

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Boards Actions - Pearson Commission Recommendations - Board papers 03

Folder ID: 1770701

Series: Board [of Executive Directors] Actions files

Dates: 12/01/1969 - 05/01/1970

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

ISAD Reference Code: WB IBRD/IDA EXC-10-4548S

Digitized: 7/7/2021

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

The World Bank Group
Archives
1770701
A1993-013 Other #: 13 309738B
Boards Actions - Pearson Commission Recommendations - Board papers 03

12
1970

Folder 3 of 8

DECLASSIFIED
WBG Archives





OFFICE OF THE PRESIDENT

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

DECLASSIFIED

MAY 22 2013

WBG ARCHIVES

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 7 Concerning IFC Policies

Recommendation

IFC policies should be reoriented to emphasize the development effect of its investments and not just their profitability.1/

Background

This recommendation appears in the context of a discussion on ways in which developing countries might realize greater advantages from foreign investment. The Commission says that while many of IFC's investments have benefited the host country, others have contributed only marginally, if at all, to economic development, rarely being preceded by an analysis of their impact on the country's economy. This, the Commission comments, is because profitability has been IFC's principal investment criterion. While it does not suggest that IFC should ignore profitability, it urges that IFC reorient its policies "for the sake of the economic impact of its own investment and even more for that of the new investments ... it is well placed to promote."2/

Analysis

As the Commission recognizes, profitability is an essential investment criterion for IFC. IFC's Articles direct it to undertake its financing on terms and conditions which take account, among other considerations, of "the terms and conditions normally obtained by private investors for similar financing."3/ In addition, it is directed to "seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms."4/ IFC wants partners in the enterprises in

1/ This is a paraphrase of two paragraphs in the Commission's report (pages 114-115) which are cast in the form of an analysis and an expression of hope for change, rather than in the form of a recommendation. It has been included in this series of memoranda, however, because the Commission's intent was clearly to suggest an important policy change for a member of the Bank Group.

2/ Report, page 115.

3/ Art. III, Sec. 3(v).

4/ Art. III, Sec. 3(vi).

which it invests, it wants to revolve its funds by selling seasoned securities out of its portfolio and, above all, it wants to encourage the growth of private productive enterprise in the developing countries. Each of these objectives alone, and certainly in combination, makes the prominence of the profitability criterion inevitable.

It is true that IFC has not in the past had a strategy of development based on the needs of the countries in which it operated. It tended to consider individual projects as they came up. One reason was that, until the Bank's Articles of Agreement were amended to permit it to lend to IFC, IFC did not have sufficient resources to enable it to make a significant impact on the economies of its member countries. Another was that in the past it did not itself engage in promotional activity.

Although my appraisal of the current situation is less negative than that of the Commission, I nevertheless agree that developmental significance should be given a more prominent place in IFC's investment decisions. This shift in emphasis has already begun and is reflected in the revision of the IFC policy statement which I have submitted to the IFC Board for approval.

At the same time, I agree with the Commission's recommendation that IFC should be better equipped to ascertain and to take into account the economic implications of its investments. One step we have taken in that direction is to authorize IFC to appoint an Economic Adviser who will add to IFC's in-house economic strength. In addition to the attention which IFC will thus be enabled to bring to bear directly upon the implications of proposals which it is considering, IFC will have the benefit of the work of the new Industrial Projects Department of the Bank. As I have pointed out in another of this series of memoranda, it is my intention that the work of IFC and the new Bank Department should be complementary.

Conclusion

The paths along which IFC is proceeding are consistent with and should effectively implement the Commission's recommendation. I have submitted for the approval of the IFC Board a revised IFC policy statement which reflects this trend.

Robert S. McNamara

8



OFFICE OF THE PRESIDENT

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

DECLASSIFIED

MAY 22 2013

WBG ARCHIVES

CONFIDENTIAL

April 28, 1970

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 8 Concerning Bank Assistance in Appraising the Terms of Export Credits

Recommendation

"The Commission . . . urges international institutions such as the World Bank to give suitable technical assistance to developing countries in appraising the terms of export credits offered to them."^{1/}

Background

In its discussion of export credits as one form of private foreign investment, the Commission points out the dangers stemming from their imprudent use, and addresses its principal recommendation in this context to the balance of payments problems created by the excessive accumulation of short-term credits.^{2/} The recommendation quoted above is made in the context of critical reference to the high cost often associated with export credit financing (high equipment prices or high interest rates) and to the doubtful economic justification of some of the projects undertaken with the help of such financing.

The Commission enumerates various factors which have led to imprudent use of export credits: pressure to invest despite insufficient local savings; investment decisions taken in the misleading context of distorted tariffs or exchange rates; reluctance of aid-givers, bilateral and multi-lateral, to finance industrial projects in the public sector; hesitancy to submit projects for consideration by international financing institutions, sometimes because the prospective borrower believed that excessive delays would be involved, more often because it feared that the project would not satisfy tests of economic soundness.

The Commission comments that it will take time to achieve the better economic policies, better project evaluation and greater availability of concessional finance which would provide "fundamental solutions" to the problems created by excessive use of export credits. It therefore briefly surveys "second-best" short-run measures to improve the terms on which

^{1/} Report, page 121.

^{2/} See the memorandum analyzing Recommendation No. 11, concerning an "early warning" system (R70-56, dated April 6, 1970).

export credits are available to the developing countries. These include avoidance of such credits where the only project feasibility study has been prepared by the supplier, and procurement after competitive bidding, either internationally or within countries offering buyers' credits. The Commission also calls attention to, and supports, joint financing, under which export credits are pooled with financing from multilateral sources, a technique which "combines these credits with all the advantages of international competitive bidding".1/ The recommendation analyzed in this memorandum then follows.

Analysis

The Commission characterizes as "the most unfortunate aspect" of export credit finance the fact that "it provides a temporarily painless way of financing projects conceived by over-optimistic civil servants, by politicians more concerned with immediate political advantage than with potential future economic problems, and by unscrupulous salesmen for the manufacturers of capital equipment in developed countries".2/ At the same time, the Commission recognizes that export credits "have a part to play in development" and that the dangers come from excessive or inappropriate use. The Commission has recommended the institution of an "early warning" system, based on the external debt reporting system being evolved by the World Bank and the Organisation for Economic Co-operation and Development, as a means of helping to discourage the further extension of credits to countries in a difficult debt position. As indicated in another memorandum, I believe we can play a useful role in this respect.3/

In addition to assisting developing countries to avoid excessive commitments for export credits in general, there are some things the World Bank can do to help borrowers to get better terms on credits for particular projects, and to avoid incurring debts on unsuitable terms or for poorly designed projects. Our most effective contribution in this area can be made in the stages of project selection and preparation, and of procurement arrangements, where the World Bank can bring to bear a fund of experience not duplicated elsewhere. Many of the problems with which the Commission was concerned in connection with export credits do not arise when project selection and preparation are effectively carried out and appropriate procurement practices are followed.

The financial terms of export credits are usually not difficult to understand or to compare. The real problem lies in identifying the credit costs

1/ See the memorandum analyzing Recommendation No. 16, concerning joint or parallel financing (R69-232, dated December 11, 1969).

2/ Report, page 120.

3/ See the memorandum analyzing Recommendation No. 11 (R70-56, dated April 6, 1970).

which are concealed in the prices of the equipment being financed. It is never easy, and usually impossible, to identify this concealed cost, as that would require ascertaining what the cost would have been on a cash basis. The best way of meeting this problem is to point out by example and precept, as the World Bank does, the merit of procurement by international competition. While this does not reveal the concealed cost of financing, it does usually insure that the borrower gets the best terms available for the equipment and the financing taken together.

The World Bank can also help to mitigate the problem of inappropriate use of export credits by assisting its developing member countries in the proper selection and preparation of their investment projects. We have begun to emphasize assistance in the formulation of sectoral investment strategies which help to identify project priorities. This kind of assistance, in the provision of which we are cooperating with the UNDP and the other specialized agencies, may be expected to increase significantly as our lending rises and broadens its scope. These efforts should lead to more and better projects, including projects to be financed from sources other than the Bank Group. They should also help to build up or to strengthen, particularly in the less experienced countries, project-oriented planning units capable of screening commercially sponsored projects more effectively and of ensuring procurement and financing arrangements along the lines endorsed by the Commission.

Similarly, the technical assistance we provide in the form of advice on the structure and capability of organizations such as power, telecommunications and railway authorities and development finance companies will help to develop a capacity within the developing countries for making better use of export credits. Some of the beneficiaries of our financing have, with our encouragement, obtained export credit financing on satisfactory terms for items of equipment particularly suitable for such financing, for example, power-generating plants or rolling stock, after seeking offers on both a cash and credit basis from a number of manufacturers. And in the joint and parallel financing operations in which the Bank has participated involving export credits, the recipient countries have benefitted from the advantages of wide international competitive bidding. As noted in my memorandum analyzing the Commission's recommendation on joint or parallel financing,^{1/} the staff has been instructed to examine every project with a heavy external financing requirement to see whether it has possibilities for joint financing. Aid coordinating groups provide another channel through which progress may be made in improving the terms on which external finance, including export credits, is made available to the developing countries.

Conclusion

The Commission has identified the serious consequences for developing countries of an injudicious and excessive reliance on export credits. I

^{1/} R69-232, dated December 11, 1969.

believe that the Bank can assist developing countries in avoiding such penalties. In particular, the Bank can help the developing countries to improve the quality of projects which might be financed with export credits and to adopt appropriate procurement practices in connection with such projects. This will be one of the consequences of our stepped-up lending, the increased emphasis on assistance in project identification and preparation, and our efforts to help member countries to build or strengthen their development institutions. While these activities relate to what the Commission has described as "fundamental solutions", they should also contribute significantly in the short run to an improvement in the terms of export credits extended to developing countries.

Robert S. McNamara





OFFICE OF THE PRESIDENT

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

DECLASSIFIED
MAY 22 2013
WBG ARCHIVES

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 9 Concerning IFC Project
Identification and Investment Promotion Work

Recommendation

". . . because of their links with the private sectors of both developed and developing countries, IFC, and organizations like it, are logical agents for project identification and investment promotion work, and we accordingly recommend that they become much more active in this field."1/

Background

The report records the Commission's "definite impression that most low-income countries would welcome a larger flow of foreign investment."2/ The Commission notes that there are bilateral programs intended to stimulate the flow of private capital, which include subsidization of investment surveys and the publicizing of investment opportunities. It comments that these programs are useful, but often too small and too imperfectly geared to the investor's real needs, and it recommends that they devote more attention to inducing small and medium-sized investors to take up projects in developing countries, providing them where necessary with technical assistance. The report proposes that "similar change" should be encouraged with respect to IFC. Commenting that in the past IFC has interpreted its Articles "to mean that it should leave all project initiative to others," the Commission adds that there are signs that IFC and similar bilateral institutions are beginning to appreciate the role they could play in actively identifying new investment opportunities and bringing together domestic and foreign partners to execute them.3/ There follows the recommendation quoted above.

Analysis

The Commission is correct in stating that in the past IFC was content to leave the project initiative to others. But its reference to IFC's approach does not fully reflect our plans for the future.

1/ Report, page 110.

2/ Ibid., page 105.

3/ Ibid., page 110.

In July 1968, I told the IFC Board that I considered that IFC had established itself in the industrial and financial community and had built up staff experience to the point at which it could usefully do more in the direction of investment promotion. Many developing countries were thought to have a low absorptive capacity with respect to industrial projects. But, if experience in other fields was any guide, some of this apparent lack of absorptive capacity could be overcome by increased preinvestment assistance. Experience also indicated that there were instances of promising investment opportunities in the developing countries where projects had not been carried out, or had been carried out inefficiently or ineffectively, because of the absence of suitable sponsors to do the necessary developmental and promotional work. We therefore proposed that IFC should become more active in seeking to promote industrial projects where there was a reasonable prospect that the project would eventually be suitable for financing by IFC in accordance with its established criteria. We proposed, further, that IFC should be free to suit the form of promotional activity to the needs of the proposed venture and the circumstances prevailing in the country in which the venture would be located. This might mean, in some instances, that IFC would assume responsibility for implementing a project from its inception, through the stages of a feasibility study, detailed engineering and market investigations, finding technical and financial partners and putting together a financial package. At the other extreme, it might mean that IFC would participate as one of a number of shareholders in a pilot company which would conduct the requisite investigations on behalf of a group of technical and financial sponsors already committed to proceed with the venture if the investigations demonstrated the project's viability. We suggested an over-all limit of \$250,000 for promotional costs. The Board approved the proposal, with a limit of \$50,000 for any one project.

Under this policy, in the 1969 fiscal year IFC invested in an industrial promotional company in Honduras 1/and in two tourism promotional ventures, in Colombia 2/and Tunisia.3/ IFC also committed funds to a cement project in Indonesia, taking primary responsibility for determining the feasibility of the project and organizing financial and technical support for it.

In January of 1969, the IFC Board approved my proposal that IFC should be willing to put a director on the Board of any promotional company to the shares of which it has subscribed, if in IFC's judgment this would enable its promotional activity to be carried out more effectively.

Locating investment opportunities, promoting indigenous entrepreneurial talent and encouraging the growth of private investment is a difficult job. IFC plans to increase its efforts in this area by continuing and intensifying activity of the kind described above and by increasing its contacts with individuals and institutions in both the developing and developed countries, with an eye to uncovering and exploiting investment opportunities. These plans

1/ No. 140.

2/ No. 137.

3/ No. 152.

are reflected in the new policy statement for IFC which has been submitted to the IFC Board of Directors for approval.

If these policies are to be more than pious statements of intention, it will be necessary that IFC have available staff who can spend a considerable portion of their time in the developing countries. It would be their primary function to look for investment opportunities which IFC might appropriately participate in or bring to the attention of others. This will require adding several senior professionals to IFC's staff.

Even if IFC's staff is enlarged, IFC cannot by itself accomplish all that needs to be done. As the Executive Directors know, the Bank Group as a whole has given considerable support to institutions in the developing countries which are themselves engaged in promoting private enterprise. The Pearson Commission has recommended greater help to development banks and similar institutions, and the memorandum analyzing that recommendation reviews the past activity of the Bank Group and plans for increased support in the future. However, IFC's assistance should not be limited to institutions formed by residents of the developing countries. It should, and it intends to, work with, support and help to finance institutions such as the Atlantic Community Development Group for Latin America (ADELA),^{1/} the Private Investment Company for Asia (PICA),^{2/} and other comparable organizations (including the private investment company proposed for Africa) provided that they need help, are well managed, and are carrying on investment programs that will assist the development of the countries in which they are doing business.

It is relevant to remind the Executive Directors that the Bank also intends to do more to help identify and prepare industrial projects. As the Executive Directors are aware, we have recently established an Industrial Projects Department within the Bank, which will carry out sector analyses and

^{1/} ADELA is a private corporation, with authorized capital of \$60 million, \$52.65 million of which has been subscribed by 234 stockholders in Europe, the United States, Latin America, Canada and Japan. It makes equity and loan investments and, through an entity known as ADELATEC, which is in effect a firm of development consultants rendering services to ADELA and to others, it engages in a variety of other activities designed to support private investment in Latin America: underwriting, project identification and promotion, project management, market studies, resource surveys, and feasibility and pre-feasibility surveys. The ADELA Group is at present giving priority to agri-business and tourism. It is increasingly devoting its energies and resources to self-initiated sectoral studies, project identification and project promotion in these fields.

^{2/} PICA, whose authorized capital is \$40 million, was modeled on ADELA; the two corporations have a number of shareholders and directors in common. PICA was formally organized in February of 1969 and its operations have thus far been limited.

project identification work in the industrial sector. To assure that the efforts of IFC and of the new Department, as well as the activities of the Bank's Development Finance Companies Department, are complementary, and that there is a full exchange of information and an appropriate allocation of responsibility among all Bank Group operational units working in the field of industry, we are also creating an Industrial Coordination Committee composed of the Executive Vice President of IFC, as Chairman, the Directors of the two Bank Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

Conclusion

The plans for future IFC activity are consistent with the Commission's recommendation. As indicated above, the implementation of these plans involves a revision of the IFC policy statement. Such a revision has been submitted to IFC's Board of Directors for approval.

Robert S. McNamara

10



OFFICE OF THE PRESIDENT

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

DECLASSIFIED

MAY 22 2013

WBG ARCHIVES

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 10 Concerning Advice on
Industrial and Foreign Investment Policies

Recommendation

"International institutions, such as the World Bank . . . , should expand further their advisory role regarding industrial and foreign investment policies. These activities could eventually be fully transferred to IFC if the proposed reorientation of IFC is successfully achieved."^{1/}

Background

This recommendation appears in the context of the Commission's discussion of the potential of foreign investment, primarily direct investment, for contributing to the faster growth of the developing countries. The Commission reports its impression that most low income countries would welcome a larger flow of foreign investment, and suggests a number of ways in which that flow might be stimulated. It believes that developing countries urgently need impartial advice concerning their posture toward foreign investment. It finds that such advice has rarely been provided in the past. With respect to the Bank Group, the Commission says that the Bank has tended to delegate much of its industrial activity to IFC, but that IFC has deliberately and to the extent possible avoided involvement in issues of governmental policy and is, in any case, not equipped to ascertain the economic implications of government policies.^{2/}

The Commission also observes that much of the substantial industrialization achieved by developing countries in the last two decades has been in the form of high-cost import-substituting industry and that, in many cases, new industries have become a burden rather than a benefit to

^{1/} Report, page 115. The proposal for reorientation of IFC policy is the subject of a separate memorandum.

^{2/} Report, page 114.

the economies, with adverse effects on agriculture and on the prospects for increasing exports. Thus the advice to be given to developing countries on foreign investment policies is closely linked with advice on their industrial policies.

Analysis

In recommending that the Bank "expand further" its advisory role, the Commission implicitly recognizes that the role would not be a new one for the Bank. The principal vehicle for the provision of advice has been country economic missions.^{1/} The resources devoted to the industrial sector on these missions have, however, been limited. From the beginning of 1967 to date, the total of industrial specialist resources devoted to such coverage has averaged only five man-years annually. There has been some increase in emphasis on industrial policy recommendations to individual countries in this work, exemplified by recent missions to, e.g., Argentina, Brazil and Mexico in the Western Hemisphere, and India, Indonesia, Iran, Korea and Pakistan in Asia. Appraisal and follow-up of industrial projects have also provided the occasion for advice on industrial policies.

The Bank's advisory role with respect to policies of individual countries towards foreign direct investment has not been well defined. In the course of the country economic work, such policies have been the subject of attention when they appeared to be hampering development. But these policies have not been systematically reviewed, nor has any specialist been employed to deal with them.

I fully agree with the Commission's recommendation that the Bank's advisory functions should be enlarged. Many developing countries need advice on trade, fiscal and other policies which will foster industrial growth and attract foreign private investment. Tariffs, import licenses, taxation, subsidies, price controls -- all can affect industrial progress to an extent often not fully appreciated by the government involved. Protection policies, which have been the subject of discussion by the Executive Directors in the context of some recent Bank Group operations, frequently foster the growth of uneconomic enterprises. The Bank ought to be in a position to advise its developing country members on the implications of particular policies and to assist them to make sensible choices.

It is my intention that comprehensive industrial sector studies shall in future form part of the Bank's economic reviews conducted under the direction of the Area Departments. As the economic missions now do for other sectors, they will be systematically analyzing the industrial capacity and strategy of individual countries and the relationship of industrial progress to over-all growth. This is a difficult process which will take some time to organize and to staff, and which will in due course have budgetary implications.

^{1/} Some of the general survey missions organized by the Bank included industrial specialists, but no survey mission has been sent out since 1964.

The Industrialization Division of the Economics Department was organized a year ago to undertake research concerning the industrialization process, and more recently we have created an Industrial Projects Department in the Bank which, in addition to its operational functions, is charged with making recommendations on industrialization problems and policies of member countries, including advice on industrial planning and priorities and on measures to stimulate efficient and sound industrial growth.

We shall also look to other international organizations for assistance in their fields of specialization. The United Nations Industrial Development Organization (UNIDO), since its establishment a few years ago, has been engaged primarily in providing technical assistance for specific industrial activities. It is now widening its advisory activities, and in view of my intention that the Bank should step up its own activities of that character, closer cooperation with UNIDO seems appropriate. Arrangements have accordingly been made with UNIDO for an exchange of information about matters of common interest, on an informal basis. The International Labour Organisation (ILO) and the Food and Agriculture Organization of the United Nations (FAO) are also concerned with some aspects of industrialization, and we shall be cooperating with these agencies as well.

I also believe that IFC could usefully play a role in considering and advising governments on measures to encourage the development of the private sectors of their economies, in particular the flow of foreign private capital. IFC has begun to collect some data bearing on this problem. As reported in the memorandum dealing with the Commission's recommendation for a reorientation of IFC policies, I have authorized IFC to appoint an Economic Adviser. This adviser will be expected to organize the data collection work more efficiently and to evolve proposals for systematic activity by IFC in providing advice to governments on their foreign investment policies.

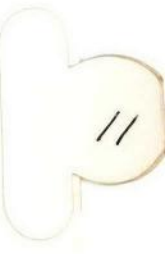
As noted in another of this series of memoranda, an Industrial Coordination Committee is being created in order to coordinate work in the Bank Group on industrialization policies and measures to promote foreign private investment. This Committee will be composed of the Executive Vice President of IFC, as Chairman, the Directors of the Bank's Industrial Projects and Development Finance Companies Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

I am not now prepared, however, to endorse the tentative suggestion of the Commission that eventually all advisory activities on industrial and foreign investment policies might be performed, for the Bank Group, by IFC. Although, as indicated above, our plans call for IFC to play an important advisory role in connection with foreign investment policies, it seems likely that most of the Bank Group's advisory activities in the field of general industrialization policy, including the establishment of priorities for industrial development, will, at least in the foreseeable future, and probably over the long term, be undertaken by the Bank, where work in this field may be integrated with the guidance being given to member countries on other aspects of their development programs.

Conclusion

The plans for increased emphasis by the Bank Group on the provision of advice to member countries concerning the industrial and foreign investment policies of developing countries are fully consistent with the Commission's recommendation. No action by the Executive Directors is now required.

Robert S. Mc Namara





OFFICE OF THE PRESIDENT

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



DECLASSIFIED

MAY 22 2013

WBG ARCHIVES

CONFIDENTIAL

4/2/70

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 11 Concerning an
"Early Warning System"

Recommendation

"In regard to the possible excessive use of export credits, a strong 'early warning system' based on external debt reporting should be evolved by the OECD and the World Bank."^{1/}

Background

The Commission reviewed the problems arising from the growing volume of export credits extended to developing countries. It noted that these credits are often easy to negotiate and that commitments are frequently entered into without adequate scrutiny by any responsible agency in either the borrowing or the lending country of the price of the goods financed or of the purposes for which the goods are to be used. The Commission recognized that short- and medium-term export credits have a part to play in meeting the needs of developing countries for external finance. It concluded, however, that imprudent use of such credits is a present danger.^{2/}

The report suggests that the World Bank fix ceilings on export credits to countries which are "in the danger zone from the standpoint of debt liabilities and interest burden," and that credits beyond the ceilings should be given "significantly less favorable treatment than other claims" in any debt rescheduling.^{3/}

^{1/} Report, page 123.

^{2/} Report, page 16.

^{3/} Report, pages 121-2.

*Committee has will discuss
potential debt traps
e.g. Last entry on loan limited to
dis. of debt outlook*

This suggestion was not incorporated in the formal recommendation quoted above. We are informed by members of the Commission's staff that this is because the Commission recognized that it would be unrealistic to expect that the World Bank could establish a ceiling, determine precisely which credits exceeded the ceiling, and arrange that these credits be given relatively unfavorable treatment in any debt reschedulings. The Commission clearly hoped, however, that the World Bank would formulate and, where appropriate, express views on the volume and terms of financial flows to countries that have a serious debt problem. The report also proposes that the World Bank be given responsibility for "issuing definitive recommendations against further encouragement of export credits to countries which are in the danger zone."^{1/}

The Commission was aware that the International Monetary Fund already performs some of the proposed functions - for example, it frequently recommends ceilings on certain types of credit for countries seeking IMF stand-by arrangements. We have been informed that there had been a reference to the IMF, as well as to the Bank, in an earlier text of the recommendation, but that it had been inadvertently omitted from the final version.

Analysis

I welcome the Commission's warning against excessive reliance on export credits. I agree that the World Bank can, and should, play a role in helping to avert debt crises.

As the Commission notes, "Fundamentally, the task of preventing the excessive use of export credits for projects of low priority must be that of the individual developing country."^{2/} There are, however, a number of things which the Bank can and, I believe, should do to assist those developing countries determined to prevent their debt problems from reaching an acute stage:

- . First, we can help member governments to improve their debt management and reporting systems; we are in fact beginning to do this through special missions in some cases and through country economic missions in others. ✓
- . Second, we can continue our efforts to improve the scope and quality of our information on long-term debt, from both the creditor and debtor sides. Missions, both the special missions referred to above and country economic missions, are one vehicle for improving the collection and quality of data from the debtor countries. We also exchange information with the regional banks. The joint system for collecting data on long-term loans from ✓

^{1/} Report, page 121.

^{2/} Report, page 121.

the creditor governments, agreed a few years ago between the Bank and the OECD, is beginning to be productive. And we are working with the IMF in trying to obtain better statistics on short-term debt.

- . Third, because lack of information and divided counsel can contribute to delay in a debtor country's decision to deal with an impending debt crisis, we can, in cooperation with the IMF, help to assure that appropriate officials in borrowing countries are informed, fully and in good time, when a debt crisis appears to be looming.
- . Finally, at the invitation of the borrowing country and its creditors, the Bank and the IMF can help to formulate a corrective program.

The last two steps would respond directly to the Commission's recommendation. The first two are necessary pre-conditions. The annex to this memorandum describes the analytical work on debt being initiated by the Bank in cooperation with the IMF. It should be increasingly possible for the two institutions to identify debt problems before the dangerous surges in export credits take place, and before service payments are delayed, and to warn the debtor. Such warnings must, of course, be given in strict confidence. A public warning of impending debt difficulty can become a self-fulfilling prophecy.

Creditor countries, on the other hand, do not appear to expect or to need warnings of impending debt crises from the World Bank to supplement those which they receive from other sources. The Berne Union of export credit insurance agencies already provides a kind of early warning through its work in identifying sharp increases, or "surges," in the use of export credits. Members of the Union exchange information on outstanding credits at regular meetings. They also compare information on terms and conditions for different borrowers and evaluate other economic variables in countries which have greatly increased their use of export credits.

There are good reasons why a surge in the flow of export credits is a useful (although not a certain) indicator of debt difficulties. The pressures of sales competition often assure the continued availability of export credits, even at times of obvious financial crisis in borrowing countries. Governments of countries which are the principal sources of export credits often have little control over the more or less autonomous institutions which actually grant or guarantee export credits. Export credits can thus usually be obtained more quickly and more easily than loans by government agencies concerned with foreign aid, which are normally extended only after a careful look at the prospective borrower's ability to repay. Commercial bank credit is also very sensitive to changes in the market evaluation of a country's creditworthiness. Thus, with other sources of credit unavailable, a country whose shortage of foreign exchange is becoming acute is likely to resort to export credit

financing for imports of equipment and other goods, especially for projects under way; a surge of export credits to that country is often the result, and it may occur before delays in service payments give a more definite sign of financial difficulty. This whole range of problems is being reviewed by the Development Assistance Committee of the OECD. This exchange of information and views among governments of countries which provide export credits to developing countries can help them to identify difficult debt situations and plan timely remedial action.

There have been several attempts to bring about organized international cooperation by creditor countries to establish mechanisms or agreements on principles for dealing with problem debt cases.^{1/} These efforts have been largely unsuccessful. Instead of undertaking joint efforts, individual Berne Union members have generally adopted their own restrictive measures, e.g., raising premium rates and reducing the proportion of insurance coverage on export credit transactions with the debtor country concerned. The normal "float" of short-term bank credit is likely to be reduced at the same time. But while these measures help to limit the exposure of the financing and insuring agencies, they do not prevent the occurrence of a debt crisis and indeed may even provoke one.

Once a debt problem is identified, the Bank and the IMF, if the interested parties so desire, could assist in working out a corrective program, indicating both the financial measures to be taken by the debtor and targets for the mix of financial flows to be sought from creditors (e.g., a recommended upper limit to flows on conventional terms and a recommended minimum for flows on concessional terms). The Bank and the IMF are in fact already separately engaged in helping to formulate elements of corrective programs. Under its standby arrangements the IMF has frequently worked out with a prospective borrower a plan to limit external borrowings to a level consistent with progress toward a solution of that country's debt problem. Similarly, the Bank has on occasion, usually in the framework of a consortium or consultative group, suggested the amount and the terms of external financial flows which would be appropriate to the recipient country's financial situation. I believe that the two institutions could usefully combine their efforts, where appropriate, to deal with developing debt crises. The Managing Director of the IMF shares this view.

Conclusion

I welcome the Commission's warning against excessive reliance on export credits. And I agree that the World Bank can, and should, play a role in helping to avert debt crises.

^{1/} See a recent IMF study, prepared at the request of the U.N. Conference on Trade and Development (UNCTAD), "The Use of Commercial Credits by Developing Countries for Financing Imports of Capital Goods," SM/69/203, December 31, 1969, page 57 et seq. See also a study by the staff of the Bank, also prepared at the request of UNCTAD, "Suppliers' Credits from Industrialized to Developing Countries," Revised edition, April 3, 1967, pp. 8-10.

The Bank can play a useful role in providing information, with due regard to confidentiality, to individual developing country members in the early stages of an impending debt crisis. We shall, accordingly, work with the IMF to improve the timeliness of warning signals which can be given to those members with respect to the accumulation of external debt, particularly in the form of export credits. Our projections of the debt service ratio and use of other analytical techniques, together with the steadily improving financial information available to us and to the IMF, should provide a basis for estimating the likelihood that a debt crisis will develop.

Further, working together, the two institutions should be able to help in the formulation of the two principal components of a corrective program: financial plans for the debtor and aid plans for the creditors.

We shall keep in close touch with the Development Assistance Committee of the OECD, which is very much concerned with the problems discussed in this memorandum.

Robert S. McNamara

ANNEX

The analytical work done by the Bank staff suggests that one of the most significant indicators of the growth of a debt problem at an early stage is the debt service ratio of the country concerned. Attached is a table which gives summary information on 24 debt reschedulings arranged for 11 developing countries between 1965 and 1969; it compares the debt service ratios of the latter with those of 35 other developing countries for which data are readily available.

The debt service ratios in the year in which a rescheduling occurred and in the following year presumably reflect approximately the consensus among creditors as to what the debtor could reasonably be expected to pay. The ratios in those years averaged about 17 per cent, ranging from around 24 per cent in the upper quartile to about 9 per cent in the lower.* The average of 17 per cent for cases of rescheduling may be compared with a 7 per cent average for countries which did not reschedule in the period. Out of 10 countries with an average debt service ratio higher than 15 per cent during the period, eight had reschedulings. While the data are not conclusive, they suggest that the risk of debt crisis is relatively high for a country with an average debt service ratio in the general range of 15 per cent and above.

It should be noted, on the other hand, that much lower debt service ratios have been associated with several reschedulings. It may be concluded that there are limitations on the usefulness of the data on debt service ratios as indicators of the burden of debt. One of the limitations is that the debt service ratio is normally defined to exclude short-term debt of maturity below one year as well as unguaranteed private debt; these types of debt can contribute significantly to a crisis. A second limitation is that it may not be the most appropriate index for countries which are members of a larger currency area; in such cases the pressure of debt service on the government budget alone may be the critical problem, rather than any shortage of foreign exchange for the economy as a whole. A third limitation is that a number of circumstances may affect the ability of a country to service its debt, e.g., the level of its reserves (including access to IMF resources), the availability of new capital, the rate of growth of GNP, the degree of fluctuation of exports, and the ability to restrict imports. Different combinations of such factors have been and are being tested for their predictive value by Bank staff, by the Development Assistance Committee of the OECD, and by other bodies. Variants of the debt service ratio are also being tested, taking account, for example, of the level of debt outstanding and of the proportion of debt attributable to export credits.

The quality and completeness of the debt statistics affect our ability to analyze debt situations. We are working closely with OECD in an attempt to improve statistics on medium- and long-term debt. Extension of our information on the short-term end of the maturity spectrum could be particularly valuable. Through various channels we have already received some information on this, and we are now consulting with the IMF on ways of amplifying and systematizing it.

* These statistics do not take into account the rescheduling in Ghana in 1966; see footnote f/ to the table.

In addition to examining the historical record of debt service ratios, the staff is undertaking long-range forecasts of these ratios and other economic variables, as an aspect of our regular creditworthiness analyses. This forecasting, like the warnings to debtor countries, must of course be conducted in confidence. The earlier years of the long-range projections can be particularly useful for the purposes of "early warning." After these projections are considered in conjunction with the country-by-country analyses which the Bank and the IMF prepare, it should be possible to arrive at a reasonable estimate of the likelihood of a debt crisis for each developing member country.

a/
DEBT SERVICE RATIOS (DSR)

Showing cases of debt renegotiation (R)

b/ 46 Countries	DSR Average 1965-1969	1965	1966	1967	1968	1969	Debts Renegotiated		
							c/ Classes	Amounts (Millions of US \$)	Auspices
Mali d/	25.3	23.1	R n.a.	n.a.	R 27.5	n.a.	S	n.a.	bilateral
Argentina	25.0	R 18.8	23.9	27.0	25.2	30.2 P/	O;S	70	multilateral
Mexico	24.6	24.0	27.0	28.0	22.0	22.0	-	-	-
Tunisia	21.3	n.a.	18.0	19.0	24.0	24.0 P/	-	-	-
Yugoslavia e/	21.0	n.a.	R n.a.	n.a.	R 19.0	23.0	B;O;S	70;25	bilateral
India	20.4	17.7	18.6	22.6	R 20.0	R 23.3	I;O;S	100;105	multilateral
U.A.R.	19.5	n.a.	R n.a.	R n.a.	R 19.5	R n.a.	B;O;S	n.a.	bilateral
Chile	17.3	R 16.9	17.8	18.6	15.9	n.a.	O;S	90	multilateral
Uruguay	16.8	R 6.7	R 11.7	R 20.7	R 21.2	23.5	B;S	n.a.	bilateral
Turkey	16.2	R 17.0	16.0	15.0	16.0	17.0	O;S	210	multilateral
Pakistan	14.4	11.3	11.8	14.6	16.6	17.7	-	-	-
Dominican Republic	12.2	21.0	13.0	8.0	9.0	10.0 P/	-	-	-
Bolivia	11.3	11.5	11.6	11.5	13.2	8.5 P/	-	-	-
Colombia	11.1	8.2	10.1	10.6	13.7	13.0	-	-	-
Costa Rica	9.8	8.1	10.3	10.4	11.1	9.2 P/	-	-	-
Peru	9.8	7.0	9.0	13.0	R 9.0	R 11.0	B;O;S	50;85	multilateral
Indonesia	9.5	n.a.	R n.a.	R n.a.	R 11.6	7.4	O;S	310;110;80	multilateral
Sierra Leone	9.3	n.a.	7.4	11.6	8.8	n.a.	-	-	-
Ecuador	9.0	8.0	8.0	8.0	9.0	12.0 P/	-	-	-
Morocco	9.0	4.7	11.4	7.5	12.1	9.5	-	-	-
Ethiopia	8.6	6.1	7.8	10.0	10.3	n.a.	-	-	-
Philippines	8.1	7.5	8.8	8.0	n.a.	n.a.	-	-	-
Ghana	7.6	n.a.	R 4.0 f/	5.7	R 13.1	n.a.	S	170;100	multilateral
Sudan	7.0	7.0	n.a.	7.0	n.a.	n.a.	-	-	-
Guatemala	6.8	5.1	5.4	9.6	6.2	7.6 P/	-	-	-
Paraguay	6.8	4.1	3.6	5.6	9.4	11.3 P/	-	-	-
Korea	6.8	n.a.	2.9	5.7	7.2	11.3	-	-	-
Kenya	6.7	5.8	6.0	7.3	7.6	n.a.	-	-	-
Greece	6.5	5.4	5.1	9.3	6.4	6.2 P/	-	-	-
Nigeria	5.6	5.7	4.6	5.7	6.4	n.a.	-	-	-
Ceylon	5.6	3.0	2.6	5.5	6.8	10.0	-	-	-
Nicaragua	4.9	4.1	4.8	5.4	5.0	5.2 P/	-	-	-
Tanzania	4.8	4.4	4.0	4.8	6.0	n.a.	-	-	-
China	4.5	2.8	4.3	5.6	n.a.	5.2 P/	-	-	-
Guyana	4.1	4.4	3.8	4.1	4.6	3.8 P/	-	-	-
Thailand	3.7	3.5	3.3	3.8	4.2	3.5	-	-	-
Panama	3.6	3.5	2.7	2.6	3.6	5.4	-	-	-
Trinidad Tobago	3.3	3.4	2.8	2.8	3.3	4.1	-	-	-
El Salvador	3.2	3.6	3.7	2.7	3.0	3.0 P/	-	-	-
Jordan	2.8	2.2	3.3	n.a.	n.a.	n.a.	-	-	-
Jamaica	2.8	1.9	2.2	2.5	3.3	3.9 P/	-	-	-
Cyprus	2.4	n.a.	3.0	2.3	2.0	n.a.	-	-	-
Honduras	2.1	2.6	2.2	2.1	1.7	2.1 P/	-	-	-
Malaysia	2.0	1.2	1.3	2.0	2.2	3.1 P/	-	-	-
Spain	1.9	2.0	1.6	1.6	2.2	n.a.	-	-	-
Venezuela	1.2	1.1	1.2	1.4	n.a.	n.a.	-	-	-

a/ Service payments on external official and officially guaranteed debt of maturity of one year or more, as a percentage of exports of goods and services.

b/ Includes 11 countries known to have had debt reschedulings in the period, together with 35 other countries on which DSR data are readily available. (Liberia had bilateral renegotiations in 1969, but DSR information on a comparable basis is not available.)

c/ B(Commercial Bank loans); I(IBRD loans); O(Official loans); S(Suppliers' Credits).

d/ Based on exports of goods only.

e/ Based on earnings in convertible currencies only.

f/ Ghana's debt problem in 1966 was mostly in maturities of less than 1 year, which are not included in the DSR.

g/ Projected on basis of incomplete data for 1969.

Source:

DSR data compiled by Comparative Data Division (Economics Department) from Country Program Papers. The data are subject to continuous updating and revision.

12



OFFICE OF THE PRESIDENT

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



DECLASSIFIED

MAY 22 2013

WBG ARCHIVES
CONFIDENTIAL

February 3, 1970

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 12 Concerning Aid
Coordination

Recommendation

"Preparations should begin at the earliest possible moment for establishment, where necessary, of new multilateral groupings which provide for annual reviews of the development performance of recipients and the discharge of aid and related commitments by donors. The World Bank and the regional development banks should take the lead in discussions to this end, and the World Bank, or another appropriate existing agency, should provide the necessary reporting services for such groups."^{1/}

Background

This recommendation reflects the Commission's concern about the extent to which development assistance is still uncoordinated, unrelated to any agreed set of priorities in the economies of recipient countries, and insufficiently guided by and responsive to "development performance" as contrasted to other considerations, such as historical relationships between donors and recipients and political objectives of donor governments. The Commission considered that the Bank's activities in the field of aid coordination, particularly its sponsorship of coordination machinery such as consortia and consultative groups, and its staff support of aid coordination exercises sponsored by others, have made an important contribution to the solution of this range of problems. The recommendation, in effect, is that these efforts should be pursued and, where appropriate, expanded to cover additional developing countries. But the Commission also proposed that coordinating efforts be deepened and strengthened in various ways, e.g., by extending them to technical assistance and by giving the coordinating groups responsibility for reviewing not only recipient country

^{1/} Report, page 135.

performance but also the extent to which donor countries' aid and related commitments towards recipients have been discharged. The Commission further suggested that, for at least some of the proposed new groupings, coordination might be effected through regional arrangements. It believed that the participation of other developing countries in addition to the recipient would be particularly useful, citing as a precedent the reviews conducted by the Inter-American Committee for the Alliance for Progress (CIAP). Finally, it proposed, with respect to the regional development banks, that they should play some role in initiating discussions looking to the creation of new groupings, and might eventually, as and when they develop the capacity to do so, provide some of the requisite reporting services for the new groups.^{1/}

Analysis

As the Executive Directors know, we are substantially expanding our program of economic missions. Annual reviews of development programs and performance will be prepared for all developing member countries with a population of more than 10 million (these approximately 30 countries account for over 80% of the total population of developing member countries). Reports on the other developing member countries will also be prepared on a regularly scheduled basis, biennially or triennially. Economic reports will not only be undertaken on a more frequent and more regular schedule than has been the case in the past but, in addition, they will be far more comprehensive. They will provide:

- (a) an evaluation of the situation and prospects of the economy;
- (b) an analysis of the country's development objectives and of the major development obstacles and assets of the economy;
- (c) an informed judgment concerning the appropriate development strategy to be pursued by the government concerned and the likelihood that it will take the action required to carry out that strategy;
- (d) an assessment of domestic and external financing requirements and of the possibilities of meeting them;
- (e) an analysis of the principal preinvestment surveys and studies required to carry out the development program and of the relative priorities of those requirements;
- (f) an appraisal of the available machinery for planning and for the formulation of economic and financial policy;
- (g) an analysis of the problems of investment and resource mobilization and allocation within the economy and among sectors, of external debt prospects, of appropriate borrowing terms, and of creditworthiness;
- (h) an evaluation of the country's population problem and program; and
- (i) an appraisal of the "quality" as well as the "quantity" of economic development, e.g., they will discuss income distribution, literacy levels, life expectancy, trends in unemployment, etc.

^{1/} Report, pages 130-131.

The Bank's experience indicates that the most important element in promoting coordination for any developing country, whether or not a formal aid coordination group exists, is the provision to all interested donor governments and institutions of objective, comprehensive and up-to-date reports of this kind. Such reports are necessary to provide guidance for those who make decisions about aid programs; help all concerned to proceed on the basis of a common understanding concerning the critical development problems facing each country; indicate priority sectors for financial and technical assistance; and, to an increasing extent, outline development strategies agreed between the country in question and the Bank as being both reasonable and worthy of international support.

Effective coordination of the aid programs of a number of donors, whose objectives and motivations may not be identical and whose approaches and systems of administration are likely to differ from one another, is a delicate and complex task, the difficulty of which should not be underestimated. While we have been making progress in this task in some countries, as the Commission recognized, I fully agree with the Commission's view that not nearly enough has been done. During the past year, for example, only 12 of the approximately 30 countries to which we plan to send annual review missions were the object of attention by multilateral meetings reviewing both the development performance of the country in question and the development assistance activities in that country of interested donor governments and international agencies. I am convinced that most, if not all, of the 30 countries, and others as well, could benefit from regular aid coordination exercises.

As of now, the Bank takes principal responsibility for 9 of the 12 coordinating groups referred to above: the India and Pakistan Consortia, the Consultative Groups for Colombia, East Africa (Kenya, Tanzania, Uganda and the East African Community), Ghana, Korea, Morocco, Tunisia, and Ceylon. The Bank also provides economic reports which serve as the basis, or one of the bases, for the deliberations of the following coordination and review groups: the Inter-Governmental Group for Indonesia (chaired by the Government of the Netherlands); the Turkey Consortium (sponsored by the Organisation for Economic Co-operation and Development with an independent chairman); and the Inter-American Committee for the Alliance for Progress (CIAP) reviews. In addition, the Bank has provided analytical reports for the informal, although quite active, aid coordination group convened by the Government of Guyana, and has participated in the discussions of that group.

In the past, some of the coordinating groups, such as the India and Pakistan Consortia, the coordinating groups for Ceylon, Ghana and Indonesia, and the CIAP groups, have met regularly on an annual basis, while others, for a variety of reasons, have met irregularly. For the future, however, I intend to recommend that all the groups for which the Bank takes principal responsibility should meet regularly; this will be facilitated by the expanded system of economic reporting which will generate, on a regular basis, the documentation needed. Meetings are planned during 1970 for the India and Pakistan Consortia and for the groups for Ceylon, Colombia, East Africa, Ghana, Korea, Morocco and Tunisia. As

for other "annual economic review" countries, I am informed that the groups for Indonesia and Turkey will also meet in 1970, and that there will be CIAP reviews of Argentina, Brazil, Chile and Mexico during the year.

I do not believe that this over-all effort is nearly good enough. In my view, the Bank should take the initiative in seeking to organize, at the earliest appropriate time, coordinating groups for most, if not all, of the 30 "annual economic review" countries for which such groups do not now exist. Consultations will be required with the governments concerned and with potential participants in such groups. In some cases relatively simple and informal coordinating machinery will suffice. In other cases, more formal consultative groups will be needed.

In addition, I believe that the existing Bank-sponsored coordinating groups can and should be strengthened. Our new program of more intensive and more regular economic reports is one step in this direction. In particular, we intend that these groups should concern themselves more than in the past with development strategy and with the coordination of major technical assistance activities, a field in which we have thus far made only a modest start. As noted above, our economic missions will be seeking to determine priorities for preinvestment as well as investment activities. The United Nations Development Programme (UNDP) has agreed to cooperate with these missions by associating the UNDP Resident Representatives with their work, especially with respect to the technical assistance and preinvestment aspects. We have also asked for and are receiving the cooperation of FAO, ILO, Unesco and WHO in providing information and, in some cases, appropriate technical staff to assist these Bank missions. I am hopeful that this will contribute to better coordination of the international aid effort, to the importance of which the Commission has called attention.

I am not prepared at this time to comment on the Commission's recommendation that aid coordinating groups should engage in "explicit and formal" reviews of donors' aid policies and procedures.^{1/} This recommendation raises questions which affect other international organizations and which are slated for extensive discussion later this year by those organizations in connection with the strategy for the Second Development Decade.

The Commission's proposal that some of the new coordinating groups should be regional in scope has attractions, particularly for areas where a number of smaller countries are seeking to develop their economies within the framework of a regional market. We have in fact organized one coordinating exercise on a regional basis: the Consultative Group for East Africa, covering Kenya, Tanzania, Uganda and the East African Community. The three countries and their Community have many common ties and, in some respects, are operating as an economic region, so that a regional mechanism seemed entirely appropriate. However, in practice, it has proved necessary to conduct the activities of the consultative group for the most part on a country, rather than a regional, basis. Although this experience points up the practical difficulties of the regional

^{1/} Report, page 130.

approach, I do not believe that it should deter us from creating or supporting other regional coordinating groups in appropriate circumstances.

I do not believe that it is necessary or desirable to take any position now with respect to the Commission's suggestion that the regional development banks should eventually take the lead in organizing, or providing the reporting needed for, coordination exercises for some of the smaller countries. The suggestion merits exploration after we have gained more experience as to the requirements for effective aid coordination.

Conclusion

I believe that the Bank should substantially expand its efforts to improve aid coordination activities, as recommended by the Commission. In particular, I believe that it should take the initiative in organizing some form of aid coordination for most, if not all, of the approximately 20 large countries for which no adequate coordinating machinery exists, and perhaps for some other countries as well. Moreover, I believe that we should intensify and expand the activities of the existing coordinating groups which we sponsor, particularly through convening more regular meetings and through devoting more attention to the discussion of development strategy and the coordination of major technical assistance requirements. We intend, as in the past, to review periodically with the principal interested governments the experience we gain in coordinating groups, with the object of continuing our efforts to improve their effectiveness.

Robert S. McNamara

*refer to work with CIAIDB I
integrate PRK reports with CIAID
review procedure.*

*Group
Ethiopia (not yet done with Part I committee)
Philippines + very on work. 9/15/61 + 10/15/61
CIAID
close work with FED^{EIB} + Pa separately*