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Washington, D.C.

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Hollis B. Chenery papers - McNamara Discussions 1974 (Jan.-March)



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Hollis B. Chenery Papers - McNamara Discussions - Notebooks / Memoranda - July 1974 - March 1974

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
FROM: Hollis B. Chenery, VPD; Warren C. Baum, VPS
SUBJECT: Health Policy Paper

DATE: March 29, 1974

1. We proposed to you in July 1973 that the Health Policy Paper be prepared in two stages. The first of these is completed, and we would like to get your reaction to it before proceeding to draft a paper for Board discussion.

2. Attachment I, entitled "Health Policy Paper: Part I", summarizes the main text on the health problems of developing countries, present policies of member governments, and activities of international agencies, as background for discussing three options open to the Bank in formulating its health policy. Essentially, these are (a) to continue the trend of increasing the health aspects of projects, (b) to add programs to deal with specific major diseases, and (c) to initiate a program of lending for health projects, i.e. projects whose principal objective is the improvement of health services.

3. We should like to meet with you to discuss essentially two issues:

- Does the paper address the main questions you had in mind when you asked us to prepare a Health Policy Paper.
- What is the desirable timing of the Board discussion. The present schedule calls for the PRC to discuss the Health Paper in September 1974 and for the Board to discuss it in December. This could be accelerated if you wish, since the work has progressed more rapidly than anticipated. To some extent, the timing depends on the option to be chosen since both options 2 and 3 have significant manpower and budget implications which we might not want to raise until after the FY1975 budget cycle is complete.

4. Also attached is Part II of the Health Paper. Although this is a very preliminary draft which requires considerable revision, it contains statistical support for the generalizations in Part I and other material which may be of interest, even though the material is not yet fully integrated with Part I.

Attachments

RGulhati/EStern/lm/mp

4/14 r to Dr. Chenery
1. I favor Option 2
2. The concept of the paper is excellent
3. Because the paper is so close to final form I favor completing it at internal for Board discussion
than
mind-
other-
L. New
(X) send to Baum,
ES
Gulhati-
4/21

3485

4/1

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 17, 1973

FROM: Hollis B. Chenery and Warren C. Baum

SUBJECT: Policy Paper on Health: Scope and Timing

1. Our objective is to prepare a paper to be discussed by the Board. Since we do not yet have a coherent "health policy," a good deal of internal discussion of the subject at various levels in the Bank will be necessary before any proposals can be put to the Board. It would be wasteful to wait for the full Board paper before beginning these discussions. We therefore propose that the preparation of this paper be regarded as a two-track affair. The longer track is the preparation of the Board paper, for which an outline is attached. We should hope to complete this by September 1974. Work will begin, principally by consultants, as soon as possible on the sections that will provide the necessary background against which to set an analysis of policy options, in a way that has proved useful and effective in the sector working papers.

2. The shorter track will lead to a briefer paper, analyzing the main policy options facing the Bank against a background that will be drawn from the work on the main paper. We hope to have this in draft by January 1974; this timing, however, is contingent on finding staff and consultant time in the very near future and these arrangements are not yet firm. In terms of the outline, the options paper would concentrate heavily on Sections III and V.

Attachment

cc: Messrs. Kanagaratnam
Stevenson
King
Stern

TKing/KKanagaratnam:tk

7/20 To Messrs. Chenery & Baum
1. Should not the
paper be titled the
"economic cost" or
development benefits
of "poor health".

1. The
quantity
of report of
Policy
Papers
of 6/1/73
shows the
paper
due March
1974.

*I don't
understand
why

45 days
later it
should slip
at 6 months.

2 new

HEALTH POLICY PAPER

Outline

I. Introduction

- a. The health sector and its frontiers.
- b. Direct and indirect factors affecting health levels.

II. The Health Situation in Developing Countries

- a. A review of recent trends and present prospects in mortality, disease levels, other health indicators.
- b. Pattern of resource use by the sector - preventative health and curative health, organizational aspects, manpower needs, financial aspects.
- c. Distribution of health care by income levels of recipients.

III. LDC Health Policy

- a. Better health as a social goal.
- b. Health expenditure in relation to other social goals - fertility reduction, economic growth, more equal income distribution.
- c. The choice of health priorities.
- d. Comparative cost effectiveness of alternate health strategies.
- e. Implications for research.

IV. International Assistance in Health

- a. WHO.
- b. Other UN organizations.
- c. Bilateral organizations.
- d. Non-government organizations.

V. Health in Bank Activities

1. Experience to date.

- a. Water supply/sewerage.
- b. Population (Maternity hospitals, MCH care, training).
- c. Nutrition.
- d. Education - Medical and paramedical training.
- e. Environmental health - River blindness, etc.
- f. Other - Sites and services, rural development projects.

2. Options for the future.

- a. Continue same type and levels of support but recognizing health as an explicit benefit.
- b. Is there a case for specific health projects - if so, what health activities should the Bank finance?
- c. Operational and organizational implications.

ROUTING SLIP			DATE 4/8		
NAME				ROOM NO.	
HBC					
APPROPRIATE DISPOSITION		NOTE AND RETURN			
APPROVAL		NOTE AND SEND ON			
COMMENT		PER OUR CONVERSATION			
FOR ACTION		PER YOUR REQUEST			
INFORMATION		PREPARE REPLY			
INITIAL		RECOMMENDATION			
NOTE AND FILE		SIGNATURE			
REMARKS					
Ping - Pong. Now what? 					
FROM			ROOM NO.		EXTENSION

McN
Notepad

WORLD BANK GROUP

ROUTING SLIP		DATE 3/28/74	
NAME		ROOM NO.	
Mr. Adler		E 624	
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
COMMENT		PER OUR CONVERSATION	
FOR ACTION		PER YOUR REQUEST	
INFORMATION		PREPARE REPLY	
INITIAL		RECOMMENDATION	
NOTE AND FILE		SIGNATURE	
REMARKS			
<p>The attached memorandum is for transmittal to Mr. McNamara.</p> <p><i>Adler filed with memo of Apr 2 - did not agree to expenditure.</i></p>			
FROM		ROOM NO.	EXTENSION
E. Stern		E1243	5451

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Council for Asian Manpower Studies (CAMS)
Request for Funds

DATE: March 27, 1974

1. CAMS was created in 1972 in order to promote research on Asian manpower and employment problems by Asian scholars. It is essentially a loosely organized group of individuals with a nine-member Executive Council, whose Chairman is currently Professor Jose Encarnacion. CAMS has five committees to carry out its research activities, dealing with Labor Supply, Income and Employment, Education, Technology and Foreign Trade. So far, financial support for organizational expenses has been provided to CAMS by the Asia Foundation, the Governments of Japan and the Philippines, USAID, and IDRC of Canada. A consortium of donors, including the Ford, Rockefeller and Asia Foundations, USAID, IDRC of Canada and the Bank, has been formed to assist in the financing of CAMS' research activities. *Revision: within 1/2*
2. The research activities of CAMS are now getting under way. Two of the five committees have prepared packages of research proposals, requesting \$224,000 over a two-year period. The individual research projects are small and tackle a variety of problems. They are not suitable for project funding from the External Research Budget both because they would involve an undue cost in monitoring and because we have not been involved in shaping them to reflect specific Bank interests. Nor do we see any basis for departing from our established policy of not providing program support for research institutions from the External Research Budget.
3. Nevertheless, we believe CAMS merits special consideration. CAMS is a major effort, indigenous to the Asian region, to strengthen local research capability. It is being supported widely by other development organizations, all of which have urged the Bank to join in supporting CAMS. Dave Bell, in particular, has made several representations. A number of our staff members, e.g. Mrs. Hughes, Messrs. Balassa and Hawkins, have participated in CAMS activities over the past 18 months. Their knowledge, plus our information from other sources, suggests that some program support during the first two years would enable CAMS to build up its research capacity and formulate projects suitable for possible financing from the External Research Budget or from other project-oriented donors.

4. We therefore recommend that CAMS be given \$25,000 in each of the next two fiscal years (FY75 and FY76) from the President's Special Fund. We shall clearly indicate to CAMS that after that period the only Bank support they can expect is through projects which meet our standard criteria in terms of quality and subject matter priority. The Research Committee has discussed these issues and supports this recommendation. Mr. Cargill also concurs in the recommendation.

Cleared with: Mr. Cargill
cc: Messrs. J. Adler; Cargill.

DCRao/EStern:tk

OFFICE MEMORANDUM

*McN
Noted*

TO: Mr. Robert S. McNamara

DATE: March 19, 1974

FROM: Hollis Chenery and Warren Baum

SUBJECT: Work Program for the July 1974 Board Paper
on the Energy Adjustment

1. At our meeting with you on March 13 it was agreed that:

- a new five year operational program would be prepared for submission to the Board in June (for discussion in July)
- the March 12 outline of the Board paper dealing with the adjustment to the energy problem would be modified by deleting the sections on the Bank lending program; the paper would be submitted to the Board by July 1 (for discussion at the end of July)
- schedules of work on both papers consistent with these deadlines would be prepared for discussion with you on March 20.

2. A proposed outline and timetable for the paper on The Energy Adjustment is attached. We have revised it in the light of today's Board discussion, including a final section on "The Role of the International Community" in place of the section on Financial Implications in the previous draft. Any topics from the previous section IV-A ("Sources and Supply of Capital on Appropriate Terms") that are not covered in the Bank's Five Year Program could also be taken up here.

3. We envision a paper of 20-25 pages with annexes on the several technical topics that need more detailed treatment. A full draft of the main paper will be prepared by Chenery by June 10 on the basis of the initial drafts of each section, which will be completed between May 1 and June 1. (You will recall that Elinor Yudin is also scheduled to prepare a first draft of your Governors' Speech during May, and she will draw on much of this material.)

4. Our meeting tomorrow should clarify the relationships between the two papers and establish which one will include the main treatment of topics such as the following:

- ok*
- (i) Economic Trends in Developing Countries (Energy paper with summary reference in Bank Program?) *I*
 - ~~(ii) Lending techniques, subsidized interest rates, etc. (Bank Program)~~ *I*

Attachment
HBChenery:di

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

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DATE: March 19, 1974

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- (i) Economic Trends in Developing Countries (Energy paper with summary reference in Bank Program?)
- (ii) Lending techniques, subsidized interest rates, etc.

Attachment
HBChenery:di

Returned
AUG 5 1974

DRAFT OUTLINE OF JULY 1974 BOARD PAPER
ON THE ADJUSTMENTS IN THE DEVELOPING COUNTRIES
TO THE HIGHER COSTS OF ENERGY

I. INTRODUCTION

This paper includes the more detailed analysis promised to the Board in the Interim Report of March 5, 1974. It relates the medium term effects of the adjustments in the world economy to the changes in the cost and supply of energy. These adjustments are traced through future patterns of growth, investment and trade, and through their implications for the sources and supplies of capital and for creditworthiness of the developing countries. The paper provides the background for the revised Bank operations program for the next five years, which will be submitted to the Board separately.

II. THE WORLD ECONOMIC FRAMEWORK

	<u>Responsible</u>
A. <u>Energy Supply and Price Alternatives, 1975-1980</u>	
- Market outlook for the sources and uses of energy	Foster/Friedman (May 1)
- Alternatives for the oil-exporting countries (with Annex I, Country Profiles)	Karaosmanoglu (May 15)
- Alternative sources of energy and their costs (with Annex II, Profiles of Major Substitutes)	Rovani (May 1)
- Investment requirements	Yudin/Celasun (May 15)
B. <u>The Adjustment Process in Industrial Countries</u>	Tims/Hicks (April 15)
- Projected investment, growth and inflation	
- Balance of payments outlook; financial flows	
- Implications for trade with the developing countries	
- Capital markets and interest rates	

III. ADJUSTMENT PROBLEMS OF THE DEVELOPING COUNTRIES

- | | <u>Responsible</u> |
|--|---------------------------------------|
| A. <u>Growth Prospects and Requirements for External Capital</u> | Yudin/Hicks
(May 15) |
| <ul style="list-style-type: none">- The external factors: projected trade, prices and capital flows- The internal factors: projected investment requirements, import policies, conservation, domestic inflation. | |
| B. <u>Changes in Investment Priorities</u> | Van der Tak/Rovani
(May 1) |
| <ul style="list-style-type: none">- Main sectors affected: power, transport, tourism, industry, agriculture- Impact on costs without and with energy substitution- Price and demand effects- Implications for sectoral investment choices- Implications for project costs, bidding practices and project financing plans; responses to uncertainties | |
| C. <u>Adjustment Problems of Representative Countries</u> | Thompson/Regional Economists (June 1) |
| <ul style="list-style-type: none">- High income: Colombia, Uruguay, Yugoslavia- Middle income: Turkey, Ghana, Ivory Coast, Korea, Thailand, Philippines- Low income: India, Pakistan, Sri Lanka, Upper Volta | |
| D. <u>Impact on Creditworthiness</u> <i>analysis by country</i> | Saxe/Carter (June 1) |
| <ul style="list-style-type: none">- Previously projected debt profiles by groups of countries- Revised profiles based on new capital requirements- Analysis of creditworthiness indicators- Implications for borrowing policies by groups of borrowing countries | |

Effect of these on debt burden

Responsible

IV. THE ROLE OF THE INTERNATIONAL COMMUNITY Haq/Vibert
(May 15)

- A. Actions of Other International Organizations
- B. Function of Trade Liberalization
- C. Flow of Financial Resources and the Problem of Burden Sharing
- D. Other Measures to Provide Additional Resources
(e.g. possibilities for debt relief, inter-mediate terms, prepayments as a source for new lending)

Singh

ROUTING SLIP		Date	
		Feb. 28, 1974	
NAME		ROOM NO.	
Messrs. Tims/McPheeters			
	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On
REMARKS <i>(Stein suggested letting Bauers shop reply.)</i> Do you want to check with Yudelman and decide who can do it most readily?			
From Hollis Chenery			

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

T. I. M. S. / Mc Pherson

Do you want to
check with Yudelson &
Sons who can do it
most rapidly?

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

February 25, 1974

Mr. Tims

Please prepare an answer to Mr. McNamara's questions. It will have to be a rough approximation, perhaps indicating data availability in each of the main areas noted.

On the second question, I would say "yes, so far as possible".



(Hollis B. Chenery)

cc: Mr. Stern

FEB 25 1974

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

February 21

Messrs.
Baum

Chenery *T. W.*

1. For how many countries (please list for me) do we have the information on the first 2 pages?
2. Should we not immediately require that all sector studies provide these data?

RMcN

Copy to Mr. Stern (with his copy of the memo of 2/20 on the problem of rural poverty in Iran).

:di

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: February 20, 1974

FROM: IBRD Agricultural Task Force

SUBJECT: The Problem of Rural Poverty in Iran

The attached tables illustrate the nature of the rural situation in Iran. The main characteristics of the rural problem are as follows:

- (i) The bulk of Iran's population is rural -- 62% of the population was rural in 1966, and 58% in 1973 (Table 1).
- (ii) Agriculture is the mainstay of the rural economy -- 70% of the rural labor force is employed in agriculture (Table 1).
- (iii) The rural population is highly scattered -- 70% live in 18,000 villages of more than 250 persons, 20% live in 48,000 villages of fewer than 250 persons, and 5% are nomadic (Table 1).
- (iv) The rural population is largely illiterate, but literacy is increasing -- 32% of rural males and 8% of rural females were literate in 1971, compared to 10% and 1% respectively in 1956 (Table 2).
- (v) The majority of the agricultural population are smallholders, most of them established under the land reform -- 73% of the agricultural labor force is self-employed or family labor (Table 1); 68% of farms are below 5 ha. and 84% are below 10 ha. (Table 3).
- (vi) Less than one-quarter of the land in farms is irrigated, and only one-half of the land in farms is cultivated. Farms below 5 ha. have on average 0.6 ha. of irrigated and 0.5 ha. of rain-fed cultivation.
- (vii) The bulk of agricultural output is produced by larger farms -- farms above 10 ha. make up 16% of the number of farms but produce 52% of agricultural output (Table 3).
- (viii) Distribution of rural incomes is highly skewed. About 74% of the rural population receive an annual income from agriculture of less than \$100 per person, as follows (Table 3):

Size of Farm	% of Rural Population	Average Income from Agriculture	
		(Rls. '000)	(US\$)
Landless laborers	13.2	6.0	89
Less than 5 ha.	55.1	6.0	89
5 - 10 ha.	12.7	15.5	230
10 - 50 ha.	12.2	29.5	437
50 - 100 ha.	0.5	91.1	1,350
More than 100 ha.	0.3	146.7	2,173

1. For low income countries (Please list for me)
do we have the information on the 1st & 2nd pages
r. Should we not immediately request that all studies provided these data.
Lm.

smallholder

literacy

smallholder

- (ix) Agricultural output has grown much more slowly than other sectors of the economy -- officially at 4.2% annually over the past ten years compared to 10.9% annual growth in GDP (Table 4). Official statistics overstate agricultural performance, and actual growth has been 2-3% per annum.
- (x) Per caput income from agriculture for the rural population has grown at less than 2% per annum over the past decade. For the bulk of small farmers -- whose production is predominantly of staple foods (cereals, mutton, milk), per caput income from agriculture has probably grown at less than 1% per annum (Tables 5 and 6).

Attachments

Table 1: STRUCTURE OF THE RURAL POPULATION, 1966

	Number ('000)	<u>%</u>		
<u>Distribution of Population</u>				
Total Population:	<u>25,789</u>	<u>100.0</u>		
Urban Population	9,715	37.7		
Rural Population	<u>16,074</u>	<u>62.3</u>	<u>100.0</u>	
- in villages above 1,000 persons	4,036	15.7	25.1	
- in villages of 500-1,000 persons	3,636	14.1	22.6	
- in villages of 250-500 persons	3,660	14.2	22.8	
- in villages below 250 persons	3,982	15.4	24.8	
- unsettled population	760	2.9	4.7	
<u>Pattern of Employment</u>				
Total Labor Force:	<u>6,858</u>	<u>100.0</u>		
Urban Labor Force	2,610	38.1		
Rural Labor Force	<u>4,248</u>	<u>61.9</u>	<u>100.0</u>	
Non-agricultural	1,277	18.6	30.1	
Agricultural	<u>2,971</u>	<u>43.3</u>	<u>69.9</u>	<u>100.0</u>
- employer	43	0.6	1.0	1.4
- self-employed	1,696	24.7	39.9	57.1
- unpaid family labor	489	7.1	11.5	16.5
- wage earner	725	10.6	17.1	24.4
- other	18	0.3	0.4	0.6

Source: Statistical Centre of Iran

Table 2: LEVELS OF LITERACY, 1956-1971

	Percentage of Population above Seven Years that is Literate ^{1/}			
	<u>1956</u>	<u>1966</u>	<u>1968</u>	<u>1971</u>
Total Population	15.4	29.4	33.4	36.9
- male	22.4	40.1	44.6	47.7
- female	8.0	17.9	21.4	25.5
Urban Population	34.6	50.4	55.6	58.6
- male	45.9	61.5	66.5	68.7
- female	22.4	38.9	44.1	48.1
Rural Population	6.1	15.1	18.3	20.4
- male	10.9	25.4	29.8	31.9
- female	1.2	4.3	5.8	8.3

^{1/} For 1968 and 1971, above six years.

Source: Statistical Centre of Iran

Table 3: DISTRIBUTION OF LAND AND AGRICULTURAL PRODUCTION BY FARM SIZE

	No. of Farms (^{'000})	Total Land in Farms -----	Cultivated Land		Total -----
			Irrigated Land (^{'000} ha.)	Non-irrigated Land	
<u>Distribution of Land, 1971</u>					
Total Number/Area	2,311	16,150	3,560	5,710	9,270
Percentage	100.0	100.0	100.0	100.0	100.0
Less than 5 ha.	68.2	16.8	28.4	14.3	19.7
5 - 10 ha.	15.8	18.9	16.8	20.7	19.2
10 - 50 ha.	15.1	44.2	32.5	50.4	43.6
50 - 100 ha.	0.6	6.6	6.4	6.3	6.3
More than 100 ha.	0.4	13.5	15.9	8.3	11.2

	No. of Persons (^{'000})	Distribution of Sectoral Value-Added		Average Income Per Person (US\$)	Share of Rural Population (%)
		Total (Rls. billions)	Per Person (Rls. ^{'000})		
<u>Distribution of Production, 1971</u>					
Total/Average	18,240	199.6	10.9	161	100.0
Landless Laborers	3,500	21.0	6.0	89	19.2
Less than 5 ha.	10,050	60.1	6.0	89	55.1
5 - 10 ha.	2,320	35.9	15.5	230	12.7
10 - 50 ha.	2,220	65.6	29.5	437	12.2
50 - 100 ha.	90	8.2	91.1	1,350	0.5
More than 100 ha.	60	8.8	146.7	2,173	0.3

Source: Statistical Centre of Iran and
IBRD Agricultural Task Force

Table 4: PERFORMANCE OF THE ECONOMY, 1962-1972

	<u>1962</u>	<u>1967</u>	<u>1972</u>
<u>Gross Domestic Product</u> (billions of 1959 rials)			
GDP	<u>306.3</u>	<u>485.2</u>	<u>857.9</u>
Agriculture ^{1/}	88.8	111.1	134.4
Oil	40.0	80.8	163.7
Industry and Mining	57.8	106.3	195.9
Services	119.7	187.0	363.9
<u>Share of Gross Domestic Product (%)</u>			
GDP	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Agriculture ^{1/}	29.0	22.9	15.7
Oil	13.0	16.7	19.1
Industry and Mining	18.9	21.9	22.8
Services	39.1	38.5	42.4
<u>Growth Rates (% per annum)</u>			
	<u>1962-1967</u>	<u>1967-1972</u>	<u>1962-1972</u>
GDP	9.6	12.1	10.9
Agriculture ^{1/}	4.6	3.9	4.2
Oil	15.1	15.2	15.1
Industry and Mining	13.0	13.0	13.0
Services	9.4	14.2	11.8

^{1/} These are official statistics; analysis of other indicators suggests that the actual growth in agricultural production over the period 1962-1972 was in the range of 2-3% per annum.

Source: Central Bank of Iran

Table 5: PERFORMANCE OF THE AGRICULTURAL SECTOR, 1962-1972 ^{1/}

	<u>1962</u>	<u>1967</u>	<u>1972</u>
<u>Value-added in Agriculture (billions of 1959 rials)</u>			
Agriculture	59.4	80.8	97.9
Livestock	28.2	29.1	34.6
Forestry	0.8	0.7	1.2
Fisheries	<u>0.4</u>	<u>0.5</u>	<u>0.7</u>
Total	88.8	111.1	134.4
<u>Production of Selected Commodities ('000 tons)</u>			
Wheat	2,700	3,800	3,900
Barley	765	1,035	1,000
Rice	700	960	1,200
Red meat	243	266	319
Milk	1,699	1,732	1,950
<u>Growth Rates of Value-added in Agriculture</u>			
(% per annum)	<u>1962-1967</u>	<u>1967-1972</u>	<u>1962-1972</u>
Agriculture	6.4	3.9	5.1
Livestock	0.6	3.6	2.1
Forestry	-2.6	11.4	4.4
Fisheries	<u>4.6</u>	<u>7.0</u>	<u>5.8</u>
Total	4.6	3.9	4.2
<u>Growth Rates of Production of Selected Commodities</u>			
(% per annum)			
Wheat	7.1	0.6	3.7
Barley	6.2	-0.5	2.7
Rice	6.5	4.6	5.5
Red meat	1.7	3.7	2.7
Milk	0.4	2.5	1.2

^{1/} These are official statistics; analysis of other indicators suggests that the actual growth in value-added and production was significantly lower than these statistics indicate.

Source: Central Bank of Iran

Table 6: INDICATORS OF RURAL INCOME, 1962-1972 ^{1/}

	<u>1962</u>	<u>1967</u>	<u>1972</u>
GDP per caput of total population: ^{2/}			
- Rls. '000	13.7	18.8	27.5
- US\$	182	251	367
Agricultural value-added per caput of: ^{2/}			
- total population	4.0	4.3	4.3
- rural population	6.0	7.0	7.5
Production per caput of total population of: ^{3/}			
- wheat	121	147	125
- barley	34	40	32
- rice	31	37	38
- red meat	11	10	10
- milk	76	67	63
Production per caput of rural population of: ^{3/}			
- wheat	184	238	218
- barley	52	65	56
- rice	48	60	67
- red meat	17	17	18
- milk	116	108	109
Per caput value of staple foods for: ^{4/}			
- total population	4,190	4,376	4,106
- rural population	6,388	7,056	7,156

^{1/} Based on official statistics, which overestimate actual performance in agriculture.

^{2/} At constant 1959 prices.

^{3/} Kg. per caput.

^{4/} Wheat, barley, rice, red meat and milk weighted by 1973 prices, in Rls. '000 per caput.

Source: Central Bank of Iran and IBRD Agricultural Task Force

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

FROM: John H. Adler, Director, P & B

SUBJECT: Current Status of FY74 Program of Economic and Sector Work

DATE: February 12, 1974

Introduction and Summary

1. This memorandum reviews the results of the first half of the fiscal year for the FY74 Program of Economic and Sector Work, evaluates the prospects for fulfilling the full year's program, and compares developments so far in FY74 with the results achieved during the same six-month period in FY72 and FY73. Additional tables with commentary which will focus in somewhat greater depth on selected aspects of our economic and sector work programs will be distributed subsequently.

2. Results during the first half were substantially below what was scheduled at the beginning of the year. About 25% fewer reports were completed than scheduled in July and we estimate that manpower expenditure was below the originally programmed level. While current schedules indicate a partial make-up for the shortfall during the second half, a realistic assessment suggests a significant shortfall from the scheduled level of report completions (20-30%) and a modest shortfall in manpower expenditure (5-10%). These estimates, however, do not take account of the effects of mission and report schedule changes that will arise out of the need to evaluate the impact of higher oil prices.

3. Since the beginning of this fiscal year, we have collected information on the causes for economic and sector work program changes on a comprehensive basis. Our tentative finding based on the data for six months is that while closer adherence to schedules is probably possible, the fundamental problem lies in the realism of the initial programs. It may be that for programming and budgeting purposes, we need to discount initial schedules for economic and sector work in a manner analogous to the schedules for lending work where we acknowledge the difference between the operations and the lending program. We have begun discussions with the Regional Offices on this question.

First Half Achievements

4. The following table compares actual first half mission departures and report completions with the July schedules.

7-4 To Messrs: Henry
Adler
1. This condition (stoppage
of the program) is
totally unacceptable
v. Please take steps to:
a. Introduce mechanism
into the program
b. monitor closely the
actual performance
against
the program
Draw

FY74 Economic and Sector Missions and Reports
First Half Schedules and Results

	<u>Mission Departures</u>		<u>Report Completions</u>	
	<u>July</u>	<u>Schedule</u>	<u>Actual</u>	
<u>E. Africa</u>				
Economic Reports	8	7	7	5
Sector Reports	6	4	6	4
Total	<u>14</u>	<u>11</u>	<u>13</u>	<u>9</u>
<u>W. Africa</u>				
Economic Reports	7	6	10	7
Sector Reports	13	10	1	0
Total	<u>20</u>	<u>16</u>	<u>11</u>	<u>7</u>
<u>Asia</u>				
Economic Reports	11	8	6	6
Sector Reports	10	9	3	5
Total	<u>21</u>	<u>17</u>	<u>9</u>	<u>11</u>
<u>EMENA</u>				
Economic Reports	11	7	11	7
Sector Reports	3	3	1	1
Total	<u>14</u>	<u>10</u>	<u>12</u>	<u>8</u>
<u>LAC</u>				
Economic Reports	9	9	14	10
Sector Reports	5	5	3	1
Total	<u>14</u>	<u>14</u>	<u>17</u>	<u>11</u>
<u>All Regions</u>				
Economic Reports	46	37	48	35
Sector Reports	29	23	15	11
Total	<u>75</u>	<u>60</u>	<u>63</u>	<u>46</u>

Of the 75 missions originally scheduled for the first half, three were cancelled, four were redefined from sector survey to project identification and 16 were slipped into the second half; eight other missions were advanced or added to the first half. Of the 63 scheduled reports 21 were slipped into the second half, and one was dropped; five reports were added or advanced to the first half. The following table shows the explanations for report completion shortfalls provided by the Regional Offices and CQPDs (net of additions and advances).

	<u>Economic Rpts.</u>	<u>Sector Rpts.</u>	<u>Total Rpts.</u>
Non-availability of staff/temporary diversion to other activities	-7	0	-7
Unforeseen increases in time required	-5	0	-5
Delays in inputs from Governments or other agencies	0	-4	-4
Military/political disturbances	-1	0	-1
Revised assessment of reporting needs	+1	0	+1
Mission delay at Government request	-1	0	-1
Total	<u>-13</u>	<u>-4</u>	<u>-17</u>

5. The number of reports originally scheduled for completion during the first half of FY74 was about the same as in the previous two years. Success in meeting beginning-of-the-year schedules was slightly improved over FY73 but still below what was achieved in FY72.

First Half Completions ^{a/}

	FY72			FY73			FY74		
	July Schedule	Actual	%Comp. ^{b/}	July Schedule	Actual	%Comp. ^{b/}	July Schedule	Actual	%Comp. ^{b/}
Economic Reports	39	36	92%	43	29	67%	48	35	73%
Sector Reports	26	18	69%	21	17	81%	15	11	73%
Total	65	54	83%	64	46	72%	63	46	73%

^{a/} See Appendix Table 1 for Regional detail.

^{b/} Actual as % of July schedule.

6. We have attempted to estimate the manpower implications of the first half results using the FY74 manpower estimates contained in the Economic and Sector Activity Summary (Form 700). While these estimates are rough, we think they do provide an indication of the direction and extent of change in the manpower program.

Manweeks Expended on Economic and Sector Reports ^{a/}

First Half FY74

	July Schedule	Estimated Actual	% Change
Eastern Africa	466	546	+17%
Western Africa	596	448	-25%
Asia	1072	1023	- 5%
EMENA	617	593	- 4%
LAC	928	777	-16%
All Regions	3679	3387	- 8%
of which: Economic	2391	2245	- 6%
Sector	1288	1142	-11%

^{a/} See Appendix Table 2 for Regional detail by type of report.

Approximately 8% less manpower was expended on economic and sector reports during the first half than was originally scheduled. The shortfall of inputs to sector work was substantially greater than for economic work.

Changes in FY74 Economic and Sector Work Programs

7. Current schedules indicate that most of the effort not expended in the first half will be expended before the end of the fiscal year. The following table compares the current fiscal year program of report completions and manweek expenditures with the program which was scheduled in July (see Appendix Table 3 for Regional detail).

February 12, 1974

FY74 Economic and Sector Work Program^{a/}

	July Program		Current Program		Manweeks % Change
	Completions ^{b/}	Manweeks ^{c/}	Completions ^{b/}	Manweeks ^{c/}	
E. Africa	26	1317	24	1218	- 8%
W. Africa	31	1349	25	1280	- 5%
Asia	41	2278	35	2008	-12%
EMENA	33	1384	28	1446	+ 4%
LAC	31	1771	30	1989	+12%
All Regions	162	8099	142	7941	- 2%
Basic Reports	18	1235	16	1331]	+ 2%
Updating Reports	64	2686	58	2747]	
Economic Studies	17	702	14	627]	
Sector Surveys	42	2827	36	2270]	- 7%
Other Sector Rpts.	21	649	18	966]	

a/ Not including "other sector work" or work on CPPs.

b/ Green cover (or final report if no Green Cover) to be completed in FY74.

c/ Estimates based on data in Forms 700; includes time spent on initiation of reports due for completion in FY75.

While total estimated FY74 manpower expenditure on economic and sector reports is now only 2% below the level estimated in July, the number of report completions currently scheduled for FY74 is 12% below the July schedule. In a number of cases, most of the manpower is still being expended in FY74 but the report will not be ready before early FY75. A second factor accounting for the smaller reduction in manpower is the increase in mission size. Since July, the average size of missions (persons per mission) scheduled to depart during the fiscal year has increased by 5% and the average manweek cost of such missions by 4%. The mission size and manweek cost of basic reports have increased on average by 30% and 16% respectively which accounts in substantial part for the overall increase in estimated manpower going into economic reports since the beginning of the year. The 12% increase in manpower going into LAC economic and sector reporting is the result of additions to economic and sector mission schedules. The 12% reduction in Asia manpower is the result of cancellations, mainly of sector reporting activities.

8. According to July schedules, 199 economic and sector reporting activities would be worked on during FY74. Since the beginning of the year 32 activities have been eliminated from the schedule and 22 have been added. Of the 32 eliminated, 21 were cancelled, 7 redefined (mainly to project identification), and 4 slipped to early FY75. The explanations for these changes provided by the Regional Offices and COPDs are shown below (see Appendix Table 4 for Regional detail).

Changes in FY74 Economic and Sector Work Programs
No. of Tasks

	<u>Economic</u>	<u>Sector</u>	<u>Total</u>
	<u>119</u>	<u>80</u>	<u>199</u>
<u>July Program</u>			
<u>Eliminated due to:</u>			
Reassessment of Needs	- 5	-13	-18
Staff Non-availability	0	- 4	- 4
Government Request	- 4	- 2	- 6
Political/Military Disturbances	- 2	0	- 2
Coordination with other Activities	0	- 1	- 1
Unaccounted for	- 1	0	- 1
<u>Added</u>	<u>+12</u>	<u>+10</u>	<u>+22</u>
<u>Current Program</u>	<u>119</u>	<u>70</u>	<u>189</u>

The Asia Region has experienced the largest net reduction in economic and sector reporting activities (from 47 to 41); the Western Africa and LAC Regions have experienced small increases.

9. The 189 economic and sector reporting activities still scheduled for some work during FY74 have on average experienced 1.2 month slippage in estimated report completion date since the beginning of the fiscal year. The breakdown by region and type of report is shown in this next table.

Delays in FY74 Report Schedules
(Months)

	<u>Economic Reports</u>		<u>Sector Reports</u>		<u>All Reports</u>	
	<u>No.</u>	<u>Average Delay</u>	<u>No.</u>	<u>Average Delay</u>	<u>No.</u>	<u>Average Delay</u>
E. Africa	17	0.9	16	1.4	33	1.2
W. Africa	20	1.0	15	1.9	35	1.7
Asia	20	1.1	21	0.7	41	0.9
EMENA	37	1.3	7	0.7	40	1.2
LAC	29	1.3	11	1.4	40	1.4
All Regions	119	1.3	70	1.2	189	1.2

Slippages for Western Africa and LAC appear to be marginally greater than for the other regions, a fact which is consistent with the pattern established in FY72 and FY73. However, as noted in paragraph 8 above, these two Regions have experienced less droppage than the other regions. The Asia Region has had the most droppage and the least slippage. Economic and sector reports have experienced very similar amounts of slippage overall, but sector reports have been much more subject to cancellations and redefinitions.

10. The explanations for delay provided by the Regional and COPDs are shown below (see Appendix Table 5 for Regional detail).

<u>Total Delays (Net)</u> of which:	<u>Economic Rpts.</u> 150 months	<u>Sector Rpts.</u> 85 months	<u>All Rpts.</u> 235 months
Non-availability/diversion of staff	36%	50%	42%
Greater Input Requirements	18%	13%	16%
Government Request	15%	2%	10%
Input Delays by Govt./Other Agencies	9%	25%	15%
Coordination with Other Activities	8%	4%	6%
Political/Military Disturbances	10%	0%	6%
Unaccounted for	4%	6%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The most frequently cited source of delay and especially prevalent for sector reports is non-availability of staff. This is about evenly split between mission delays caused by inability to bring together the required staff and report processing delays caused by the diversion of staff to other activities after return of mission. The Western Africa Region appears to be particularly susceptible to this problem; 60% of its total report slippage have been attributed to this factor. The next most important cause of delay -- more staff inputs required than foreseen -- accounts for only 16% of total slippage. This factor is, however, considerably more important in some regions than in others; it accounts for 31% of the slippage in LAC economic reports.

11. Activities still in the schedule have experienced about the same slippage since the beginning of the year as had been experienced by this time in FY73. Slippage in FY72 was half as great.

Average Report Completion Delays^{a/}
(Months)

	<u>FY72</u>	<u>FY73</u>	<u>FY74</u>
Economic Reports	0.6	1.3	1.3
Sector Reports	0.7	0.9	1.2
All Reports	0.6	1.2	1.2

^{a/} See Appendix Table 6 for Regional detail.

However, the most significant losses to the FY72 and FY73 programs were in sector reports cancelled outright or recast to meet more limited objectives. Despite the larger number of sector reports scheduled at the beginning of the year, there have been far fewer cancellations and redefinitions in FY74. As a percentage of the number scheduled in July, the number of sector reports still scheduled to be completed in FY74 is considerably higher than in either FY72 or FY73.

February 12, 1974

Report Completions^{a/}

	FY72			FY73			FY74		
	July Sched.	Jan. Sched.	% Change	July Sched.	Jan. Sched.	% Change	July Sched.	Jan. Sched.	% Change
Economic Reports	79	78	- 1%	89	76	-15%	99	88	-11%
Sector Reports	53	31	-42%	59	34	-42%	63	54	-14%
All Reports	132	109	-17%	148	110	-26%	162	142	-12%

a/ See Appendix Table 7 for Regional detail.

While the losses in report output due to all causes are still greater than we would like to see, some improvement from the previous two years appears possible.

Projection of FY74 Outcome

12. The picture for country and sector work for the remainder of FY74 is clouded by the prospect of changes in schedules which may arise out of the revised assessment of reporting needs caused by the oil squeeze. This could have substantial direct effects on economic mission schedules as well as indirect effects on other mission schedules. While it will be some time before the details are in, it appears that the net effect will be report slippages over and above those we would otherwise anticipate.

13. Shown below is a crude projection of the full FY74 outcome for economic and sector reports based on a discounting of current schedules proportionate to the actual reductions in the first half program since the beginning of the year.

FY74 Economic and Sector Reports

	<u>July Program</u>	<u>Projected Outcome</u>	<u>Outcome as % of Program</u>
Economic Reports	99	74	75%
Sector Reports	63	43	68%
All Reports	162	117	72%

Past experience and available evidence on current year schedules give us no reason to believe that we will do significantly better during the second half than we did in the first half. On average, losses during the second half in FY72 and FY73 were as large as in the first half (less in FY72, more in FY73). Furthermore, current schedules show more bunching of reports at the end of the second half than at the end of the first half which means a greater likelihood of slippage out of the period. Finally, a review of the economic and sector activity summaries indicates that staffing and coordination of missions due to depart in the last six months are no further advanced than were six month schedules in October (see Appendix Table 8 for details).

Attachments (8)

cc: Messrs. McNamara (o/r), Knapp, Baum, Chenery/Stern (o/r), Regional Vice Presidents, Chief Economists, Regional Program Coordinators, Messrs. John King and Paul Smith

JBStreet/HSchulmann:nb

Appendix Table I

Economic and Sector Reports
First Half Completions
July Schedule v.s. Actual
FY72, FY73 and FY74

	FY72			FY73			FY74		
	July Schedule	Actual	% *	July Schedule	Actual	% *	July Schedule	Actual	% *
<u>E. Africa</u>									
Economic Reports	2	3	150%	6	5	83%	7	5	71%
Sector Reports	<u>5</u>	<u>1</u>	20%	<u>1</u>	<u>0</u>	0%	<u>6</u>	<u>4</u>	67%
Total	7	4	57%	7	5	71%	13	9	69%
<u>W. Africa</u>									
Economic Reports	6	6	100%	6	2	33%	10	7	70%
Sector Reports	<u>6</u>	<u>6</u>	100%	<u>0</u>	<u>0</u>	-	<u>1</u>	<u>0</u>	0%
Total	12	12	100%	6	2	33%	11	7	64%
<u>Asia</u>									
Economic Reports	8	7	87%	9	6	67%	6	6	100%
Sector Reports	<u>10</u>	<u>8</u>	80%	<u>10</u>	<u>10</u>	100%	<u>3</u>	<u>5</u>	167%
Total	18	15	83%	19	16	84%	9	11	122%
<u>EMENA</u>									
Economic Reports	10	8	80%	7	6	86%	11	7	64%
Sector Reports	<u>4</u>	<u>2</u>	50%	<u>5</u>	<u>5</u>	100%	<u>1</u>	<u>1</u>	100%
Total	14	10	71%	12	11	92%	12	8	67%
<u>LAC</u>									
Economic Reports	13	12	92%	15	10	67%	14	10	71%
Sector Reports	<u>1</u>	<u>1</u>	100%	<u>5</u>	<u>2</u>	40%	<u>3</u>	<u>1</u>	33%
Total	14	13	93%	20	12	60%	17	11	65%
<u>All Regions</u>									
Economic Reports	39	36	92%	43	29	67%	48	35	73%
Sector Reports	<u>26</u>	<u>18</u>	69%	<u>21</u>	<u>17</u>	81%	<u>14</u>	<u>11</u>	79%
Total	65	54	83%	64	46	72%	62	46	74%

* Actual as % of July Schedule

P & B
2/8/74

Manweeks Expended on Economic and Sector Reports
First Half FY74

	<u>July Schedule</u>	<u>Estimated Actual</u>	<u>% Change</u>
<u>Eastern Africa</u>			
Economic Reports	226	275	
Sector Reports	240	271	
All Reports	<u>466</u>	<u>546</u>	+17%
<u>Western Africa</u>			
Economic Reports	386	323	
Sector Reports	210	125	
All Reports	<u>596</u>	<u>448</u>	-25%
<u>Asia</u>			
Economic Reports	676	669	
Sector Reports	396	354	
All Reports	<u>1072</u>	<u>1023</u>	- 5%
<u>EMENA</u>			
Economic Reports	561	516	
Sector Reports	56	77	
All Reports	<u>617</u>	<u>593</u>	- 4%
<u>LAC</u>			
Economic Reports	542	462	
Sector Reports	386	315	
All Reports	<u>928</u>	<u>777</u>	-16%
<u>All Regions</u>			
Economic Reports	2391	2245	- 6%
Sector Reports	1288	1142	-11%
All Reports	<u>3679</u>	<u>3387</u>	- 8%

Source: Forms 700, Economic and Sector Activity Summary

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2/12/74

FY74 Economic and Sector Work Program

	July Program		Current Program		Manweeks
	Completions	Manweeks	Completions	Manweeks	% Change
<u>Eastern Africa</u>					
Basic Reports	3	212	3	249	
Updating Reports	6	172	6	171	
Economic Studies	3	162	3	113	
Sector Surveys	10	645	9	566	
Other Sector Reports	4	126	3	119	
Total	26	1317	24	1218	- 8%
<u>Western Africa</u>					
Basic Reports	2	152	2	126	
Updating Reports	12	467	11	474	
Economic Studies	2	68	2	88	
Sector Surveys	7	367	5	325	
Other Sector Reports	8	295	5	267	
Total	31	1349	25	1280	- 5%
<u>Asia</u>					
Basic Reports	2	395	2	393	
Updating Reports	13	661	11	564	
Economic Studies	6	274	4	186	
Sector Surveys	15	770	14	742	
Other Sector Reports	5	178	4	123	
Total	41	2278	35	2008	-12%
<u>MENA</u>					
Basic Reports	7	308	6	324	
Updating Reports	16	614	13	676	
Economic Studies	4	148	4	204	
Sector Surveys	3	279	2	164	
Other Sector Reports	3	35	3	78	
Total	33	1384	28	1446	+ 4%
<u>LAC</u>					
Basic Reports	4	168	3	239	
Updating Reports	17	772	17	862	
Economic Studies	2	50	1	36	
Sector Surveys	7	766	6	473	
Other Sector Reports	1	15	3	379	
Total	31	1771	30	1989	+12%
<u>All Regions</u>					
Basic Reports	18	1235	16	1331] + 2%
Updating Reports	64	2686	58	2747	
Economic Studies	17	702	14	627	
Sector Surveys	42	2827	36	2270] - 7%
Other Sector Reports	21	649	18	966	
Total	162	8099	142	7941	- 2%

Changes in FY74 Economic and Sector Work Programs
No. of Tasks

	July Schedule	Reasons for Eliminations						Current Schedule	
		Reassess. of Needs	Staff Non-avail- ability	Govt. Request	Political/ Military Disturbance	Coord.w. Other Activities	Unaccounted for		
<u>E. Africa</u>									
Economic	16	- 2	0	0	- 1	0	0	+ 4	17
Sector	<u>21</u>	<u>- 4</u>	<u>0</u>	<u>- 1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16</u>
Total	37	- 6	0	- 1	- 1	0	0	+ 4	33
<u>W. Africa</u>									
Economic	20	0	0	- 1	0	0	- 1	+ 2	20
Sector	<u>14</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>+ 1</u>	<u>15</u>
Total	34	0	0	- 1	0	0	- 1	+ 3	35
<u>Asia</u>									
Economic	22	- 1	0	- 2	0	0	0	+ 1	20
Sector	<u>25</u>	<u>- 3</u>	<u>- 3</u>	<u>- 1</u>	<u>0</u>	<u>- 1</u>	<u>0</u>	<u>+ 4</u>	<u>21</u>
Total	47	- 4	- 3	- 3	0	- 1	0	+ 5	41
<u>EMENA</u>									
Economic	33	- 2	0	0	- 1	0	0	+ 3	33
Sector	<u>10</u>	<u>- 3</u>	<u>- 1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>+ 1</u>	<u>7</u>
Total	43	- 5	- 1	0	- 1	0	0	+ 4	40
<u>LAC</u>									
Economic	28	0	0	- 1	0	0	0	+ 2	29
Sector	<u>10</u>	<u>- 3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>+ 4</u>	<u>11</u>
Total	38	- 3	0	- 1	0	0	0	+ 6	40
<u>All Regions</u>									
Economic	119	- 5	0	- 4	- 2	0	- 1	+12	119
Sector	<u>80</u>	<u>-13</u>	<u>- 4</u>	<u>- 2</u>	<u>0</u>	<u>- 1</u>	<u>0</u>	<u>+10</u>	<u>70</u>
Total	199	-18	- 4	- 6	- 2	- 1	- 1	+22	189

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Appendix Table 5

Delays in FY74 Economic and Sector Work Schedules Recorded during
First Half FY74 (in months)

Reasons for Delay											
No. of Activities Still in Schedule	Average Delay	Total Delay	Staff Non-avail- ability	Input Delays by Governments/ Other Agencies	Govt. Request	Political/ Military Conflict	Increased Applied Time Required	Coordination with Other Activities	Revised Assessment Reporting Needs	Un- accounted for	
<u>Eastern Africa</u>											
Economic Reports	16	1.0	16	6	3	6	0	3	1	-3	0
Sector Reports	17	1.3	22	9	8	0	0	4	0	-1	2
All Reports	33	1.2	38	15	11	6	0	7	1	-4*	2
<u>Western Africa</u>											
Economic Reports	20	1.0	30	16	2	6	0	6	0	0	0
Sector Reports	15	1.9	29	19	7	2	0	2	2	-4	1
All Reports	35	1.7	59	35	9	8	0	8	2	-4*	1
<u>Asia</u>											
Economic Reports	20	1.1	22	7	3	3	0	2	2	5	-1
Sector Reports	21	0.7	14	6	0	0	0	4	2	0	2
All Reports	41	0.9	36	13	3	3	0	6	4	5	1
<u>EMENA</u>											
Economic Reports	33	1.3	43	10	2	2	14	4	9	-1	4
Sector Reports	7	0.7	5	7	0	0	0	0	-3	0	0
All Reports	40	1.2	48	17	2	2	14	4	-6	-1*	4
<u>LAC</u>											
Economic Reports	29	1.3	39	16	3	5	1	12	0	-1	3
Sector Reports	11	1.4	15	1	6	0	0	1	2	5	0
All Reports	40	1.4	54	17	9	5	1	13	2	-4*	3
<u>All Regions</u>											
Economic Reports	118	1.3	150	55	13	22	15	27	12	0	6
Sector Reports	71	1.2	85	42	21	2	0	11	3	0	5
All Reports	189	1.2	235	97	34	24	15	38	15	0	11
% of Total Months Delay			100%	42%	15%	10%	6%	16%	6%	0%	5%

* A negative delay is equivalent to an advance in schedule.

P & B
2/12/74

Report Completion Delays
July Schedule v.s. January Schedule
FY72, FY73 and FY74
(average months)

	FY72		FY73		FY74	
	No.*	Avg. Delay	No.*	Avg. Delay	No.*	Avg. Delay
<u>Eastern Africa</u>						
Economic Reports	12	0.0	15	1.5	17	0.9
Sector Reports	7	1.9	9	0.7	16	1.4
All Reports	19	0.7	24	1.2	33	1.2
<u>Western Africa</u>						
Economic Reports	14	1.1	15	2.3	20	1.0
Sector Reports	8	0.5	1	0.0	15	1.9
All Reports	22	0.9	16	2.1	35	1.7
<u>Asia</u>						
Economic Reports	18	0.4	17	0.8	20	1.1
Sector Reports	21	1.5	22	0.2	21	0.7
All Reports	39	1.0	39	0.5	41	0.9
<u>EMENA</u>						
Economic Reports	27	0.6	26	0.6	33	1.3
Sector Reports	13	0.3	10	1.1	7	0.7
All Reports	40	0.5	36	0.7	40	1.2
<u>LAC</u>						
Economic Reports	30	0.6	27	1.7	29	1.3
Sector Reports	5	0.6	9	1.7	11	1.4
All Reports	35	0.6	36	1.7	40	1.4
<u>All Regions</u>						
Economic Reports	101	0.6	100	1.3	119	1.3
Sector Reports	84	0.7	43	0.9	70	1.2
All Reports	185	0.6	143	1.2	189	1.2

Source: Standard Table Va and Vb

* No. of Activities still in schedule in January.

P & B
2/12/74

Economic and Sector Report Completions
July Schedule v.s. January Schedule
FY72, FY73 and FY74

	FY72			FY73			FY74		
	July Schd.	Jan. Schd.	% Change	July Schd.	Jan. Schd.	% Change	July Schd.	Jan. Schd.	% Change
<u>Eastern Africa</u>									
Economic Reports	11	9	-18%	13	11	-15%	12	12	0%
Sector Reports	10	5	-50%	6	5	-16%	14	12	-14%
All Reports	21	14	-33%	19	16	-16%	26	24	-8%
<u>Western Africa</u>									
Economic Reports	13	13	0%	10	9	-10%	16	15	-6%
Sector Reports	7	6	-14%	4	0	-100%	15	10	-33%
All Reports	20	19	-5%	14	9	-36%	31	25	-19%
<u>Asia</u>									
Economic Reports	16	13	-19%	18	17	-6%	21	17	-19%
Sector Reports	23	11	-52%	25	14	-44%	20	18	-10%
All Reports	39	24	-38%	43	31	-28%	41	35	-15%
<u>EMENA</u>									
Economic Reports	14	20	+42%	20	19	-5%	27	23	-15%
Sector Reports	10	7	-30%	14	8	-43%	6	5	-16%
All Reports	24	27	+12%	34	27	-21%	33	28	-15%
<u>LAC</u>									
Economic Reports	25	23	-8%	28	20	-29%	23	21	-9%
Sector Reports	3	2	-33%	10	7	-30%	8	9	+12%
All Reports	28	25	-11%	38	27	-27%	31	30	-3%
<u>All Regions</u>									
Economic Reports	79	78	-1%	89	76	-15%	99	88	-11%
Sector Reports	53	31	-42%	59	34	-42%	63	54	-14%
All Reports	132	109	-17%	148	110	-26%	162	142	-12%

Source: Standard Tables Va and Vb.

P & B
2/12/74

FY74 Economic and Sector Missions
Scheduling and Staffing Status

	Third Quarter Missions				Fourth Quarter Missions			
	<u>No. of</u> <u>Missions</u>	<u>Govt.</u> <u>Apprd.</u>	<u>Leader</u> <u>Selected</u>	<u>Positions</u> <u>Filled^{a/}</u>	<u>No. of</u> <u>Missions</u>	<u>Govt.</u> <u>Apprd.</u>	<u>Leader</u> <u>Selected</u>	<u>Positions</u> <u>Filled^{a/}</u>
<u>E. Africa</u>								
Economic	1	100%	100%	100%	5	40%	80%	44%
Sector	4	25%	100%	94%	2	50%	50%	17%
Total	5	40%	100%	95%	7	43%	71%	35%
<u>W. Africa</u>								
Economic	2	0%	100%	64%	3	0%	100%	50%
Sector	8	25%	100%	50%	4	75%	100%	76%
Total	10	20%	100%	54%	7	43%	100%	67%
<u>Asia</u>								
Economic	5	80%	100%	91%	2	100%	100%	50%
Sector	6	33%	100%	70%	1	0%	0%	0%
Total	11	55%	100%	80%	3	67%	67%	33%
<u>EMENA</u>								
Economic	7	43%	71%	43%	9	0%	78%	33%
Sector	1	0%	0%	0%	2	0%	100%	88%
Total	8	38%	63%	38%	11	0%	82%	45%
<u>LAC</u>								
Economic	5	100%	100%	83%	4	25%	75%	50%
Sector	2	100%	100%	67%	1	0%	100%	20%
Total	7	100%	100%	77%	5	20%	80%	42%
<u>All Regions</u>								
Economic	20	65%	90%	72%	23	22%	83%	43%
Sector	21	33%	95%	63%	10	40%	80%	53%
Total	41	49%	93%	68%	33	27%	82%	47%

Source: Forms 700, dated January 1974

a/ As % of total positions

P & B
2/12/74

MAR 4 1974

See Distribution Below

March 1, 1974

J. Burke Knapp

Results of DFC Special Studies Program

I have received from Mr. McNamara a memorandum on the above subject which was addressed to him on February 5 by Messrs. Chenery and Baum. He has asked me to arrange a meeting in his office with the addressees of this memorandum to discuss this paper "early in April". I will be in touch with you on this again in the near future.

cc: Messrs. Chenery *✓ seen*
Baum
Stern
Gustafson
Gulhati
Mrs. Helen Hughes

JBKnapp:vm

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery and
Warren G. Baum *WB*

SUBJECT: Results of DFC Special Studies Program

DATE: February 5, 1974

1. About two years ago you expressed an interest in the economic consequences of Bank lending through DFCs. Three special studies were carried out by the DFC Department in collaboration with the Development Economics Department (KDFC in Korea, ICICI in India, TSKB in Turkey). The enclosed note summarizes the main findings of these studies. Comparable results of two other studies conducted by the Operations Evaluation Department (IMDBI in Iran and SNI in Tunisia) are also taken into account. Altogether, the five development banks surveyed have channelled 40% of total Bank Group disbursements to DFCs.

2. Four of the five DFCs are privately owned and the fifth, ICICI, retains a clear commercial orientation. All five are located in semi-industrial or industrializing countries. While the review of their operations provided us with important information, the findings will not necessarily apply to the more than 40 other development banks associated with the Bank Group. In particular, the case studies do not illuminate problems of DFCs operating in non-industrial countries or the special features of publicly-owned development banks. Yet, the experience analyzed should be generally representative of the operations of those private or semi-private DFCs in industrializing or semi-industrial countries which absorbed the large majority of our DFC lending until very recently.

✓ 3. The principal findings of the DFC special studies are summarized in the attached memorandum. The DFC Department intends to revise the Operational Memorandum 2.64 on development finance companies in the light of these studies and the O.E.D. Evaluation Report on DFCs. The main issues to be faced in the course of that revision or more generally in future DFC work in the Bank Group may be summarized as follows:

- (a) In view of the rapidly increasing diversity of the types of institutions through which we are channelling industrial credit, what criteria should guide our choice of channels and how should our approach and lending criteria be adapted to these different types of institutions?
- (b) What is the employment and income distribution impact of lending to medium-and large-scale industrial enterprises through DFCs and what, if anything, can DFCs do to modify their impact in these areas?
- (c) In those situations where interest rates are maintained by governments at subsidized levels, how should the Bank try to avoid the resulting subsidy of the industrial sector and the likely frustration of DFCs' mobilization

February 5, 1974

of market resources? Related to this is the question of how to further develop reasonably consistent and equitable arrangements for handling the foreign exchange risk on Bank Group loans/credits to DFCs.

- (d) How can the macroeconomic and sector work of the Bank be better structured and integrated with our DFC lending operations so as to provide practical guidance concerning the specific industrial problems and potentials to which DFC efforts could be applied most productively?
- (e) What further steps can the Bank take to encourage DFCs to take on a more innovative role in those cases where there is scope for doing so but where there are obstacles standing in the way such as attitudes or abilities of DFC management or staff, the financial circumstances of DFCs and features of government policy in member countries?

4. If you like we can meet to discuss this memorandum and the enclosed note at your convenience.

Attachment

RGulhati/DWood/DGustafson/EStern:cjw

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Kerry P 1 to 1 hrs / chair /
Stam

Jane
D.
2/26

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*SUBJECT: Bank/Fund Collaboration

DATE: February 4, 1974

1. You recently asked for an examination of Bank/Fund collaboration and suggestions for reducing duplication in economic work. After discussion with the Regions and the IMF, I now submit the following recommendations which I propose to pursue, subject to any modifications suggested by you or Burke.

Present Levels of Collaboration in Country Economic Work

2. Current Bank policy for collaboration with the Fund is expressed in OPM 5.10 (August 1971) and the arrangements for cooperation at Headquarters, in the field and generally in the economical use of staff resources are spelled out in an accompanying operational memorandum.

3. Within areas of shared interest in country economic analysis, the compliance with the policy varies. There is regular consultation and collaboration between Bank and Fund staff, both at headquarters and in the field. It is common practice for mission briefings to be arranged, draft documents to be circulated and final documents exchanged in accordance with the OPM. Bank missions are often timed to coincide, overlap or follow those of the Fund where this will facilitate the work of the two institutions and is acceptable to the governments concerned. Although joint missions are rare, Fund staff participate in perhaps 5% of Bank missions and Bank staff in missions arranged by the IMF in about the same frequency. The two institutions commonly share the data and analysis contained in their respective reports. There are hardly any examples, however, where sections of the report of one institution are wholly incorporated in the reports of the other. The levels of cooperation also vary from country to country and from time to time. They depend largely on informal inter-agency relationships, which were affected by the Bank's internal reorganization but have now been largely re-established.

4. There is nevertheless scope for substantially closer collaboration in country economic work, particularly in relation to updating reports where the area of duplication of effort is large. Neither the Regional Chief Economists nor the Fund staff think joint missions are the answer. The few that have been mounted involving one mission chief, common terms of reference and a combined report, indicate that these are generally not productive forms of collaboration. However, there is considerably more scope for reducing duplication through coordinated mission scheduling whereby missions from the two organizations are timed to visit the country concurrently, with an overlap or in close sequence. Besides permitting work sharing in the field, coordinated mission scheduling should reduce the burdens on officials in the host country.

5. The specific arrangements for consultation in the field of taxation and fiscal administration, in which the Fund's Fiscal Affairs Department has technical assistance responsibilities, could also be more effectively implemented. Within this framework the Fund makes staff members available for participation in Bank missions, with some savings in staff resources. Collaboration between the Bank and the IMF's Central Banking Service could also be expanded. The CBS has already provided staff for a number of IFC missions concerned with capital market development, as well as Bank missions interested in central bank related studies.

6. There are several issues to be considered if the Bank and Fund are to collaborate more closely in country analysis and reporting. Bank analysis usually involves at least medium-term projections, while the Fund seldom forecasts more than a year ahead. In the field, Bank staff are as a rule excluded from Fund discussions on specific policy issues, particularly those connected with stand-by arrangements. And there is one sensitive area, that of exchange rates. Although a primary responsibility of the Fund, the question of the appropriate exchange rate is frequently addressed in the Bank's country analyses. Bank staff make a special effort to cooperate in this area, but occasional difficulties do arise and will probably continue to arise. I believe they have been and can continue to be settled in terms of the OPM, which calls on the Bank to obtain the prior consent of the Fund before critically reviewing exchange rate issues with member countries.

7. In short, the degree of informal collaboration between Bank and Fund staff is already large, but there is scope for an intensified effort at collaboration to avoid duplication and improve the quality of country analysis. In pursuit of these objectives, I propose to establish in consultation with the Fund's Economic Counsellor, a small working group of senior Bank staff to act with Fund staff in reviewing existing modalities for collaboration and exploring new ones. The group will consider strengthening working relations in respect of:

- a) regular access to the flow of information from Fund and Bank representatives and the report of technical assistance experts in the field;^{1/}
- b) arrangements to include in IMF country questionnaires requests for information of particular interest to the Bank;^{2/}

1/ The Bank and Fund are both represented in only three developing countries (Indonesia, Bangladesh and Afghanistan). Bank staff would benefit from regular access to the information supplied by other IMF representatives and general advisors, (19 in all) mainly in Latin America or Asian countries. Access to progress reports of experts in central banking and fiscal fields deployed by the Fund in nearly 50 countries would be valuable. Conversely, our permanent missions in Africa, the regional mission in Thailand and the 14 country missions could be useful sources of information to the Fund.

2/ The regular IMF Article VIII, XIV and standby consultations produce a basic flow of official data from member governments. Formal Fund questionnaires are sent in advance of these consultations and sometimes questions of more specific interest to the Bank have been included by arrangement. More use might be made of this procedure.

- c) closer coordination in the timing of Bank and Fund missions whenever these could usefully be concurrent, overlapping or in close sequence;
- d) increased participation by Bank staff in IMF missions for updating purposes; and
- e) the feasibility of increased participation of IMF staff, especially fiscal and financial specialists, in Bank economic missions.

8. I believe that an increased reliance on Fund data and analytical material for our updating work would be desirable and could yield significant staff-time savings. Moreover, by releasing country economists for work on longer term development issues and sector analysis - subjects which they find more interesting and challenging - we stand to gain a higher level of staff morale. I will ask Regional Chief Economists to explore the possibility of more frequent use of IMF information as a substitute for updating work, where the focus is largely on short-term developments in the country's fiscal and balance of payments position. I will ask them to designate a selected group of countries for experimental purposes and evaluate the experience systematically. I will report the results of this experiment to you as soon as completed.

9. From an earlier exchange of views, I am led to believe that the Fund staff will respond positively to these proposals.

Collaboration between the Central Economic Staffs

10. There are a number of linkages between the DPS and the Fund's Research Department. In particular, the Economic Analysis and Projections Department collaborates informally with the Fund in various areas of economic and statistical work. The commodities divisions of the two institutions share information and attempt to reconcile views and avoid duplication, with the Fund staff concentrating on short-term forecasting and Bank work emphasizing longer term projections. The two institutions are jointly engaged in a program to improve the capital accounts in the balance of payments of developing member countries, largely through the incorporation of our Debt Reporting Service data into these accounts. IMF data and analysis relating to higher income countries complement Bank projections for the developing economies in preparing our global framework. The Bank and Fund staff are consulting on Euro-currency lending and borrowing.

11. These contacts, however, are mainly at the technical level, and they operate without clear arrangements for the exchange of information and views on policies and work programs. Particularly in the light of recent international oil developments, which involve a new range of stabilization and development issues of concern to both institutions, I consider that a major effort to establish closer working relationships between the DPS and the Fund's Research and Exchange and Trade Relations Departments would be in order. This is an area to which the proposed working group of senior Bank staff would give special attention.

12. It would be helpful if, on the basis of this memorandum, you could raise with Mr. Witteveen the question of Bank-Fund collaboration in country and general economic work. This would provide a firm basis for the contacts I have in mind between senior Bank and Fund staff, from which I hope that strengthened working relationships will emerge.

cc: Mr. Knapp
Mr. Stern
Regional Vice Presidents
Regional Chief Economists

Mr. J.J. Polak, Economic Counsellor, IMF
Mr. E. Sturc, Director, Exchange and Trade
Relations Department, IMF

GThompson/SECherrick/cl

Mr. Robert S. McNamara, President

February 1, 1974

Hollis B. Chenery, VP, Development Policy

Cooperation with OECD on Energy Work

Signed & despatched by MEX - Feb. 5

Attached is a draft letter to Mr. Van Lennep suggesting closer cooperation with the OECD on energy work. It will be followed by a letter from me to his Deputy Secretary-General providing more details. The OECD is at work on projections for its member countries and on a technological study. Both subjects are of interest to us.

Attachment

EStern/lm

cc: Mr. Hoffman

bcc: Messrs. Stern, Tims

February 5, 1974

Mr. Emile Van Lennep
Secretary General
Organization for Economic
Cooperation and Development
2, rue Andre Pascal
75775 Paris
France

Dear Emile,

I am sorry I shall not be in Washington when you will be here for the February 11 conference. I would have looked forward to a discussion with you about the energy situation and the prospects you see for dealing with it. Unfortunately, I have a long standing commitment in Australia and New Zealand.

Since I will not see you, I am writing to stress the importance I attach to effective cooperation between the OECD and the World Bank on the issues relating to current energy problems. As you know, our two organizations collaborate on a number of matters relating to the developing countries; and we have relied on the OECD in the past for its projections of its member countries which, of course, are of great importance to the economic framework within which the developing countries operate. The petroleum supply and price developments of the last few months make close collaboration on this issue essential.

As you know, we put to our Board two papers on petroleum, one on December 20 and one on January 14. We envisage a further paper to the Board on or about March 12 which will explore the role the World Bank might play in helping the developing countries to cope with the immediate problems. In June we expect to be able to place both a more sophisticated analysis and specific proposals before our Board.

The studies on energy which are being undertaken in the different organizations necessarily cover similar ground in such issues as technology, price estimates, and projections of international trade. I think it therefore desirable that

Mr. Van Lennep

- 2 -

February 5, 1974

the principal international organizations working on this subject cooperate as closely as possible by exchanging information to avoid presenting the world with inadvertently different assessments. If our conclusions are different, we should know the causes and understand the reasons why we have to make different assumptions.

I have asked my Vice President for Development Policy to contact Mr. Eldin to discuss in which specific areas an informal exchange of views would be most productive.

With best personal regards,

Sincerely,



Robert S. McNamara

cc and cleared with: Ms. Boskey
cc: Messrs. Chenery ✓ (and cleared with)
Stern
Tims

EStern/lm
2/5/1974

ROUTING SLIP

Date

Jan. 28, 1974

NAME

ROOM NO.

Mr. Baum

Mr. van der Tak

Mr. Tims

Hand-delivered
Jan. 29 AM

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

Energy Work

I will be phoning you regarding
the attached this afternoon.

From

Hollis Chenery

OFFICE MEMORANDUM

3419
J 28 1974 / r/b
To Dr. Chenery
Hollis, this is entirely
satisfactory Hufst

TO: Mr. Robert S. McNamara

DATE: January 24, 1974

FROM: Hollis B. Chenery, VP-DPS

SUBJECT: Energy Work

for the last 9 - in view
of your schedule I believe
Ernie should be assigned the
task of overall coordination
Ernie

1. We have considered further how we might best structure the work on energy. We would like to discuss the proposal below at your convenience.

2. We have redefined our objectives as follows:

- a) The February 26 Board paper;
- b) A paper to the Board in June on the longer term implications for LDCs and the Bank of major aspects of the energy situation (see draft outline attached);
- c) Capacity to deal with immediate questions of information, suggestions for financing, country implications, conferences, positions of other governments, etc.;
- d) Integration in our sector and country work of problems raised by high cost energy.

3. This set of objectives suggests assignments as follows:

February Board Paper

DPS, under Ernie's supervision and with the support of the Regional Chief Economists.

June Board Paper

Joint DPS/CPS Task Force, chaired by myself (and in my absence Ernie) and Warren. This has worked well in the past and is a suitable instrument.

Quick Response Group

As you requested, Ernie will establish this group, the members of which will be available full-time. It will include Frank Vibert (DPS), F. Colaco (P&B, subject to Mr. Adler's consent), K. Ahmed (LAC, subject to approval), and possibly one other individual, to be identified. Ernie, together with Sir Denis, will also keep track of Fund work on the subject.

January 24, 1974

Sector and Country Work

CPS responsible for analyzing sector and project issues and providing guidelines to the Regions. DPS to provide guidelines on country work and commodity implications. Both will be part of the respective work programs and be implemented within the existing responsibilities.

Overall Coordination

4. There needs to be continuing coordination of the several aspects of this work and its implications for a variety of existing schedules (CPP reviews, policy papers, updating mission, etc.), to make sure that a common set of assumptions and analytic conclusions are used throughout the Bank. I suggest that I be assigned this responsibility.

Attachment

cc: Mr. Baum, VP-CPS

1/22 Copy memo w/ Mr. McNamara's notes
" Mr. van der Tak } Review of memo
" Mr. Tamm } & attachment

cc Mr. Hag 1/29

ESTern:di

Tentative Outline for
June Board Paper on Energy

(The purpose of the paper would be to refine our estimates for 1974 and 1975 which we will have presented in the February paper, provide a more thorough analysis of alternative energy sources in developing countries, present our analysis of the implications to 1980, and discuss the impact on the Bank program. If specific proposals on Bank action are ready, they would be included, but in most cases these would have to be handled as they come up.)

I. Introduction

- Summary statement of problem
- Short-term actions
- Developments in LDCs - responses and adjustment actions
- Scope of the problem - immediate and long-term
- Actions for the Bank Group

II. Energy Supply and Demand, 1975-1980

- Nature of the adjustment problem: demand curtailment vs. supply increase.
- Estimated demand growth under alternative assumptions
- Supply by source under alternative OPEC policies (see Sec. V)
- Increased supplies of traditional fuels and substitutes.
Time frame; scale of production
- Investment implications of alternative technologies

III. World Economic Framework

- Internal and external adjustment process by type of country (e.g. Europe, U.S., Japan, upper-income LDCs, etc.)
- Projected growth rates of GNP and investment
- Trade implications and limitations on LDC exchange supplies
- Capital market reactions
- Movement of relative prices
- Assessment of second-round effects - employment, inflation, interest rates, commodity shortages, capital flows, etc.

IV. The Developing Country Problem

- A. Effectiveness of short-term measures (74-78)
- B. Longer-term outlook (to 1985 or 1990)
 - Revised growth estimates (CPP model) - difference in development prospects
 - Definition of problems by group of countries
 - Impact of secondary effects (costs and benefits)
 - New trade relations - shifting comparative advantage
 - Major sectoral and project implications

V. Producing Countries

A. For Individual Countries

- volume of exports and petroleum resources
- absorptive capacity for development expenditures
- factors affecting rate of oil exploitation
- past and future use of surpluses

B. For Group of Producers

- alternative strategies on volumes/prices
- total exports and revenues under alternative assumptions
- special lending institutions

VI. Problems of Long-Term Finance

- Estimated increase in LDC capital requirements, by group, over time.
- Impact on creditworthiness of
 - a. Countries now relying heavily on the capital markets
 - b. Bank blend countries
 - c. Low income countries
- Capital reflows and international liquidity.
- Additional sources of finance; at what terms; who is to intermediate. New instruments (SDRs, exchange risk free bonds, deposits, etc.).
- Refinancing short-term debt incurred in 1974/75 for oil imports.

VII. Role of the Bank

- Advisory to surplus countries (technical assistance in lending; joint financing)
- Advisory to borrowers (development strategies, investment priorities, project analysis)
- Financing the adjustment process
- Financing the increased import bills
 - a. New terms
 - b. Third window

- c. Program lending
- d. Debt renegotiations
- The special problem of the low-income; slow export growth countries



OFFICE OF THE PRESIDENT

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

January 31, 1974

To: Members of the President's Council
Regional and CPS Department Directors

Subject: Energy Work in the Bank

1. The impact of rapid increase in oil prices and the many other changes in the world economic situation will have major implications for many of our borrowers and for the Bank's operations. We must understand the implications of both the long-term structural changes and the shorter term financial problems and the role the Bank can play. In order to assure a systematic approach to analyzing these issues, I have approved a work program which consists of the following three parts:

- (a) Preparation of a Board paper for discussion on or about March 12. The paper will be distributed by February 26. This paper will provide a more refined analysis than we were able to do in our December 20 and January 14 papers, outline the actions the international community is taking and discuss the potential role for the Bank.
- (b) A second paper to the Board in June which will be developed by a joint DPS/CPS Task Force. This paper will provide a more detailed analysis of the world economy during 1974 and 1975, estimates for the period to 1980, an assessment of the impact on our borrowers, and more specific proposals regarding Bank operations.
- (c) Work on sector guidelines, with particular emphasis on transportation, tourism and agriculture. This work will be undertaken in the appropriate CPS Departments.

2. The work required to implement this program is considerable since it involves a reassessment of the creditworthiness of many of our borrowers, the evaluation of export earnings and import trends, projections of commodity prices and an assessment of the capacity of our borrowers to deal with the changed economic situation in the short, medium and long term. Many of the essential elements of the analysis are in flux and consequently we must aim to gradually refine our understanding rather than wait to do a conclusive analysis. This puts a heavy demand on our analytical capabilities and to some extent may have to displace other work temporarily.

3. To assure a coordinated approach, based on a common set of assumptions, I have asked Mr. Stern to serve as a coordinator for energy work in the Bank for the present. He may have to call on country economic staff for analyses and/or information and will do this through the Regional Vice Presidents or through the Regional Chief Economists. This work has the highest priority and I request your full cooperation in it.

Robert S. McNamara

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: January 22, 1974

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Bank Financing of Cocoa Projects

1. Attached for your information is the minute of a recent PRC staff review of the paper on the world market prospects for cocoa and the implications for Bank Group lending. A revised version of the paper will be coming to you for a PRC meeting in February, prior to a Board discussion scheduled for March. In April a cocoa loan for Nigeria is scheduled for the Board.

2. Although, as the minute makes clear, we are proposing a selective policy by the Bank towards the financing of cocoa projects, we do not believe the situation warrants as rigorous a policy as adopted in September towards tea projects. The cocoa situation is different in two important respects - demand is expected to continue rising slightly ahead of supply with a consequent firming of the price, and there is an International Cocoa Agreement. The price forecast by the Bank in fact is 70 percent above the ceiling price under the International Cocoa Agreement.

3. The Nigeria project involves a total of 72,000 acres, of which 43,900 will be for replanting and rehabilitation, the balance (28,100) for opening up new land for production. Output in 1985 is projected at 25,600 tons, of which 10,600 tons (41 percent) would come from new plantings.

4. Even though the beneficiaries of the Nigeria project will be mostly smallholders, 27,000 in all, who have no alternative livelihood and who can hardly be expected to gain much from the oil boom, the expansion of output envisaged in the Nigeria cocoa project may be questioned in the Board in view of the fact that, whatever the regional justification of the project, Nigeria is likely to have abundant foreign exchange resources in view of current oil prices. The Board may feel that we should reserve our financing of cocoa projects to those countries which are less favorably endowed with export commodities, even though world cocoa prices are likely to remain favorable. Since cocoa does face an inelastic demand, reduction in Nigerian output will benefit other countries. The large rehabilitation component in the Nigeria project should, however, help to mute these objections.

Attachment

cc Mr. Knapp

cc and cleared with: Mr. P. Wright

FVibert/EStern:lm

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

DEC 18 2014

WBG ARCHIVES

POLICY REVIEW COMMITTEE

PRC/M73-16a

January 4, 1974

THE WORLD COCOA MARKET-REVIEW AND OUTLOOK FOR BANK LENDING
MINUTES OF STAFF REVIEW

Attendance: Messrs. Stern (Chairman), Balassa, de Vries, Dosik, Egbert, Goreux, Haq, Lowenstein, Rowe, Singh, Tims, van der Tak, van der Laar, Varon, Yeung, Vibert (Secretary)

1. A staff review of the paper "The World Cocoa Market - Review and Outlook for Bank Lending" was held on Friday, December 21, 1973.

2. The tentative conclusion of the draft paper was that the nine cocoa projects in the pipeline for financing by the Bank could be proceeded with on the grounds that:

- market prospects for cocoa were good (and significantly better than in the case of tea) since the growth of output is lagging behind expected increases in demand and prices are at historically satisfactory levels;
- at the prices projected, there would be a significant possibility of consumer countries reacting by substituting alternatives for flavoring and fats unless supply were expanded including those projects to be financed by the Bank.

3. In the discussion there was a general consensus in favor of the Bank taking a more selective view towards financing any future cocoa projects than that proposed in the paper. Although the paper has incorporated estimates of the supply response, up to 1985, to higher prices, it was suggested that the prices projected might affect market prospects in the period beyond that covered by the projections. The possible response by consumer countries towards substitutes was felt to be too speculative to provide a basis for a Bank policy of encouraging an expansion of output beyond that needed to meet demand growth. Moreover, even on the assumptions of the paper, Bank financed projects increasing output would depress the overall earnings of all producing countries taken as a group, although it will leave unit prices at historically quite satisfactory levels.

4. The policy for primary exports is considered applicable:
- in general Bank financed cocoa projects should be for the primary purpose of rehabilitation and diversification, except to the extent that expansion of output is warranted to meet growing demand;
 - if projects involving expansion of output must be limited they should be undertaken in countries where there are few export earning alternatives;
 - the application of the above policy would be reviewed regularly, particularly when experience had been gained of how the market behaved under the new International Cocoa Agreement.
5. It was agreed that projects in the pipeline would be reviewed against these criteria.

Frank Vibert
Secretary
Policy Review Committee

Distribution: Those listed above
Policy Review Committee

Mr. Robert S. McNamara, President

January 21, 1974

Hollis B. Chenery, VP, Development Policy

Management Seminar with Walter Levy

1. As you suggested, we have been in touch with Walter Levy to follow up on his interest in providing consulting services to the Bank. As he is one of the most respected authorities on the world oil economy, whose help to our work at the present juncture could be quite valuable, I have proposed to Mr. Levy that he visit the Bank regularly on a one day monthly schedule for discussions with Bank management and staff.
2. His first visit, which I expect to arrange within the next few days, would offer a good opportunity for a management seminar on the economic and political consequences of the recent petroleum price increases. As you know, Mr. Levy is a strong believer in the inevitability of production cutbacks in oil-exporting countries like Saudi Arabia once their governments realize the declining value of the means of payments which they receive in exchange for petroleum exports.
3. One possibility would be to use the February Senior Staff meeting for this purpose; alternatively, we can arrange an afternoon session at a mutually agreeable date. Would you let me know how you want to proceed and what date(s) might be convenient. In addition, you might want to have a private session with him, perhaps at lunch.

WTims/EStern:lm

cc: Messrs. Stern
Tims

Talking Points

A) 1973/74

B)

A) 1973/4

Management: . DRC
Improved: . EPD

Services
Improved:

- PR . CPP Notes -
 . Reaction time on current crisis
 ECD . Preparatory work for Basic Missions
 (E.g. Malaysia)
 Proj . Expanded commodity work and improved data
 PP . Policy mechanism
 DRC . Mexican Advisory (Norton)
 . Capital flow data
 . Research program

Other:

- DRC . Intellectual leadership on income
 distribution; small farmer.
 . Major publications:
 - Distribution & Growth - DRC/Jessup
 - Partners in Trade - Hughes
 - Mexico
 - Ivory Coast
 - Patterns

Current Time Allocation

Admin & Legal	20%	
1. DRC	36	15%
2. Research	28	35%
3. Policy	16	20%
4. Other Analysis	10	0

1975

Priorities:

ECD - Bring Population and Rural Development up to par.

DRC - Focus on income distribution.
Continue poverty theme.

EPR - Strengthen quality control over economic work,
with emphasis on Basic Economic Work.

- Further improve country review work.

EPD - Energy work.

- Major revisions on commodities, expanded work
on critical commodities.

- Work on developed country economies; the
international economy.

- Expanded creditworthiness analysis; capital markets.

c) Relations to Other Units

CPI - good

Myanmar - -

Po B - need

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President. DATE: January 18, 1974

FROM: Hollis B. Chenery, VP-Development Policy

SUBJECT: Terms of Reference for the Energy Task Force

1. I attach for your information the terms of reference for the four working groups, together constituting the work of the Energy Task Force. Schedules of the work, proposed outputs and implications for the assignment of staff and use of budgetary resources are indicated in a provisional manner. The actual work on most of the issues listed in the program of work is in hand; steps to acquire the needed outside expertise are being taken.

2. The coordination between the working groups and the linkage of their work programs is assured in two ways: working group leaders meet frequently to interchange findings, progress and required inputs from each of the others and in addition several staff members participate in the work of more than one working group. In this way it is possible to maintain a fully coherent effort between working groups in the different parts of the organization. Working group leaders are in all cases committed to the effort virtually all of their time and the same applies to a major part of the other staff assigned to this work.

3. After we discuss the proposed work program, we will summarize the terms of reference, for information, to the staff and possibly to the Board.

Attachments - 3

cc: Mr. Baum
Mr. Stern

WTims:EStern:di

McNander

Mr. Robert S. McNamara, President

January 17, 1974

Hollis B. Chenery, VP-Development Policy

Guidelines for Budgeting Regional Economic Work

1. With reference to Mr. Adler's memo to you of January 4, 1974, I should like to confirm that the Policy Planning and Program Review Department and the CPS have started to examine the substantive aspects of the Regional plans for country and sector work summarized there. I expect to give you the results of our study by the end of February. We need this time for an intensive round of discussions with the Regional Offices about the rationale underlying their projected work plans--for which details have just been made available to us.

2. In the meantime, I have the following preliminary observations on Mr. Adler's analysis:

- a) The work plans prepared by the Regional Offices take little or no account of the new economic problems created by the recent sharp increases in petroleum prices. Even if these problems had not developed, I would have questioned the sharp drop in general economic work proposed by LAC for 1975, although I would be inclined to agree that the moderate reduction in this work proposed by most of the other Regions was probably justified by the desirability of using the country economists to a greater extent for sector work. Now that we are confronted with this new set of problems, however, it seems to me likely that a significant increase in "updating" of country economic work will be required over the next year or so if we are adequately to assess their effects on the outlook for our borrowers.
- b) As you know, I have organized a task force to examine the repercussions of the energy problem over the next several months. By the end of that time, I hope to have more detailed recommendations for Bank policy to help cope with the adjustment process in the developing countries. This will have to be supplemented by detailed country-by-country reviews by the Regions in order to get revised estimates of investment priorities and creditworthiness for most of our active borrowers. While some of

January 17, 1974

this work might be carried out at the expense of some cut in other economic work, I think it would be unwise to plan for an absolute reduction in general economic work for the Bank as a whole below FY1974. As a tentative guideline for the FY1975 Budget, I therefore propose that we hold to the level of work currently estimated for 1974 rather than permit a decline of 12% from current estimates as proposed by the Regions.

- c) I would also urge that we allow for some increase in sector work. While I agree with P & B that the output of our sector work in the past has been of mixed quality, I think a good deal of it has been very useful and that it can be made more so by improved guidelines and increased use of country economists on sector missions. While some cutback from the sharp increases projected by the Regional Offices for FY1975 seems warranted in most cases, a significant rise over the 1974 level would seem to be justified. The changes in relative prices resulting from the increase in petroleum prices will obviously have important implications for our sector work in power, transportation and industry. In addition, there remains an urgent need to develop better insights into employment and distributional issues, particularly in the case of agriculture and rural development.
- d) If the increase in sector work of 16.8% proposed by P & B and my suggestion of holding general economic work at the 1974 level were accepted, the result would be an increase in the total economic work of 9% over the estimated 1974 level. If this is not feasible because of staff constraints, I would suggest a limit of 12-14% on the increase in sector work and an increase in the total of between 6% and 7%.

cc: Messrs. Knapp
Baum
Adler
van der Tak
Hag
Regional Chief Economists

Edelman: HBChenery:di

Edelman:HBChenery:di

HBC file
McN Henderson

Mr. Robert S. McNamara, President

January 16, 1974

Hollis B. Chenery, VP-Development Policy

DPS Operations during the Past Year

1. Before you leave for the Pacific, I should like to meet with you for a general review of DPS priorities and performance. In February we are to submit our proposals for the FY1975 budget, and in preparation for that I think it would be useful to review the operations of the DPS during the past year and to discuss priorities for the next year. Recent developments in the energy field have highlighted again our need for current, systematic information on the industrialized countries and the world economy, and I should like to discuss my proposals for work in this area as well.

2. Would you let me know when a meeting might be convenient.

Fri, Jan 18, 5 pm

ESTern:HBChenery:di

Mr. J. Burke Knapp, Sr. Vice President

January 15, 1974

Hollis B. Chenery, VP, DPS

IDA Lending Program for the Balance of FY74

1. Recent changes in the price of oil and other primary products make it desirable to review the balance of payments projections for some of the countries for which we have proposed IDA lending. Now that there is some guidance from the Economic Analysis and Projections Department on price assumptions, we will work with the Regions to conduct such a re-examination of the countries most affected. This analysis would be directed to the implications for FY75-79 lending programs and, in relation to IDA, primarily to the period of the Fourth Replenishment. Pending such a review, I think we should consider, on the basis of your memorandum of January 7, the desirability of revisions in IDA allocations in the current fiscal year.

2. There are several IDA recipient countries which will benefit immediately from the new international oil prices. They include oil-exporting countries such as Bolivia, Congo, Ecuador, Indonesia and Tunisia. In certain cases (e.g. Tunisia), the IDA allocation for FY74 has already been utilized. In others (e.g. Bolivia), a change in IDA arrangements may be desirable. In the case of Indonesia, one of the Big Four IDA countries, I understand that the decision has already been taken to introduce a Bank/IDA blend during the current financial year. The blend should be considered, however, as a function of the increased needs of certain other IDA countries as well as the obviously reduced requirements of Indonesia itself. The attached table shows that savings of some \$73 million in FY74 IDA funds could be obtained by switching to Bank loans for the remainder of the FY74 Indonesia program; the resulting Bank/IDA blend would be approximately 75:25. A softer blend, say 50:50, would save about \$34 million for other IDA uses this year.

3. Among the IDA oil-importing countries the severity of the impact of higher international oil prices will depend on a number of factors, some of which will become clear only in the course of this year. One main factor will be the price trends in other major export commodities, for which new projections are now being prepared. For some countries the initial impact will be cushioned to some extent by the improved balance of payments positions built up during 1973 (e.g. exporters of cocoa beans, copra, rubber and copper).

President has seen

returned JAN 18 1974

January 15, 1974

A substantial number of developing countries, however, have not benefited significantly from recent commodity price changes and do not appear likely to do so in the medium term. In these cases, which include Bangladesh, India, Sri Lanka and a number of African countries, the case for relatively larger IDA allocations is already clear. Several will require substantial balance of payments support, and IDA program loans may be one valuable (though inadequate) way of assisting them in the present critical situation.

4. IDA funds are already in very short supply for FY74, and the possibilities for adjustment at this stage are obviously limited. I nevertheless think it important that we should react quickly to the new situation and be prepared to make adjustments to the FY74 IDA program where, as for Indonesia, the evidence of changed economic situations and prospects is clear.

Attachment

cc: Mr. McNamara ✓
cc: Messrs. Adler, Stern.

GThompson/HBChenery:tk

cc Messrs. Tims, Hag.

INDONESIA: FY74 PROGRAM
(in \$ million)

<u>Possible Bank/IDA Blends</u>	<u>Bank</u>	<u>IDA</u>	<u>Total</u>	<u>IDA Savings</u> ^{1/}	<u>Effect</u>
77:23	109.5	31.5	141	73.5	no further IDA allocations in FY74
54:46	76.5	64.5	141	40.5	IDA allocations for next two projects, ^{2/} none thereafter
50:50	70.5	70.5	141	34.5	additional \$6 million for further credits
40:60	56.4	84.6	141	20.4	additional \$20 million for further credits
26:74	36.0	105.0	141	-	no IDA savings

^{1/} P&B table shows allocation at \$105 million for FY74.

^{2/} Projects: Fisheries II (\$6 million) and Irrigation V (\$27 million), both scheduled for presentation in February.

OFFICE MEMORANDUM

cc: 1/14
(sent 1/14)

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Trade Related Lending

DATE: January 9, 1974

1. Last year when the Board discussed the Primary Exporters paper, there was a request for a review of Bank work on trade related lending, and you agreed that we would review Bank practices. We have done a considerable amount of work on this, and a paper is in draft. There are, however, severe methodological problems, since it is very difficult to disentangle what lending supports, directly or indirectly, a country's foreign trade. Moreover, projects which are clearly supportive of either export or import substitution are not necessarily looked at in this context when they are appraised and approved. I have, therefore, concluded that to submit an extensive analysis to the Board for discussion would probably lead to a confusing and unproductive discussion. There are two alternatives:

- a) If it is agreeable, we could simply delete the item from the Board agenda and make some reference to economic and sector work affecting trade matters in the budget discussion of economic work orally at that time;
- b) We could limit ourselves to a short note for information describing the role that economic and special missions have played in regard to trade policy.

1/12
OK
Lm
JAN 14 1974
(Xeroxed to Mr. Stern)

2. Would you let me know how you would like to proceed.

EStern/lm