Cafeteria seated 225 people and, in the twelve months prior to the opening of the new Cafeteria, served between 550 and 650 persons per day. As the staff grew in size, waiting lines became longer and many of our staff used the newer, more spacious and more attractive Fund Cafeteria facilities--so much so that the Fund considered it necessary to restrict the use of its Cafeteria by Bank staff.

5. Our new Cafeteria seats 248 persons and is more attractive and more spacious than the old Cafeteria. Since its opening in October, it has served a steadily increasing number of persons--currently averaging more than 1,000 per day, almost twice the daily average of the old Cafeteria. Nevertheless, the increase in the size of the Bank Group staff has taxed the new Cafeteria facility, and resulted in delays. The situation has recently been improved by the addition of a second cashier. Generally the staff has reacted favorably

to the new Cafeteria and it is being used daily by about 50% of the entire staff, professional and non-professional. We are now operating at about capacity. The demand for service may be expected to decrease during the summer months when staff take vacations and often go outside the Bank to eat. We should be able to continue to provide adequate service throughout the summer months.

6. We had planned to open a coffee shop on the second floor of the "C" building at the same time as the new Cafeteria. This coffee shop would seat about 60 to 70 persons and, on a quick turnover basis, would have a capacity to serve 250 to 300 persons per day. Unfortunately, we could not proceed with these plans because of the shortage of office space. Now, with the availability of rented office space in the 1747 Pennsylvania Avenue building, we should be able to open the coffee shop by the end of the summer.

7. This additional capacity should be sufficient to meet our Cafeteria needs through fiscal 1971 and possibly 1972.

Executive Dining Faciltiies

8. The Executive Dining Room facilities on the twelfth floor of the "B" building seated 88 persons in the main dining room and had four private dining rooms (one for the Bank President, one for the Executive Vice President of IFC, and two for all other uses). All professional staff members and their guests were allowed to use these facilities. (By comparison, the Fund does not allow the two lowest grades of professionals to use their Executive Dining Room facilities). During fiscal year 1969, when our professional staff numbered about 1,000, less than 10% used the facility on any one day. Occasionally, towards the end of the fiscal year as staff numbers increased, there were days when some staff members could not be served. There also began to be complaints about the shortage of private dining rooms for official luncheons.

9. The new Executive Dining Room facilities in the "D" building consist of a main dining room seating 116 persons, plus six private dining rooms. In the first two months of operation a daily average of 103 persons were served. By December this daily average had increased to 106; by January to 114; and by February to 125. Late in February, because of complaints from some senior staff members and Executive Directors that they could not be seated, two connecting private dining rooms were converted into an auxiliary dining room seating an additional 25 persons. This increased total capacity to 141 seats and, since this change, we have had little difficulty in meeting all demands for reservations --serving as many as 150 persons on several days. (When needed, this new area can easily be rearranged and used as a private dining room.) Although there has been some favorable reaction to the new dining room, generally the staff favor the old dining room with its higher ceiling, panelled walls and more gracious atmosphere.

Summary

10. In summary, I believe that the new Cafeteria though crowded is generally

satisfactory and within reason can meet our needs through the summer until the new coffee shop is available and thereafter at least through FY 1971. We are continuing to explore ways of improving operations and reducing delays. At the present time an individual can be served and eat his meal in the Cafeteria comfortably in less than forty-five minutes at prices considerably below outside restaurants and in a generally more favorable atmosphere.

11. As to the Executive Dining Room, despite the fact that we are not now serving to capacity, there are days when delays in seating do occur and when private dining rooms are fully booked. It is impossible to predict whether the demand is really greater than current use suggests, being suppressed by the known lack of seating capacity, or whether reopening the old dining room would provide additional capacity far in excess of real demand. Undoubtedly, a number of Executive Directors and senior staff members prefer the old dining room to the new, and it is reasonable to assume that if both were open some use would be made of each. I suspect that neither would be used to capacity and I doubt that a real case could be made on economic grounds to open a second dining room. Nevertheless, with the staff continuing to increase, I think added dining room capacity clearly will be required in future and, as indicated below, I recommend that the old dining room be reopened with some limitations on use.

Costs

12. During FY 1969 the Executive Dining Room (including the four private dining rooms) on the twelfth floor of "B" building was operated at a net loss of $75,000. If reopened and staffed with about the same number of waiters and kitchen help, and assuming the same level of staff use, the rate of loss would be greater due to increased wage and food costs even if we did not reopen all of the private dining rooms. On this basis we estimate a loss of approximately $90,000 per annum to operate the old Dining Room. If, however, we follow the recommendations given below and limit the use of the old Executive Dining Room, and consequently the size of the required operating staff, we believe we can reduce this estimated loss to about $45,000 per annum.

13. The new Dining Room in "D" building has been operating since its opening in late October, 1969 at a net loss per month of $9,300 or $112,000 on an annual basis, including the operation of the six private dining rooms. The net operating loss of the two facilities would thus be between $160,000 and $200,000, depending on the numbers using the facilities.

Recommendation

14. We have carefully considered a number of different alternatives to make the best possible use of the two Executive Dining Room facilities. Our conclusion is that present demand does not warrant--nor can we economically support--a complete duplication of Executive Dining Room facilities at the present time. Accordingly, we recommend that initially we open the old Executive Dining Room for limited use as a Senior Executive Dining Room as follows:

(a) The Senior Executive Dining Room (twelfth floor) would be limited to use by Executive Directors, Alternate Executive Directors, Technical Aides to Executive Directors, members of the President's Council and all senior staff above Salary Level "A", and their guests. There are currently about 155 persons in this category and it is estimated that about 30 to 40 of this group might use the facilities each day. Guests might account for another 10 to 20 persons, bringing total usage to 40 to 60 per day. This usage would require a smaller operating staff than previously needed in this dining room.

(b) Reopen and use your dining room and the IFC dining room for Mr. Gaud's use.

(c) Continue to use the other two twelfth floor dining rooms as conference rooms.

(d) Transfer Mr. Jones (Maitre d') and Mr. Anezin (Chef) to the old dining room along with necessary waiters and kitchen staff.

(e) Use the new Executive Dining Room (second floor) for all other professional staff. New waiters and kitchen staff would be recruited.

(f) Use the private dining rooms on the second floor for reservation for official luncheons.

15. If you agree with this recommendation, I will arrange to take the necessary action to implement it. It will take some time to reopen and refurbish the old dining room and to recruit the new staff for the new dining room but I would hope to have the additional facility operating by July 1, 1970. The remodeling and equipment cost of about $60,000 would be incurred this fiscal year. Part of this cost can be charged to budgets previously established for remodeling of the twelfth floor area; and we believe the remainder can be absorbed in current operating accounts. The operating expense will not occur until next fiscal year and may be budgeted accordingly.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

March 20 1970

Mr. McNamara:

I think you will be interested in the attached note.

ISF

Irving S. Friedman

→ Mr Friedman

Thanks.

Lee 3/20

MAR 23 1970

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

March 17, 1970

NAME	ROOM NO.
Mr. Friedman	

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

REMARKS

You may be interested in the attached. The higher growth rates forecast for the OECD countries for 1970-1980 should, of course, mean that the LDC growth rates will also be higher.

1970

3.45 p.m.

From A.M. Kamarck

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

OFFICE MEMORANDUM

TO: Mr. A.J. Macone

DATE: March 10, 1970

FROM: Kenji Takeuchi KT

SUBJECT: Recent Tentative GDP Forecasts for the OECD Countries, 1970-80

1. During the recent mission to Europe-Zambia, I visited the OECD Secretariat in Paris on February 19, 1970, where I had a brief discussion with Mrs. Mary Garin-Painter (Branch de Statistique et des Comptes Nationaux) on their latest forecasts of GDP growth rates 1/ for the OECD countries during 1970-80.

2. The figures given in Table 1 below were indicated to me as the OECD Secretariat's latest estimates of "feasible growth" rates of GDP in the OECD countries in the 1970-80 period. Mrs. Garin-Painter emphasized the tentative nature of these estimates. They are the staff's tentative estimates and are subject to comments and final approval of the member countries, which have not yet considered them. I believe, however, that we may use these estimates for our work in the absence of other superior alternatives so long as we do not quote the OECD as the source.

3. As you notice, the estimated growth rates for all OECD countries combined for 1970-75 (4.9 percent) and 1975-80 (5.1 percent) are higher than the previously available estimates, i.e., 4.7 percent per annum for both periods. The changes are mainly due to the upward revision of the estimates for North America and OECD Europe. I assume that an upward revision of the estimates may have some implications for our commodity projection work.

1/ OECD reports often refer to growth rates of "output". According to Mrs. Garin-Painter, the "output" in their reports usually means GDP at factor cost. The growth rates, of course, refer to the GDP in real terms.

Table 1: ESTIMATED GDP GROWTH RATES IN REAL TERMS IN OECD COUNTRIES, 1970-80

(percent per annum)

	1970-75	1975-80
OECD Total	4.9	5.1
OECD Europe	4.7	4.8
EEC	5.0	5.3
EFTA	3.4	3.5
Canada	5.5	5.3
United States	4.1	4.5
Japan	10.0	10.0

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

March 19, 1970

NAME	ROOM NO.
Mr. Friedman	

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

REMARKS

As a follow-up to the back-to-office report, a copy of which was sent you the other day, you might be interested to see the projections of OECD GDP's for the 1970's compared to the experience of the 1960's. This is shown in the table attached.

MAR 19 1970

s-p-.

From A.M. Kamarck

Mr. A. J. Macone March 19, 1970

Kenji Takeuchi

GDP Growth Rates of OECD Countries in 1960-1970

1. My memorandum of March 10, 1970 reported the OECD Secretariat's latest tentative estimates of the "feasible growth" rates of GDP in the OECD countries in the 1970-1980 period. Since then I have received the restricted document CPE/WP2(70)3, dated February 20, 1970, which gives detailed background information on these estimates.

2. In order to give a better perspective for comparison, I am attaching a table which shows the growth rates (partly estimated by me) in the 1960-1970 period.

Attachment

KTakeuchi/hl

CONFIDENTIAL

GROWTH RATES OF GROSS DOMESTIC PRODUCTS IN REAL TERMS IN OECD COUNTRIES, 1960-1970

(Percent per annum)

	I 1960-65	II 1965-70 2/	III 1960-70 3/	Projected 4/ 1970-75	1975-80
OECD Total 1/	5.2	4.4	4.8	4.9	5.1
OECD Europe 1/	5.0	4.4	4.7	4.7	4.8
EEC 1/	5.1	5.3	5.2	5.0	5.3
EFTA 1/	4.1	3.1	3.6	3.4	3.5
Canada	5.6	4.4	5.0	5.5	5.3
United States	4.8	3.6	4.2	4.1	4.5
Japan	9.6	13.0	11.3	10.0	10.0

1/ Based on the 1963 weights.

2/ Estimated from the figures in columns I and III by Kenji Takeuchi, Trade Policies and Export Projections Division, Economics Department.

3/ Partly estimated.

4/ Based on 1968 weights.

Source: OECD restricted documents: CPE/WP2(69)17, June 16, 1969, and CPE/WP2(70)3, February 20, 1970.
N.B.: Projected figures not to be quoted outside the Bank.

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 20 1970

FROM: Irving S. Friedman

SUBJECT: Proposed Analytical Notes on Industrialization

On the attached our present thinking was that:

A. External economies and costs of industrialization would be done in May and June.

C. The government policy framework for industrialization in July.

B. International trade aspects of industrialization in September, and

D. Industrial efficiency and productivity in developing countries in October/November.

Because of the demands on the division concerned, for various operational purposes we had planned to be devoting one person at any time to this series of notes. If, of course, you wished any of them sooner we would reassign people to do this.

Att:

President has seen

3/20 To Mr. Friedman
Irving, What time schedule are you following in the preparation of the "Notes"?
Ernest

PROPOSED ANALYTICAL NOTES ON INDUSTRIALIZATION

A. External economies and costs of industrialization

May-June

1) Industrialization and employment creation;
2) The relationship between industrialization and urbanization;
3) Costs and benefits of geographic concentration versus regional decentralization in industrial development;
4) The role of industrial zones, areas, estates, "mini-estates" and flatted factories in industrial development. (Some aspects of this were covered in a position paper on Bank Group finance for industrial estates prepared by George Kalmanoff.).

B. International trade aspects of industrialization

Sept

1) Problems of establishing and expanding export oriented manufacturing industries;
2) Policies for reducing levels of protection in industrializing and semi-industrial countries;
3) The effect of the 15 percent limit on protection in Bank procurement on the industrialization of countries at varying levels of industrial development;
4) The uses and limitations of the concept of effective protection as a tool of economic analysis.

C. The government policy framework for industrialization

July-Aug

1) Fiscal policies and incentives for industrialization;
2) Monetary framework and credit policies for industrial development;
3) Guidelines for developing countries' policies towards direct foreign investment in manufacturing;
4) Guidelines for developing countries' policies towards direct foreign investment in mining.

D. Industrial efficiency and productivity in developing countries

Oct-Nov

1) Costs and benefits of competition versus economies of scale in limited markets;
2) Role of small scale industries and sub-contracting in industrialization;
3) Cost constraints on industrial expansion;
4) Domestic demand constraints on industrialization.

Annex to an paper on Industrial Financing policies now being prepared. ISF

DRAFT

September 23, 1968

ANNEX 1

World Bank Group Finance for Industry
(as of June 30, 1968)

(millions of U.S. dollars, net of cancellations and refundings)

	IBRD Loans /1	IDA Credits	IFC Investments /2	Total
1. Total World Bank Group financing	11,146.9	1,788.4	259.0	13,194.3
2. Finance for industry				
a. Chemicals, fertilizers	112.0		38.5	150.5
b. Iron and Steel	414.3		45.1	459.4
c. Pulp and Paper	134.8		29.2	164.0
d. Other industries	259.6	6.4	101.1	367.1
e. Mining, other extractive	197.1			197.1
f. Development Finance Companies	664.7	39.7	27.4	731.8
Sub-total	1,782.5	46.1	241.3	2,069.9
(As a % of total Bank Group financing)	(13.5)	(0.3)	(1.8)	(15.6)
3. Industrial imports /3	0.0	455.0	0.0	455.0
4. Total finance for industry	1,782.5	501.1	241.3	2,524.9
(As a % of total Bank Group financing)	(13.5)	(3.8)	(1.8)	(19.1)

/1 Excludes $100 million loan to IFC.

/2 IFC figures are net of cancellations, terminations and write-offs.

President has seen

/3 These are imports to India ($405 million) and Pakistan ($50 million) for components and raw materials to maintain and/or expand manufacturing capacity.

Sources: IBRD Loans Classified by Purpose and Area from April 1, 1947 to June 30, 1968, July 13, 1968.

IDA Credits Classified by Purpose and Area from April 1, 1961 to June 30, 1968, July 13, 1968.

Facts about the International Finance Corporation as of June 30, 1968, July 11, 1968, and information supplied by Treasurer's Department, Finance Division.

World Bank Group Finance for Industry
(Last Ten Years: July 1, 1958 - June 30, 1968/1

(millions of U.S. dollars, net of cancellations and refundings)

	IBRD Loans/2	IDA Credits	IFC Investments/3	Total
1. Total Bank Group financing	7,440.4	1,788.4	249.5	9,478.3
2. Finance for industry				
a. Chemicals, fertilizers	66.0	)	38.5	104.5
b. Iron and Steel	186.0	)	44.5	230.5
c. Pulp and Paper	64.6	)	28.2	92.8
d. Other industries	155.8	6.4)	93.2	255.4
e. Mining, other extractive	149.3			149.3
f. Development Finance Companies	621.8	39.7	27.4	688.9
Sub-total	1,243.5	46.1	231.8	1,521.4
(As a % of total Bank Group financing)	(13.1)	(0.5)	(2.4)	(16.0)
3. Industrial imports	-	455.0	-	455.0
4. Total finance for industry	1.243.5	501.1	231.8	1,976.4
(As a % of total Bank Group financing)	(13.1)	(5.3)	(2.4)	(20.8)

/1 These figures include only those commitments made during the ten-year period and do not include cancellations, refundings, etc., affecting commitments made prior to July 1, 1958.

/2 Excludes $100 million loan to IFC.

/3 IFC figures are net of cancellations, terminations and write-offs.

Sources: IBRD Loans Classified by Purpose and Area.
IDA Credits Classified by Purpose and Area.
IFC Chronological List of Investments and Standby Underwriting Commitments, July 10, 1968 and information supplied by Treasurer's Department, Finance Division.

World Bank Group Finance for Industry
(Last Five Years: July 1, 1963 - June 30, 1968) /1

(millions of U.S. dollars, net of cancellations and refundings)

	IBRD Loans /2	IDA Credits	IFC Investments /3	Total
1. Total World Bank Group financing	4,266.9	1,301.4	176.2	5,744.5
2. Finance for industry				
a. Chemicals, fertilizers	30.0	)	27.1	57.1
b. Iron and Steel	34.2	)	32.5	66.7
c. Pulp and Paper	2.6	)	18.9	21.5
d. Other industries	129.5	)	63.3	192.8
e. Mining, other extractive	-	)	-	-
f. Development Finance Companies	451.4	29.9	16.7	498.0
Sub-total	647.7	29.9	158.5	836.1
(As a % of total Bank Group financing)	(11.3)	(0.5)	(2.8)	(14.6)
3. Industrial imports	-	455.0	-	455.0
4. Total finance for industry	647.7	484.9	158.5	1,291.1
(As a % of total Bank Group financing)	(11.3)	(8.4)	(2.8)	(22.5)

/1 These figures include only those commitments made during the five year period and do not include cancellations, refundings etc. affecting commitments made prior to July 1, 1963.

/2 Excludes $100 million loan to IFC.

/3 IFC figures are net of cancellations, terminations and write-offs.

Sources: IBRD Loans Classified by Purpose and Area.

IDA Credits Classified by Purpose and Area.

IFC Chronological List of Investments and Standby Underwriting Commitments, July 10, 1968 and information supplied by Treasurer's Department, Finance Division.

Mr. Robert S. McNamara March 20 1970

Irving S. Friedman

Local Currency Financing

You may recall that at one of our recent meetings of the President's Council I made the point that I thought that the issue of local currency financing needed to be reviewed. As you are probably aware, there is a sharp difference of viewpoint among your top staff on this question.

I would recommend that such a review take place after Mr. Knapp has returned. If you so wished, I would be happy to prepare a brief paper on my return setting forth the different viewpoints as a basis for discussion.

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 20 1970

FROM: Irving S. Friedman

SUBJECT: Local Currency Financing

You may recall that at one of our recent meetings of the President's Council I made the point that I thought that the issue of local currency financing needed to be reviewed. As you are probably aware, there is a sharp difference of viewpoint among your top staff on this question.

I would recommend that such a review take place after Mr. Knapp has returned. If you so wished, I would be happy to prepare a brief paper on my return setting forth the different viewpoints as a basis for discussion.

ISF

Mr. F. Tamagna March 18 1970

Irving S. Friedman

Visit of Dr. Ferrari

I am sorry to have to inform you that Mr. McNamara expresses his regrets that he will be out of the country at the time Dr. Ferrari is visiting the States.

I assume that you will be passing this on th Dr. Ferrari. Thank you.

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

3/18 To Mr. Friedman

OFFICE MEMORANDUM

I regret I will be out of the country at that time. RSM

TO: Mr. Robert S. McNamara

DATE: March 17, 1970

FROM: Irving S. Friedman

SUBJECT: Visit of Mr. Ferrari

Mr. Ferrari the President of the Banca Nazionale del Lavoro, which, as you know, is the largest bank in Italy, is attending the American Bankers Association Annual Meeting from May 17-20. He would like very much to see you before returning to Rome and is prepared to make a special trip to Washington for that purpose. His office is presently preparing a schedule of his visit to the United States.

This inquiry has come to me through Mr. Tamagna of my staff. Mr. Ferrari is well kown. My first acquaintance with him was when some years ago he was Secretary of the B.I.S.

ISF

MAR 18 1970 (Returned)
2 p.m.

Mr. Robert S. McNamara March 17, 1970

Irving S. Friedman

Visit of Mr. Ferrari

Mr. Ferrari the President of the Banca Nazionale del Lavoro, which, as you know, is the largest bank in Italy, is attending the American Bankers Association Annual Meeting from May 17-20. He would like very much to see you before returning to Rome and is prepared to make a special trip to Washington for that purpose. His office is presently preparing a schedule of his visit to the United States.

This inquiry has come to me through Mr. Tamagna of my staff. Mr. Ferrari is well kown. My first acquaintance with him was when some years ago he was Secretary of the B.I.S.

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

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: March 12, 1970

FROM: Frank M. Tamagna

SUBJECT: Visit of Professor Ferrari

I received a letter (copy attached) from the Personal Secretary (Dr. M. Cantuti) of Professor Alberto Ferrari, Direttore Generale (President) of the Banca Nazionale del Lavoro, Rome, who will be attending the American Bankers Association's Seventeenth Annual Monetary Conference from the 17th to 20th, May. Professor Ferrari expects to be in Washington on May 21st and would like to see Mr. McNamara on such date. He is asking whether this could be arranged. His office is presently preparing the schedule of his visit to the United States.

Could you contact Mr. McNamara (or his office) concerning this appointment? Or would you like me to do it directly? I will be glad to talk to you after you have seen this letter.

MAR 12 1970
11.25 a.m.

Attachment

Glad to speak to him about this

BANCA NAZIONALE DEL LAVORO

IL DIRETTORE GENERALE

Office of the Secretary

Rome, February 18, 1970

Prof. Frank M. Tamagna
Professor of Economics
The American University
Massachusetts and Nebraska Avenues, N. W.
WASHINGTON, D. C. 20016

Dear Prof. Tamagna,

As you are probably aware of, Prof. Ferrari will be attending the American Bankers Association's Seventeenth Annual Monetary Conference, to be held at Hot Springs, Virginia from 17th to 20th May, 1970, and plans to spend Thursday, May 21 in Washington when he would very much like to call on the President of the World Bank Group, Mr. Robert S. McNamara.

Should this not be possible, Prof. Ferrari would proceed to New York in the evening of the same day - i. e. May 20 - since this time his stay in the United States has to be a short one.

If, on the contrary, it should be possible to see Mr. McNamara on May 21, Prof. Ferrari would seize the opportunity to see also representatives of the I. F. C. and I. M. F.

You would greatly oblige letting us have the time-table of the meetings which it will be possible to fix, in due course.

Thanking you in advance I remain, dear Professor Tamagna, with kindest regards,

Yours very truly,

(M. Cantuti)

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

OFFICE MEMORANDUM

TO: Mr. L. Christoffersen

DATE: March 13, 1970

FROM: William Clark *WDC*

SUBJECT: Comments on the Paper by Ted Hawkins on Population.

Page 3, 1st para. Might it not be simpler simply to state that increased GNP is a necessary but not sufficient cause of development.

Page 7, 3rd para. "The need to persuade the individual family that the choices they will make about family size have a bearing not only on their own welfare but on that of the whole nation". Is this the way in which in fact we will persuade anyone of anything? Isn't our job to persuade the leaders of the need of population control, and then make them responsible for seeing that unwanted children are not brought into the world by families who lack knowledge of birth control. I personally believe we may eventually have to limit family size by edict, but the received wisdom at the moment is that all we need to do is to keep families down to the size that people would actually prefer.

Page 14, top para. I do not know what the evidence is that "these ideas do not long survive the establishment of any rational planning process". I find in general in Africa today a strong belief that population growth is necessary for national strength. I have found it in Argentina too, because of their fear of greater population growth in their neighbour Brazil. I think that experts quickly catch the drift of things, but I think that politicians are very slow either to comprehend them or to publicise them. I really think this is a very optimistic statement.

Page 25. "The thrust of future activity ... should be directed towards greater knowledge of these relationships". I think the question must be asked whether this is a possible line of research. It is certainly researching into the most intimate inner depths of the human mind, and when I think what Dr. Freud dredged up there I wonder whether we are going to get very far. This is a serious problem ought our research to be into motivation, or ought it to be into biological reproduction? I favour the latter because I believe that there is still considerable scope for reducing the size of families by preventing unwanted births. I suspect that if we were to find out what people regarded as the optimum family it would in fact be far too large for any reasonable future pattern of equalitatively good life. However that is in the future; the possibility of reducing the explosion does seem to me to lie nearer to hand.

WDClark:sf

Mr. Leif E. Christoffersen

March 13, 1970

Andrew M. Kamarck

MAR 1 1970
2.15 p.m.

Comments on Bellagio Population Paper

General

This is an interesting paper and a useful contribution to the subject.

In reading it, I felt the need for a minimum of basic data, that is, statistics on population growth in the developing countries, illustrating how unusual these rates of growth are in world history, the impact of them on dependency ratios, etc. I also felt the need for models illustrating how controlled population growth could contribute to economic development. It may be that both of these needs will be met by other material prepared for the conference, but if they are not, some provision for them would be useful.

Included in the paper as a footnote on page 10 and touched on again on pages 18 and 19, is an argument that I think is important and that deserves separate treatment and expansion. This is: an important part of improving the quality of life and of increasing the rate of economic growth in the developing countries is to make it possible for the mass of the population to make a conscious choice as to the size of family they want. At present, only the rich in developing countries have the knowledge and means to be able to make this decision. The poor have neither. Being able to restrict the number of dependents he has to support may make the difference between success or failure for an upward mobile individual. Increasing the probability of success for an ambitious and energetic individual to climb up from poverty by allowing him to avoid being frustrated before he can start by a flood of children to support could make a substantial difference in accelerating the rate of economic growth in a developing country, as well as increasing an individual's sense of freedom in being able to affect the course of his life. (This was the argument that I found most convincing in talking with Mboya and other African leaders, for instance.)

An effective way of bringing individual decisions on the size of family in line with national needs may be the social fashion set by the public leaders of a society. In other words, convincing the leaders is important not only for the governmental policies they may put into effect but also for the style of life they set for the rest of the population. In Japan, for example, I have noticed that Japanese families that have more than one or two children tend to be ashamed and defensive. I have also noticed some indication that a similar attitude is growing among the younger generation in the United States.

One of the reasons that the poor in many countries may be inclined to have more children than the rich, if their opportunities for upward mobility are restricted, is to improve their chances of security in their old age. For the rich, property serves the same function. It may be that research will show that some system of national old-age pensions may be necessary as a population control technique.

Specific Comments

Page 2, last sentence in first full paragraph should read: "... arguments which maintain that the decisions determining the level of human fertility should be largely determined by trends that are economic ..."

Page 3, the third sentence in second paragraph, is too positive and contradicts in fact the first sentence in the second paragraph on page 4.

Page 4, first paragraph. The fourth sentence should read instead: "Economic development depends largely on the amount and quality of capital available and improvement in the quality of the human resources in terms of the knowledge, skills and technology they command. Growth resources can be applied to improving and adding to the capital stock and in improving the health and education of each child if the demands made on current output for the support, training and education of a larger number of children can be reduced."

Page 8, in the first paragraph, it might be useful to include the point that industrialization is induced more by higher per capita incomes than by a multiplication of bodies. Demand for manufactures is highly income elastic. A million people with an income per capita of $400 represents a much larger market for manufactures than 8 million people with an income per capita of $50. The Netherlands with a population of 13 million is a many times bigger market for industrial products than Nigeria with a population of 60 million.

cc: Mr. Friedman
Mr. Hawkins

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date March 13, 1970

NAME	ROOM NO.
Mr. Friedman	
Seers	
UF	

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

REMARKS

From A.M. Kamarck

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

OFFICE MEMORANDUM

TO: Mr. A. M. Kamarck

DATE: March 11, 1970

FROM: R. M. Westebbe RW

MAR 13 1970
2:15 pm

SUBJECT: Conversation with Mr. McNamara

1. This morning Mr. McNamara telephoned me to discuss Mr. Doxiadis' approach towards urbanization. Mr. Doxiadis has been to see Mr. McNamara and has suggested that the Doxiadis team has a contribution to make and is doing interesting work of possible relevance to the World Bank in such fields as developing satellite towns, and in Zambia and Ghana, amongst others.

2. Mr. McNamara feels ambivalent about the Doxiadis approach, although he recognizes that some more economics is being introduced than was the case last year. He asked me to learn as much as I could "over time" about Doxiadis' latest work, and to call him for a meeting to discuss it. He specifically suggested that I get in touch with the head of the Doxiadis group in the United States for this purpose.

3. Mr. McNamara indicated that his basic concern, of course, was in the economic development implications of urbanization and not so much with architectural aspects. He said he would like to discuss some of these economic implications in greater depth with me. I informed him that a white paper was well along on this subject and that a draft should be completed by this weekend, but will require revisions before being shown to him. He said he hoped he could have it by the following week, and that the paper would be a good basis for our discussion.

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 11 1970

FROM: Irving S. Friedman

SUBJECT: Economic Committee Meetings

I asked Mr. Chaffey to prepare the attached memorandum summarizing the work of the Economic Committee on the country program papers.

I believe the Committee discussions have resulted not only in a steady improvement in the quality of CPP papers which have been issued, but will also improve the future country economic reports as well as country program papers.

I am taking steps to improve the review procedure for country economic reports, trying to steer a course between spending too much staff time on this review procedure and ensuring that the report which is finally issued is worthy of the imprimatur of the World Bank.

ISF

Att:

President has seen

MAR 12 1970

(Returned)

FORM NO. 57

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

OFFICE MEMORANDUM

TO: Mr. Friedman

DATE: March 6, 1970

FROM: J. Chaffey *JC.*

MAR 6 1970

SUBJECT: Economic Committee

Since the Country Program Papers were introduced in October 1969, 43 draft CPPs have been distributed to the members of the Committee. The Committee has met on 37 CPPs, including all those for "annual" countries (28), and twice on "biennial" countries (Honduras, Panama) and seven times on "triennial" countries (Iceland, Gambia, Trinidad, Botswana, Dahomey, Mali and Cambodia).

2. Thus in the 19 week introductory period for the CPPs, the Committee has averaged two meetings per week (in the same period one year ago the Committee met on 16 countries). In general the Committee aims to meet on all "annual" countries, and on other countries if the Chairman and the Area Department consider the issues raised in the Paper warrant a meeting.

3. Broadly speaking the Committee discussions focus on

(a) the analysis of economic performance,
(b) the assessment of creditworthiness, and
(c) the extent to which the sectoral needs of the economy are reflected in the lending program.

The procedure adopted for the meetings is to ask the Area Department to identify issues for discussion which are, together with those questions raised by the Chairman and others, considered in the light of the three main criteria listed above.

4. At Committee meetings, the Area Department is usually represented by its Director in addition to the Chief Economist. A representative from the IMF is invariably present and takes a full part in the discussions. In addition to Committee members, representatives from Projects and Economics Departments with particular interests are invited to attend.

5. Before the next round of CPPs start coming forward in April, the Committee Secretary will be studying the work of the Committee as reflected in the Notes of Meetings and the influence the discussions have on the revisions of draft CPPs.

cc: Messrs. Kamarck
Mendels/Fowler

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 9 1970

FROM: Irving S. Friedman

SUBJECT: Local Currency Financing

I would like to make clear, very briefly, one of the points I have been making about local currency financing.

I accept completely the argument that once it is decided to use a project as a vehicle for transferring resources (with its counterpart in a foreign exchange need) it does not matter whether the loan or credit made is for local currency or for foreign procurement. However, I do feel, in view of our discussions on program financing and from time to time on local currency financing, that the present view of the Board is to regard local currency financing as an exception to the rule that the Bank is engaged in the business of financing foreign exchange component of projects.

Therefore my stress is that we must expect to be queried and to defend local currency financing and particularly so when it is being done for a country that seems to have some other alternative to obtaining the needed foreign exchange like Mexico's creditor position in the Fund or Malaysia's large monetary reserves. I recognize that this could be used as an argument against any borrowing from the Bank whether for foreign procurement or local currency, but believe that certain Board members accept loans to such countries without question when they are limited to foreign procurement, but only tend to get excited when it involves local currency costs. It is therefore not a judgment that local currency in such cases is less economically justified but rather eagerness to preserve the flexibility we have in local currency financing from adverse Board reactions.

The above point is, of course, quite apart from other considerations like availability of projects, sufficiency of savings efforts, demonstrable impact on institution building, etc.

ISF

MAR 1 1 1970 (Retd)
10-30 -.

President has seen

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 6 1970

FROM: Irving S. Friedman

SUBJECT: Employment and Economic Development

We have had some further discussions on the instructions on what should be included in our regular economic reports on employment and economic development.

I am attaching a revised draft which I believe is an improvement, particularly in being more concrete and precise in what we expect the country economists to do.

Unless I hear otherwise from you I will send this out to the Economic Committee next Wednesday. For your information I am attaching my original memorandum to you.

ISF

Att:

President has seen

MAR 9 1970 (Returned)
10 a.m.

I.V.D. To Mr. Friedman

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 19, 1970

FROM: Irving S. Friedman

SUBJECT: Employment and Economic Development

Attached hereto is a note setting forth instructions on what should be included in our regular economic reports on employment and economic development.

These instructions were prepared after discussions with the Chief Economists of the Area Departments, Economics Department and the Development Programs Study Group.

Some of the Chief Economists have requested that the question be considered collectively in the Economic Committee and a meeting is being set up for this purpose.

Any comments you may have on these instructions would be most appreciated.

You will note that provision is made in this note for co-operation with the ILO in doing this work.

ISF

Please return to me after the meeting of the Economic Committee.
RSM

JAN 21 1970 11:05

TO: Members Economic Committee

FROM: Irving S. Friedman

SUBJECT: Employment and Economic Development

It is necessary that the subject of employment and unemployment be brought under review in country economic reports,and all economists responsible for contributing to such reports are now requested to take account of the problem in their analyses. The subject matter of this note is how this work might best be begun. Our meeting is also designed to seek suggestions as to the ways in which the work of country economists can be assisted by specialist studies which the Bank might undertake. After we have had some experience of work in this field, OM 4.02 will be revised appropriately. Moreover, I also plan to discuss how we might receive assistance in this work from the international agencies, particularly ILO.

It is necessary to ensure that the employment aspects of development strategy are more explicitly incorporated into the Bank's review of the economic policies of the member governments. This may involve a broadening of the scope of these reviews, insofar as we have previously been concerned mainly with the growth of incomes and output.

At the same time I recognize that it will be necessary to build up our knowledge of this subject gradually, especially as there is no readily available conceptual framework which can be applied by country economists to this topic. The question of dealing with existing unemployment and preventing future rise of unemployment as an important aspect of the development objective also raises a number of difficult issues of a sociological and political nature. It will be best, therefore, to proceed as explicitly as possible, always defining the criteria which are being used in the analysis of a particular country.

This request need not necessarily involve a radical change of emphasis in economic reports. To the extent that growth policies are successful, this will be reflected in rising employment opportunities. There are cases, however, of countries which satisfy many of the criteria of successful economic growth, but yet which do not provide sufficient employment opportunities to absorb the larger numbers entering the labor force, especially in urban areas. In at least some of these cases this may be due to policies that unjustifiably encourage capital-intensive techniques in various parts of the economy. For whatever reason it occurs, however, a substantial growth of unemployment may be reflected in inadequate economic performance and social and political unrest. The first need is to outline the extent of the problem and identify those countries where it is a major influence on government policy.

All economic missions are, as a minimum, requested to collect information (if it exists) as to the extent to which unemployment may exist in the economy. Such information is notoriously difficult to obtain, and it may be necessary to encourage governments to establish the factual basis of their employment situation. It would be useful if the information on employment, unemployment and whatever can be said about needed government action on the subject were brought together in a separate "Employment" section of the economic report as well as being commented on in other related sections, e.g., education, agriculture, industry, etc.

The present request can best be met by the mission leader undertaking to ensure that all aspects of the mission's work take account of employment questions, as appropriate. Although this is not a subject which can be handled simply by including specialists on economic missions, it may be advisable in certain cases to ensure that one member of the mission, preferably a general economist, is asked to take responsibility for assisting the mission chief in this task. Employment opportunities will also be a special concern of manpower specialists, since the character of the educational system, the demand for different kinds of labor, and the growth of employment are closely related. Apart from this special interest of manpower and education specialists, it is not envisaged that the subject will be the exclusive concern of any one department. It is our intention to explore with the ILO what they can contribute to our work in this field.

We have begun some specialized studies on employment within the Bank so as to be able to provide assistance to country economic missions. This work, however, will only be useful if it is closely linked to the regular economic reporting of the area departments. I am asking the Economics Department to take on the responsibility of keeping in touch with the work being done elsewhere on this subject, and to be the central point of contact in the Bank on the subject. The Population Studies Division will plan to take on this work.

Employment opportunities will also be a special concern of manpower specialists, since the character of the educational system, the demand for different kinds of labor, and the growth of employment are closely related. Apart from this special interest of manpower and education specialists, it is not envisaged that the subject will be the exclusive concern of any one department.

Assistance will be available from the ILO for this work, mainly in the form of briefing material from their background knowledge of labor and employment in various countries. In a limited number of cases the ILO will supply people to take part in economic missions. It will also be desirable to make use of the experience and knowledge of the ILO with manpower studies.

I am asking the Economics Department to take on the responsibility of keeping in touch with the work being done elsewhere on this subject. The Population Studies Division will be responsible for this work, and will link it as closely as possible to the economic reporting of the Area Departments.