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Dates: 12/27/1974 – 7/21/1975

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Washington, D.C.

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Hollis B. Cheney papers - McNamara Discussions 1975 (Jan-July)



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The United Nations University

Office of the Rector

70 Washington Square South
New York, N.Y. 10012
Telephone: (212) 777-8918

AUG 1 1975

2:45 pm

*As to Dr. Chaudhry
H.M. is, I hope the
UN Univ. can be
persuaded to establish
an International Working
group*

July 21, 1975

*to work on the whole
range of international
economic issues, particularly*

Dear

I am writing to invite you to participate in a small working meeting in Tokyo from November 10-14, 1975, to advise The United Nations University on its first program proposals in the field of human and social development. The meeting will consist of approximately fifteen to twenty persons selected for their knowledge of existing world-wide efforts in this field and for their ability to guide the University toward activities that are needed and appropriate to its mandate.

*"development"
Hopefully
your
participation
in the
Tokyo
meeting
will
push the
project
along
L. H. H.*

The enclosed pamphlet will acquaint you with the present status of The United Nations University. The most important next step for the University is to identify specific ways in which it can begin to serve the world. This requires expert knowledge of what is presently being done and what needs to be done by an institution directed by its Charter to concern itself with "Pressing problems of survival, development, and welfare," at the highest levels of excellence--practical as well as intellectual.

The working meeting in Tokyo will not be based on prepared papers. Instead, we are seeking extensive advice from those whose previous experience equips them to join a discussion that will be organized around a set of basic questions of the kind set forth in the enclosure. Additional questions will be added before the meeting designed to focus attention upon specific program strategies for the University to follow. The overall intent is to assure that it embarks upon significant activities that will help to realize its potentially unique world role.

If you can come to Tokyo for this working meeting, all customary expenses will be paid by the University.

Sincerely,

James M. Hester

*Send copy to M.V. (Pamphlet with memo)
Give copy to Starn.*

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 22, 1975

FROM: Hollis B. Chenery *HBC*

SUBJECT: DAC Discussion of Bank Paper

Attached is Maury Williams' reaction to the Prospects paper, which I sent him on a personal basis in connection with the proposed DAC seminar. Shall I accept the proposed date or await the outcome of the Board discussion next week?

Attachment

HBC Chenery:di

7/23

Let's

*discuss
the date*

*after the
Board
discussion
C. Chenery*

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OCDE B PARIS

INCOMING TELEX

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JUL 22 1975

mlf

2:45

1975 JUL 22 PM 1:48

COMMUNICATIONS
SECTION

FROM OECD 62160 PARIS

HOLLIS CHENERY

VICE PRESIDENT

DEVELOPMENT POLICY

IBRD

WASHINGTON

Distribution:

Mr. Chenery ✓

CONGRATULATIONS ON BANK PAPER. IT IS EXCELLENT AND AN IMPORTANT
ADVANCE OVER LAST YEAR S PAPER. PROPOSE WE AGREE ON PRESENTATION
WEDNESDAY, SEPTEMBER 24, IF THIS IS STILL CONVENIENT TO YOU.

BEST REGARDS

MAURICE J. WILLIAMS

DAC CHAIRMAN

440098A IBRD UI

OCDE B PARIS



Record Removal Notice



File Title Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1975 (January - July)		Barcode No. 30235162		
Document Date July 15, 1975	Document Type Memorandum			
Correspondents / Participants To: Robert S. McNamara, President From: Hollis, B. Chenery				
Subject / Title Assignment of Dragoslav Avramovic				
Exception(s) Personal Information				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td>Withdrawn by Bertha F. Wilson</td> <td>Date 12/30/2014</td> </tr> </table>	Withdrawn by Bertha F. Wilson	Date 12/30/2014
Withdrawn by Bertha F. Wilson	Date 12/30/2014			

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: July 14, 1975

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: PRC Review - Fertilizer Requirements of Developing Countries

1. The attached paper on 'Fertilizer Requirements of Developing Countries - Revised Outlook in 1975' prepared by the Industrial Projects Department (CPS) is being distributed for information. It is not currently scheduled for distribution to the Executive Directors who discussed a previous report on this subject (R74-109) in July 1974, although you told the Directors that we would keep them informed through a subsequent report.

2. In view of the very different assessment of the outlook for fertilizer availabilities and in view of the important questions relating to the lending program since last year's assessment, I recommend a meeting of the Policy Review Committee. It would also be desirable to send the paper subsequently to the Executive Directors for information. Mr. Baum agrees.

3. A staff level review of the paper was held on May 30, 1975 (minutes attached) and the original draft was revised in the light of the comments made in that meeting.

4. It may be useful to focus your review of the paper on four main areas:

- : the changed perspective over the medium-term for the supply/demand balance in fertilizers;
- : the implications of the fertilizer balance for food-deficit countries;
- : measures to address cyclical imbalances including buffer stocks;
- : the implications of the analysis for the Bank Group future operations in this sector.

The Fertilizer Balance (Chapter II)

5. The analysis in the paper is that the short-run fertilizer supply situation has ameliorated because of reduction in consumption rather than because of significantly increased supplies. The prospects for the medium-term, however, have improved markedly since the assessment last year because of on-going investments to expand capacity.

6. At the staff review this changed assessment was generally accepted. However, it was questioned to what extent the consumption projections represented agricultural 'needs' (paras. 2.18).

11:30 AM

JUL 21 1975
YesHBC
Barker
7/21

The Fertilizer Situation for Food-Deficit Countries (paras. 2.24 - 2.26)

7. Despite the prospects for better overall fertilizer availabilities for developing countries taken together, paras. 2.24 - 2.26 paint a very different picture for the food-deficit countries in relation to reasonable food output objectives. This situation is referred to again in relation to the work of the CGFPI (para. 4.21).

Measures to Address Cyclical Imbalances (paras. 4.12 - 4.17)

8. The position taken in the paper is that "Bank Group strategy must be to concentrate on the medium- and long-term problems and promote a new and more efficient pattern of investment and trade" (para. 2.09). However, because of the difficulties in reconciling producer with consumer interests on a worldwide basis, of deciding upon price levels, and of obtaining compliance with supply levels even if they could be agreed upon, the paper rules out an international trade agreement and points to the high cost of maintaining any reasonable level of buffer stock for a product that cannot be stored for long. Instead the focus of international discussions has tended to long-run supply contracts. Improved and consistent information on global fertilizer supply/demand prospects, badly lacking in the past, is also regarded as likely to help dampen imbalances.

Bank Group Lending Program

9. The paper states that in view of the changed outlook, "the need for an urgent and major step-up of Bank Group financing of fertilizer production has now diminished" (para. 5.10). At the same time, it is stated that the Bank Group's present FY76-79 program still appears on the low side (see attachment).

10. The paper makes a number of important recommendations with respect to the lending program (para. 5.34):

- : increase the lending program over the next 5 years from a now planned average level of about US\$120 million/year to US\$200 million/year. This compares to more than US\$300 million for each of the past two years (recommendation f).
- : the identified program consists of large, primary production units and only two distribution projects. Do more to reflect the emphasis on the paper on distribution, marketing and satellite or secondary production units to stimulate application of the most appropriate fertilizer (paras. 3.11 - 3.18 and recommendations c, d and f).
- : there are no identified pesticides projects in the lending program; explore, therefore, possibilities of including pesticide components in secondary production and distribution projects (recommendation e).

Cleared with and cc: Mr. Baum
cc: Mr. Knapp, Mr. Fuchs, Mr. Stern, Mr. Haq

HBChenery/FVibert/PJacob:lmh

BANK GROUP LENDING FOR FERTILIZER BY PROJECT TYPE & COUNTRIES

		ACTUAL		PLANNED
		FY69-74	FY75	FY76-79
		\$ m.	\$ m.	\$ m.
<u>NITROGEN</u>				
Egypt	IDA	20.4	-	-
Turkey	IBRD	24.0	18.0	-
Mexico	IBRD	-	50.0	-
Bangladesh	IDA	-	33.0	35.0
India	IDA	138.0	91.0	-
	IBRD	-	109.0	-
	IFC	18.9	-	-
Indonesia	IDA	35.0	-	-
	IBRD	-	115.0	-
Pakistan	IBRD	67.0	-	-
	IFC	3.9	-	-
Philippines	IBRD	-	-	30.0
<u>PHOSPHATE</u>				
Jordan	IBRD	-	-	25.0
	IFC	-	3.2	-
Morocco	IBRD	-	-	40.0
Mexico	IBRD	-	-	60.0
Tunisia	IBRD	-	23.3	-
<u>POTASH</u>				
Jordan	IDA	-	1.0	-
<u>AMMONIA</u>				
Brazil	IBRD	-	-	50.0
Brazil	IBRD	-	-	50.0
<u>MULTI-FERTILIZER</u>				
Romania	IBRD	60.0	-	-
India	IDA	-	-	80.0
Pakistan	IBRD	-	-	50.0
<u>FERTILIZER DISTRIBUTION</u>				
Algeria	IBRD	-	-	40.0
Bangladesh	IDA	-	-	10.0
<u>TOTAL</u>		367.2	443.5	470.0
of which	NITROGEN	307.2	416.0	65.0
	PHOSPHATE	-	26.5	125.0
	POTASH	-	1.0	-
	AMMONIA	-	-	100.0

Policy Planning Division
 Policy Planning & Program Review Dept.
 July 10, 1975

E/239
JUL 15 1975

OFFICE MEMORANDUM

TO: Mr. Robert S. MacNamara

FROM: Hollis B. Chenery, VPS and Warren C. Baum, VPS

SUBJECT: Population

DATE: July 11, 1975

*(A revision of HBC/Baum
mem. of July 3.)*

1. You asked us recently to determine whether the Bank was up to date on the 'state of the art' on population and to what extent available knowledge was being reflected in Bank projects and in Bank economic work. After discussions with principal staff in DPS and CPS we have concluded that the most effective way of reviewing past Bank activity and defining the role the Bank should play in the future would be to begin work on the next population Sector Policy Paper. The new SPP will examine the evolution and future potential of the Bank program once again, against the setting of the global population problem.

Filed: Review of Pop. Sector Policy Paper (Policy Paper drawer)

2. The attachment recapitulates in summary form what we know about the overall demographic problem and outlines the nature and scope of the proposed Sector Policy Paper. We would like to meet with you to discuss your reactions to the proposed outline. It is intended that the first draft should be ready by June 1976. The paper will be the joint responsibility of the Population and Nutrition Projects Department and Development Economics Department.

Attachment

KKanagaratnam/RGulhati:mch

OFFICE MEMORANDUM

~~HBC~~
2. McN notebook

TO: Mr. Robert S. McNamara (through Mr. Chenery) DATE: July 11, 1975

FROM: John A. Holsen

SUBJECT: Paper on "Price Forecasts for Major Primary Commodities"

1. Last year our report on commodity price forecasts was distributed in two forms; the main report (Part I) was put in grey cover for distribution to the Board and the more technical discussion of "Principal Assumptions Underlying the Price Forecasts" (Part II) was distributed to professional and official contacts as a commodity paper. This year we proposed (in Mr. Tims' memo to you dated July 3) to give these studies wider circulation by having them come out as a "red cover" document with a foreward signed by you. In your note to Mr. Chenery of July 8, commenting on our proposal, you said "I do not believe we should now distribute this report except as a Board document and therefore it needs no introduction from me."

2. We understand by this that we should return to last year's procedure in which the main report will be issued only in "grey cover" but Part II--the technical notes on "Principal Assumptions Underlying the Price Forecasts"--can be made available to our professional and official contacts. Partly because of the growing attention now being given to commodity matters and partly because we have (at your suggestion) been publishing our commodity price forecasts in the monthly World Economic Indicators, there is an increasing interest in the Bank's work in this area; it is important that we let people know the assumptions upon which our commodity forecasts are based.

JUL 18 1975

7/17

OK

L. Holsen

JAHolsen/ddm

cc: Mr. S. Singh

*Original to: Mr. Holsen**Revised to: Mr. Chenery seen 7/21**Mr. Stern**Mr. Shamsher Singh**7/18*

OFFICE MEMORANDUM

TO: Mr. Robert McNamara

DATE: July 3, 1975

FROM: Mr. Wouter Tims *W. Tims*

SUBJECT: Paper on Price Forecasts for Major Primary Commodities

7/23/75
file 151
distributed this report
report Allen
then as a Board
Document
+ Review
no
proposal
John
and
David

1. I attach a draft report on Price Forecasts. Its preparation was preceded by inter-Departmental discussions on the price outlook for commodities. The main report (Part I) incorporates Mr. Chenery's comments, although the report will go through further editing (particularly, the tables) before it is distributed.
2. Last year, Part I was distributed as a Board document, while Part II was issued as a commodity paper and distributed without restriction. This year we propose to distribute the full report widely (red cover).
3. Each section of the report is identified by its principal author who is responsible for its accuracy and for the views expressed.
4. Mr. Chenery and I recommend that you approve the report and sign the Foreword.

Attachment

cc: Mr. Chenery (o/r)
Mr. Stern (o/r)
Mr. Wa. Clark
Mr. Merriam

SSingh:jmca



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

July 10, 1975

Dear Dr. Abt:

Since your request for an appointment with Mr. McNamara arrived at a period of peak Bank activity, he has asked me to reply on his behalf. As I was until recently a Professor of Economics at Harvard, I am fairly familiar with your organization and its activities.

The questions you raise in your letter seem more appropriate for a department of the Federal Government than for an international agency such as the World Bank. However, we do have some common interest in social research and in the evaluation of government programs, particularly in the human resource area.

I am enclosing a copy of a recent statement on the Bank's research program, which gives an idea of the range of our own research activities. In the training field, we are mainly active in the developing countries, where the need is greatest, but the amount of technical assistance that we engage in is quite limited.

If there are some areas that you would like to discuss, I would be happy to meet with you.

Yours sincerely,

Hollis B. Chenery
Vice President, Development Policy

Dr. Clark C. Abt
President
Abt Associates Inc.
55 Wheeler Street
Cambridge, Mass. 02138

b.c.c. Mr. Burmaster

Enclosure

ABT ASSOCIATES INC.
55 WHEELER STREET, CAMBRIDGE, MASSACHUSETTS 02138
TELEPHONE • AREA 617-492-7100

June 3, 1975

Mr. Robert McNamara
President
World Bank
1818 H Street, N.W.
Washington, DC 20433

Dear Mr. McNamara:

On requesting an appointment with you, we were informed that your office would like a letter stating the reasons. Here they are.

We are one of the leading social research organizations in the country, with a staff of over 500 including over 50 Ph.D.'s. Our social research for the Federal Government offers many opportunities for professionals from other public interest-oriented institutions to become productively involved in the evaluation of Federal social programs on a part-time or sabbatical basis. We have already pursued these associations informally and arranged exchanges with several universities, and would like to explore the possibility of similar arrangements with your organization.

My second reason for wanting to talk with you is your well-known concern for developing improved human resources for government service. As a major employer of analysts of government programs and one of the institutions that provides government social programs with planning, evaluation, research, and management, we are also concerned with this issue. We have a vested interest in your achieving your objectives in this regard, and some knowledge about how these objectives might be achieved. I would like to explore ways in which we can work cooperatively to achieve these goals, and thus improve the quality of social programs in the Federal Government, which in turn would make it possible for us to do more effective social research.

Our experience suggests that many government officials are not sufficiently aware of the capabilities and limitations of social program evaluation research to apply it effectively in the making of better program decisions. I think we could productively address the problem by instituting some cooperative projects and staff exchanges that would improve the Federal Government's social program evaluation.

6/7 To Dr. Chery
Hillis Head

handle +
reply for state I am
out of the country
Lynn

Reply
this week

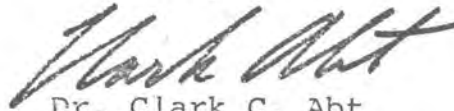
Print

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Mr. Robert McNamara
June 3, 1975
Page Two

A third reason why I would like to meet with you is to seek your advice on how some significant threats to social research by General Accounting Office audits and other proposed violations of confidentiality might be countered. We are entering an era of large social experiments whose validity depends on the confidentiality of survey responses. If this confidentiality is violated, the validity of social research efforts can be severely compromised. I would like your advice on how the legitimate needs for government audits of social research programs might be met without violations of confidentiality that would render their search for ineffective research a self-fulfilling prophecy.

Cordially,



Dr. Clark C. Abt
President

CCA/jt

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 8, 1975

FROM: Hollis B. Chenery

HBC

SUBJECT: Insert on Oil Prices

Attached is a copy of the statement now made on oil prices in the Prospects paper and a draft of the proposed addition to the annex on energy supply and demand, where it fits quite well. With the exception of this annex, the paper is being reproduced. Please let me know if you have any comments. (I have consulted with Friedmann, the only resident energy expert, since Foster is on leave.)

Attachments

OFFICE MEMORANDUM

file

TO: Mr. Robert S. McNamara, President

DATE: July 3, 1975

FROM: Hollis B. Chenery, *WTC* Development PolicySUBJECT: Should we construct our own Terms of Trade Indexes?

1. You have raised the question whether the Bank staff should construct our own index of terms of trade of the developing countries, instead of the UN/UNCTAD index now being used to measure changes in the purchasing power of these countries' exports.

2. I advise against this, for the following reasons. However imperfect, the UN/UNCTAD index of commodity terms of trade is now the only one available. The difficulties that the UN encounters in constructing this simple index are enormous: Unit values of all commodities traded by all developing countries have to be collected and blended into an index which takes into account their relative importance. The UN - despite the size and mechanized structure of its trade monitoring system - is constantly struggling with the problem of getting the relevant information in time. Therefore sophisticated sampling techniques are used to calculate the indexes, necessitating innumerable revisions of past data.

3. We cannot develop our own index of the developing countries' commodity terms of trade, unless we obtain access to complete trade detail and to computerized systems to process trade information, at considerable costs and duplicating the UN's work. There is no reasonable chance that we could do better than the UN in our final product. I suggest, therefore, that we continue to rely on the UN terms of trade index.

4. The UN Statistical Office is making considerable progress in establishing computer systems for manipulating trade information. We are closely associated with this work: DPS staff is in regular touch with the UN Statistical Office and already has acquired statistical information on trade which has improved our analytical capability. I suggest that we continue to assist the UN in these efforts, and to rely on them as a source of trade information.

cc: Messrs. E. Stern (o/r)
W. Tims

7/10
DT
WTC

JUL 11 1975

HBChenery:WTims:ke

Xeroxed to Stern &
Tims 7/11

distribution from becoming more skewed and to prevent land values from increasing too fast, so that land will be used for productive purposes and not merely as a hedge against inflation.

2.25 Determining a desirable rate of import growth -- as well as a desirable composition of imports -- and implementing a policy to achieve those ends over time are major tasks. Once import costs reach the same level as export earnings, the growth rates of imports and exports will have to be kept nearly equal. This may necessitate a sharp reduction in import growth if plans for the future are not made appropriately: at a time when the Group II countries' investment programs are likely to be expanding rapidly, and to have a high import content, the expansion of imports for other purposes may have to be curtailed or halted in order to maintain investment growth. If import-substituting production capacity (particularly for basic foods) has not been sufficiently developed, these countries will face a need either to curb consumer demand, or to accept renewed inflationary pressures, or to increase external borrowing.

C. Balance of Payments Prospects

2.26 The balance of payments prospects for the OPEC countries depend on their oil receipts and on their capacity to use these revenues to develop and diversify their economies. The volume of world demand for OPEC oil is largely determined by the growth prospects of the OECD countries, the extent to which these countries develop substitute sources of energy, and the oil production policies followed by OPEC countries. ^{1/} OPEC's receipts depend importantly on oil price developments.

2.27 Projections of total demand for OPEC oil are based on two alternative assumptions as to OECD growth rates, and two

Table II.1 ALTERNATIVE OIL PRICE PROJECTIONS

(US dollars per barrel; Saudi-Arabian Light f.o.b. Ras Tanura)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1980</u>
<u>Case I: "Constant" Price</u>				
In current dollars	2.70	9.77	10.46	15.20
In 1974 dollars	3.27	9.77	9.40	9.40
<u>Case II: Declining Price</u>				
In current dollars	2.70	9.77	10.46	12.00
In 1974 dollars	3.27	9.77	9.40	7.50

^{1/} Annex B discusses energy prospects over the projection period.

alternative oil price patterns. 1/ In Case I, oil prices remain at \$9.40 per barrel in constant 1974 dollars; in Case II, oil prices decline gradually to \$7.50 per barrel in constant 1974 dollars. The price of oil postulated in Case II is within the range estimated in a number of recent studies 2/; it is presumed to be indicative of the cost of alternative energy sources in the long run. For example, the price range considered in the U.S. report, Project Independence 3/, is \$6 to \$9 per barrel in constant 1973 prices; the "Long-Term Energy Assessment" of the OECD considers a similar range (in end-1974 prices) of \$7.20 to \$10.80. 4/

2.28 On the basis of proven oil reserves, production capacity and known production plans, Table II.2 shows estimates of total OPEC oil output, indicating how the OPEC market is shared.

Table II.2 OPEC OIL OUTPUT

(million barrels per day)

	<u>1974</u>	<u>1975</u>	<u>1980</u>			
			<u>High OECD Growth</u>		<u>Low OECD Growth</u>	
			<u>Case I</u>	<u>Case II</u>	<u>Case I</u>	<u>Case II</u>
Group I	13.2	11.5	13.5	14.6	9.2	9.8
Group II	<u>17.0</u>	<u>16.0</u>	<u>20.0</u>	<u>21.3</u>	<u>17.3</u>	<u>18.4</u>
Total	30.2	27.5	33.5	35.9	26.5	28.2

These imply a likely range of oil export receipts for all OPEC countries in 1980, depending on the assumptions used, of between \$120 and \$185 billion in current prices, compared with \$113 billion in 1974. (See Annex Table 7).

2.29. Projections of accumulated current account surpluses of these countries are sensitive to alternative assumptions as

-
- 1/ The OECD growth assumptions are discussed in Chapter IV and Annex A. Oil prices are discussed further in Annex B.
- 2/ Analyses made a year ago by the Bank staff considered alternatives analogous to those postulated here; the differences in the specific prices used are negligible, reflecting a shift from early 1974 prices to average 1974 prices.
- 3/ Prices are f.o.b. Persian Gulf; U.S. Federal Energy Administration, Project Independence (November 1974).
- 4/ OECD, Energy Prospects to 1985 (December 1974); the corresponding prices in 1972 constant dollars are \$6 and \$9, respectively.

to oil export receipts, country shares in the market for OPEC oil, and the growth of their own imports. The likely range of accumulated current account surpluses under different assumptions is shown in Table II.3:

Table II.3 ACCUMULATED CURRENT ACCOUNT SURPLUSES (1973-80)

(in billions of current US dollars)

<u>1980 Oil Price</u>	<u>High OECD Growth</u>		<u>Low OECD Growth</u>	
	Case I	Case II	Case I	Case II
Group I	347.7	298.1	245.2	207.7
Group II	<u>55.4</u>	<u>9.9</u>	<u>22.1</u>	<u>-5.4</u>
Total Surplus	403.1	308.0	267.3	202.3
Memorandum: Total Surplus in 1974 US dollars <u>a/</u>	244.0	186.4	161.8	122.5

a/ Surplus figures in current dollars deflated by a general index of the prices of manufactured goods exported by industrial countries (see Annex A); individual OPEC countries may experience somewhat different trends in import prices.

Source: Annex Table 7.

Projections of import growth are based on an assessment of the absorptive capacity in each group. In Case I with high OECD growth, OPEC imports of goods are projected to increase through 1980 by about 13.1% per annum in constant 1974 prices (24.5% in current prices) over their already high 1974 levels: this is comprised of nominal annual increases of 31.5% per annum in Group I, and of 22.5% per annum in Group II. Under the other three sets of assumptions, Group II countries are projected to reduce the growth of their imports, reflecting balance of payments difficulties. However, even with a reduction in import growth, Group II countries taken together have a current account deficit in 1980 regardless of which assumptions are used; 1/ Indonesia's current account was in deficit in 1974, despite its increased oil receipts. Due to their more limited absorptive capacity, Group I countries are likely to hold between 85-100% of the total OPEC accumulated surpluses, depending on the assumptions used.

2.30 These projections are subject to large uncertainties. They should therefore be considered as conjectural and interpreted with caution. If, for example, the market shares of Group II countries were to be larger than assumed here, given the same

1/ See Annex Table 7.

total demand for oil, the total imports of OPEC countries could be much greater, because of the higher absorptive capacity of these countries. The total accumulated current surpluses would then be much lower.

2.31 These estimates are much lower than those made by Bank staff a year ago, when the accumulated current account surplus of OPEC countries was projected to be \$653 billion in current dollars by the end of 1980. A major reason for this difference is that the value of OPEC imports has grown more rapidly during 1974 than was expected because of price increases in international trade, which were significantly higher than foreseen, and also because of greater than anticipated increases in import volumes. Neither did last year's projection foresee the depth of the recession in OECD countries, and its consequences for oil revenues in 1975 and 1976,

IV. Petroleum Prices

12. The analysis of primary commodity prices in this study--including that of petroleum--is based on the present and prospective structure of each commodity market. Market analysis includes estimates of the prospective reserves of the relevant natural resources, the willingness of their owners to develop them for export, the elasticity of demand, and the nature of any producer agreements to restrict supplies. In the case of petroleum, the demand analysis in the preceding sections combined with uncertainty about future producer behavior has led to the adoption of a range of prices to represent the likely outcomes in 1980. The higher price--\$9.40 in 1974 prices (\$10.46 in 1975 prices)--represents a continuation of the present market price in real terms and is taken to represent present policy of the OPEC countries. The lower price--\$7.50 in 1974 prices--is taken as the longer term cost of non-OPEC sources of energy developed in sufficient quantity to affect the market.^{1/} In the longer run, this price would put a ceiling on the market value of OPEC supplies. The producing countries might allow the price to fall to this level by 1980 to protect their share of the energy market and forestall the development of higher cost alternatives.

^{1/} These estimates are quite similar to those made a year ago in "Prospects for the Developing Countries" July 1974.

13. An alternative approach to the determination of "optimal" prices for commodities is derived from the theory of optimal resource allocation. It assumes that countries are willing to devote their resources to international markets whenever the returns from doing so exceed the prospective return from future price rises. Several analysts--notably Nordhaus^{1/} and Houthakker^{2/}--have attempted to determine the equilibrium price of petroleum that would result from assumptions that are the equivalent of perfect competition in all markets in the long run. While these particular studies are based on somewhat obsolete technological information and cost estimates, analyses of this sort will almost certainly yield an equilibrium price of petroleum in the 1980s considerably lower than the price of \$7.50 used here, which assumes that producers exercise the right to withhold supplies from the market although probably somewhat above the price of \$3.00 that prevailed in 1973.

14. In the absence of international agreements on commodity pricing or access to each country's national resources, there is little relevance of the concept of competitive equilibrium price in predicting the effects of market behavior. However, it can be used as a measure of the rents derived by the oil producers and of the transfer payments that they imply from the poorer oil importers. The latter are recognized implicitly

1/ The Allocation of Energy Resources, Cowles Foundation Paper No.401, Yale University, 1974.

2/ The Oil Problem and the International Monetary System, to Conference on U.S.-Japan Economic Policy, April 1974.

in the willingness of the OPEC countries to make loans to the developing countries, and explicitly in the Venezuelan program of lending to other Latin American countries in relation to the increased price of oil to them.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: DFC Policy Paper

DATE: July 8, 1975

1. The attached 'DFC Policy Paper,' prepared by the Development Finance Companies Department, is being distributed to PRC Members and is due to be sent to the Executive Directors on July 30, for their consideration on September 23, 1975. A staff level review of the paper was held on June 23 (minutes attached), and the paper has been revised in the light of the comments made at that meeting.

2. The paper addresses a number of concerns that have been raised by the Executive Directors in recent discussions on individual loans to DFCs. These questions have included:

- the reliance of DFCs on Bank lending and the criteria for phasing-out assistance;
- the economic return on DFC lending;
- the criteria for setting on-lending rates for sub-borrowers;
and
- DFCs and small-enterprise financing.

In addition, the paper discusses the criteria for lending to public DFCs which at an earlier time was a subject of interest with Executive Directors.

3. At the staff review the analysis in the paper on these and other questions was generally accepted. Two areas which may merit further consideration are the question of the appropriate level of on-lending rates to sub-borrowers and the question of sector objectives associated with DFC lending.

On-Lending Rates

4. The position taken in the paper is that flexibility has to be retained to take account of different country situations and financial sector differences, but that the general posture should be rates of interest sufficient to encourage the mobilization of capital, as well as to cover the costs of intermediation; and in the absence of such market tests, target rates of 5-6% in real terms would be appropriate benchmarks (paras. 45-54).

5. At the staff review there was a difference of opinion between those who doubted whether in practice, given financial practices in many countries and given the difficulties of applying such a policy in inflationary circumstances, it would be possible to adhere to these guidelines. Others felt that the posture was correct and that the target should be for even higher real interest rates.

Sector Objectives (paras. 67-71 and paras 89-97)

6. While the Bank has been relatively successful in achieving limited institutional objectives in its lending to DFCs, the Bank has been much less successful either directly or in using DFC operations to achieve broader objectives in the financial and industrial sector.

7. With respect to broader objectives in the industrial sector, paras. 89-91 point to the need for the Bank to have an integrated approach to the industrial sector and within the Bank for coordination between the several departments involved.

8. While there was a large degree of agreement with the paper at the staff review, in view of the importance of a number of the topics dealt with, I believe it would be useful to hold a meeting of the Policy Review Committee. Mr. Alter agrees.

Meeting held 7/15

cc and cleared with: Mr. Alter

cc: Mr. Knapp
Mr. Baum
Mr. Haq (o/r)

HBChenery/FVibert/PJacob:lmh

OFFICE MEMORANDUM

TO: Mr. Robert McNamara, President

DATE: June 28, 1975

FROM: Hollis B. Chenery, VPD *HBC*SUBJECT: Prospects for the Developing Countries, 1976-1980

Attached is a draft of the Prospects paper that has been fairly extensively rewritten in the light of comments from Chief Economists and other readers of the draft that you saw. Our editor, Rachel Weaving, has made a heroic effort to put it in a more uniform style and eliminate duplication. She and I will concentrate on that objective over the next several days. The text is complete except for two technical annexes and the remaining tables, which will be typed Monday.

In reviewing this version, I would suggest that you give first priority to Chapters V and VI and second priority to I and IV. Chapter II is quite bland and little changed from the previous draft.

If you find the product generally acceptable, I would propose to take two days for final editing and have the paper printed on July 3. Even if Board members do not receive it until Monday July 7, they will have 15 days until the scheduled seminar on July 22--one more than they did last year. This schedule is also consistent with the proposed DAC seminar on July 24, if you decide to approve that.

I expect to leave about 2:00 p.m. today but John Holsen (ext.6167) will be here until 5:00.

Att.

OFFICE OF THE PRESIDENT

6/14

To Messrs. [✓]Cheney
Clark
Saxeck } Please form
an ad hoc
committee

- ① How do we justify spending
W Bank budget funds on
subjects such some of our
members will consider
prejudicial to their interests
which are only indirectly if
at all related to the development
of our other developing members.
- ② If such work is carried on
in the Bank, should it be published?
- L. New

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (thru Mr. Wm. Clark)

DATE: June 9, 1975

FROM: John E. Merriam

SUBJECT: Request for Publication of: "A Dynamic Model of OPEC Trade and Production"

The Information Department has been asked to approve publication of the attached working paper: "A Dynamic Model of OPEC Trade and Production" written by Messrs. Blitzer, Meeraus and Stoutjesdijk, in the Journal of Development Economics. Publication would be subject to the following caveat:

"This paper is based upon staff work done as part of the World Bank's continuing analysis of the changing world economic situation as it affects developing countries. The conclusions reached and views expressed, however, are not those of the World Bank but of the authors alone. The authors gratefully acknowledge comments and suggestions by colleagues in the World Bank and elsewhere, and especially those of: Bela Balassa, Ram Chopra, Hollis B. Chenery, Dietrich Fisher, John Foster, Efrain Friedmann, Dermot Gately, Atilla Karasmanoglu, Benjamin King, Alan Manne, and Graham Pyatt."

The paper is extremely interesting and well written, but it could have political and public relations implications in view of the widespread press attention given to Bank projections of OPEC reserves, etc. This is a dynamic simulation model of the world's energy market from 1974 to 1995. It is used to rank six possible prices or output policies that OPEC may adopt in response to a number of factors. The paper offers an illustrative analysis of possible conflict situations within OPEC. It concludes: "that the supply response of alternative energy sources to OPEC oil will be the key to predicting whether oil prices will go up or down."

Probably few newsmen read the Journal of Development Economics -- but there are always those with a nose for news, and some may well ferret this out.

On balance, I recommend we proceed with publication; concealment may well be more dangerous than publication. It is certainly worthwhile to put this material out, when it is of such high quality and value. Accordingly, I recommend we proceed with publication, but with the strict understanding that papers of this kind will have to be reviewed carefully on a case-by-case basis.

Attachment

cc: Mr. Chenery
Mr. Hoffman
Mr. Duloy

JEM:rgw

Mr. Robert S. McNamara

June 27, 1975

Hollis B. Chenery

Section II of the Governors' Address

Attached is a redraft of pages 5-9 of the address. The table is provided in a more complete form than you would want to use in the final product, unless you make it an annex table. I think that it clarifies the relationship between resource requirements and medium and long term capital flows more clearly than the previous version. These results are given in a form equivalent to your table on page 6 in a second table, although I do not refer to it in the text.

Holsen and I will be available until 1 p.m. on Saturday, if you need any clarification.

Attachments

HBChenery:di

Mr. Robert S. McNamara

June 27, 1975

Hollis B. Chenery

Section V of Governors' Address

Attached is the revised version of the section on Urban Poverty, which you asked Tony Churchill and Helen Hughes to prepare. I have no additional comments on this section.

Attachment

HBChenery:di

(Chenery kept the original of the attachment, the only other copy we got.)

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: June 19, 1975
FROM: Hollis B. Chenery, ^{HB2}VP, Development Policy
SUBJECT: KOREA CPP - Outstanding Policy and Program Issues

The Major Issue

1. A decade of very rapid and continuous export-oriented economic growth in Korea came to an abrupt end in 1973. Since then, the economy has suffered two major setbacks, first in its terms of trade as a result of higher petroleum and industrial import prices and then the deep recession in Japan and the United States--its major trading partners. Indeed, Korea was one of the countries classified by the Bank in the "most seriously affected" category, though it was ultimately dropped from the final list of the United Nations Emergency Operation.

2. In the face of these externally imposed difficulties, the Government has taken a series of strong internal adjustment measures (CPP paragraphs 13-39), has made maximum use of the various IMF facilities and has also borrowed considerable amounts of short-term commercial funds on hard terms. Despite these measures, Korea has had to lower its target growth rate from the historical rate of 10-11 percent to 8 percent for the next few years. Any further reduction in growth runs the serious risk of engendering high rates of unemployment and consequent social unrest. If Korea is to regain its warranted pace of long-term development, it needs substantial amounts of quick-disbursing and concessionary capital assistance until it can restore its export earnings. This fits the general pattern of the adjustment process for Middle Income countries.

3. On these grounds we should respond positively to Korea's urgent needs for an increased net transfer of IBRD funds appropriately phased. There is no question of Korea's development potential and creditworthiness for increased IBRD lending, nor is there an issue of Bank exposure either in terms of the IBRD share of debt service (6 percent in 1980-85) or of Korea's share in the Bank's portfolio (approximately 5 percent in the early 1980s). Although we recognize the constraint on overall IBRD lending, particularly in the next two years, Korea deserves favored treatment. While we would endorse a reduction in the proposed total lending program for the latter years of up to \$130 million, it is important that the proposed level of project and program lending of FY76-77 be approved. This would imply the following annual distribution of lending:

	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>Total</u>
Project	290	295	300	300	300	1,485
Program	<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200</u>
Total	390	395	300	300	300	1,685
(CPP Proposal	390	395	350	340	340	1,815)

4. This recommendation is nothing more than a continuation of the constructive role which the Bank has been playing in supporting Korea's long-term development strategy. In FY75, for example, we responded to Korea's immediate needs with an initial program loan of \$100 million. In pursuing this strategy, the CPP proposes additional program lending and has adjusted the type and amounts of proposed project loans for FY76 and FY77 so as to accelerate the rate of disbursements in those two years. (IBRD net transfers for FY76-77 are now projected at \$405 million as compared with \$120 million for FY74-75.)

5. With respect to the proposed program loans we suggest that, subject to the findings of the forthcoming appraisal mission, consideration be given to the possibility of either consolidating the two loans into one program loan in FY76 or making the amounts of each loan flexible within the \$200 million total amount. This would enhance our response to Korea's need for rapidly disbursing assistance.

Other Issues

6. Local Cost Financing. Korea has frequently been singled out as a recipient of large amounts of local cost financing. We estimate that the proportion of local currency finance for the proposed FY76-80 program is only about 15 percent, mainly in agriculture, regional development, education and water supply projects. (For the years FY76-77 it is estimated at less than 10 percent.) If the Bank is to continue to emphasize these sectors and to be able to finance up to 50 percent of total project costs, (see CPP Postscript, May 23, 1974, paragraph 2), these levels of local cost financing are both reasonable and necessary.

7. Economic Work Program. Until recently, Bank discussions on various aspects of economic policy were on a relatively informal basis. Because of the changing world situation, the Region proposes that substantial efforts be put into the Basic Economic Work Program over the next five years, not only to provide a basis for Bank lending operations but to strengthen

June 19, 1975

the dialogue with the Government and to assist Korea in preparing, implementing and monitoring its Fourth Development Plan. We commend this movement towards issues-oriented and plan-related studies. In addition, we recommend that the Region seek to play a stronger role (through the Consultative Group or otherwise) in assisting Korea to obtain concessional aid from other official sources. Korea's two major deficit areas at present are Japan and the oil-exporting countries. As Japan accounts for 40 percent of Korea's imports, measures to soften the terms of suppliers' credits could be suggested to the Japanese government. Similarly, measures to offset the oil-import deficit, through guaranteed export markets, co-financing, etc. by the oil exporters, should be encouraged.

cc: Messrs. J. Burke Knapp
W.C. Baum
I.P.M. Cargill
G. Alter
J. Adler
B.R. Bell
G.B. Votaw
S.S. Kirmani
B. Chadenet
P. Hasan
D. Loos
G. Kalu
M. Haq (o/r)
S. Chernick
K.G. Gabriel
R.S. Dosik
A. Gue

HBChenery:Schernick:JBharier:blm:gss

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 19, 1975

FROM: Hollis B. Chenery *HBC*

SUBJECT: DAC Seminar on Prospects for Developing Countries

In response to the attached cable, I called Maury Williams and reiterated that you were not willing to agree on a firm date for the DAC seminar until you had seen the next draft of the paper and fixed the date for the Board seminar. For planning purposes we picked July 24 as the last date that would be feasible before DAC vacations set in--subject to confirmation by you.

Attachment

cc: Mr. Tims

HBChenery:di

OCDE B PARIS

INCOMING TELEX

JUN 19 1975

1975 JUN 19 AM 10: 39

Distribution:

Mr. Chenery /

FROM

OECD PARIS TELEX 62160 PARIS

TO

MR HOLLIS B. CHENERY

VICE PRESIDENT

DEVELOPMENT POLICY

THANK YOU FOR YOUR MESSAGE JUNE 17. IN VIEW YOUR LATER SCHEDULE
ON DEVELOPMENT PROSPECTS PAPER, I PROPOSE WE PLAN DAC SEMINAR
FOR YOU IN PARIS ON ~~TUESDAY~~, ^{thurs.} JULY 24. PLEASE ADVISE IF THIS IS
AGREEABLE TO YOU.

changed

MAURICE J. WILLIAMS

DAC CHAIRMAN

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: June 16, 1975

FROM: Hollis B. Chenery, *ABC* VP, Development Policy

SUBJECT: The New International Economic Order

1. Attached is a memorandum, prepared at my request by Mr. Vibert, analyzing some of the elements of the new international economic order in light of the shifts in current economic conditions. There are areas of the NIEO where the concerns have important substantive basis of relevance to the Bank, and these are identified. The broad NIEO demands and possible areas of action are listed in the attached table.

2. We are continuing to keep in touch with the NIEO discussions. Our principal contribution will be to help define the rhetorical aims and to quantify objectives, so that costs and benefits can be assessed.

Attachment

cc: President's Council

EStern/lS

OFFICE MEMORANDUM

TO: Mr. H. B. Chenery, Vice President, DPS

DATE: May 20, 1975

FROM: Frank Vibert, Chief, Policy Planning Division, PP&PR

SUBJECT: The New International Economic Order -- A Non-Polemical View

1. At a recent meeting, you repeated your request for a non-polemical statement on the elements which comprise the New International Economic Order (NIEO).
2. As I understand it, the NIEO is an umbrella title for a wide variety of ideas, most of which are not new but have a long ancestry to Bretton Woods and before. There are, however, three elements which underlie the NIEO title:
 - (i) Timeliness - a belief that the shape of the world over the next decade or so is sufficiently different from the past that the time is now ripe for a number of ideas that have been rejected in the past;
 - (ii) Shift in Bargaining Power - a belief that relative bargaining power between the traditional centers of power in the world economy -- the industrialized members of OECD -- and the developing countries has shifted in favor of developing countries. This in turn makes it possible for LDCs to insist on some of those ideas for which the time has now come;
 - (iii) Interrelatedness of the Demands - a belief that the NIEO demands of developing countries should be treated as inter-related. Thus, commodity problems should be treated in 'integrated' proposals and trade/aid/monetary demands be seen as part of the 'broad question' of resource transfers. This insistence itself partly reflects the perception that bargaining power has shifted and that gains on any one front should be paralleled on other matters.
3. These three key elements should not be taken at face value. For example, while the financial strength of OPEC countries does increase the voice of LDCs in international debates (as long as OPEC is aligned with the Group of 77), the financial management of those OPEC countries with chronic surpluses may well turn out to be highly conservative and de facto be aligned with the existing major financial powers. The larger the accumulated financial surpluses of OPEC countries, the greater their interest in not rocking the boat.
4. Because of general scepticism about the claims of NIEO, as well as the heavy overlay of rhetoric, it is easy for the Bank to take the position that it should go about its business in the usual way and focus on the needs of the poorest countries, rural development and other nuts and bolts of development lending.

5. Nevertheless, despite the division between reality and the rhetoric of NIEO, there are promising areas where in fact there is validity in the claim that the time is ripe for new initiatives. The Bank's view of some of the major dimensions of the future environment for development is becoming clearer. It does indeed look as though the outlook for development will be different in a number of ways from the pattern that has hitherto been prevailing:

- the flow of private loan capital is likely to be much more important in future relative to the flow of official capital.
- a world dependent on a larger and more volatile capital flows will pay greater attention to mechanisms to meet short-run liquidity crises (enlarged IMF facilities, compensatory financing, etc.).
- both developed and developing countries are likely to pay greater attention to international trade arrangements (both primary commodities and manufactures) rather than focus on the past dialogue on official capital flows:
 - : LDCs because export growth will be crucial in attracting private capital and managing debt;
 - : OECD because of increased awareness that growth patterns in OECD area can have repercussions on the global economy that in turn destabilize OECD economies.
- the changed external environment in turn has a number of implications for development strategy within developing countries:
 - : greater emphasis on self-sufficiency for example in food production where deficits have been traditionally met by officially financed imports;
 - : changes in industrialization strategy in response to changing trade patterns, changes in centers of industrial growth, the need to attract private capital, including multinationals.

6. This sort of view of the world is in some respects quite sharply different from some of the components of NIEO (particularly NIEO hostility to private capital and reliance on continued official flow targets). In other areas, particularly trade and liquidity questions, the perceptions have much in common.

7. Since there are clearly areas of promise in NIEO, it would be a mistake for the Bank to ignore it. Moreover, disdain on the part of the Bank will be misinterpreted as defensiveness since, in fact, the Bank may be on weak grounds in certain key areas of legitimate concern.

8. Among the areas where the Bank may need to consider new departures both in terms of analysis and policy are the following:

- food output - much has to be done to relate the Bank's rural development objectives to food output objectives, particularly in the main food deficit areas.
- industry - does the Bank have a clear sense of direction in its lending in this sector?
- relations with private capital markets - the Bank's traditional posture has been that it can best assist developing countries by borrowing on its own credit standing and lending directly. Could a wider range of functions be developed?
- trade questions - the Bank has far to go both in analysis and in relating its lending to questions which arise in the context of promoting trade in manufactures; with respect to primary commodities, the Bank is only now taking the first steps to meet commodity financing needs.
- stabilization assistance - could the Bank be more forthcoming and, for example, envisage STABEX-type schemes for the poorest countries in conjunction with IDA V; could compensatory financing assistance be established in a way which relates logically to buffer stock financing schemes.

9. Attached is a listing of NIEO demands; with annotations on the realism or not of the demands; and the promising areas which lie beneath the rhetoric. A number of these areas are under discussion for papers to be prepared in the future policy work program in the Bank. These proposals include papers on food output operations; buffer stock financing; issues in trade in manufactures and on the Bank's role vis-a-vis private capital flows. We are in the midst of discussions with interested departments to formulate the work program more precisely. We will be sending you a separate memorandum on the policy work program towards the end of June when these discussions are complete.

10. As you requested, PPD members are holding a watching brief on NIEO questions. In this connection, we are arranging for a series of eminent speakers to give small seminars on selected topics of interest and hopefully these will get under way in the near future. In addition, a number of speakers may be persuaded to make a contribution in the form of a paper on a specific topic under consultancy arrangements.

Attachment

cc: Mr. Stern, Mr. Haq, PPD members

FV/lmh

Handwritten note: Handwritten note in blue ink, possibly "Handwritten note" or similar.

Handwritten notes: 6/14 to D. Chenery; ① This I can then this very quickly -

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 12, 1975

FROM: Hollis B. Chenery *HBC*

SUBJECT: Prospects for Developing Countries: 1976-1980

1. Attached is the current draft of this paper. The four central chapters have gone through two weeks of intensive discussion and revision within the drafting group. While some of our ideas have been substantially modified in this process, the main policy conclusions are essentially those of my paper for The Hague seminar (which was based on the first draft). In this version priority has been given to the analytical content; the style and presentation should be further improved in the next draft.

Handwritten notes: based on such a superficial review at this stage satisfactory although you should add a stronger word of caution at the

2. Data Base. Since we are the only organization that prepares an analysis of this scope, we have almost insuperable problems in reconciling data from different sources. Our papers in this series have used data for three different universes: (a) individual country data for the 40 "panel" LDCs and for the OPEC countries; (b) aggregate trade and GNP data for all developing countries; (c) data from donor sources on aid and capital flows, (which have never been reconciled with LDC sources). The core of the analysis is the set of models for countries and groups of countries in (a). Chapters II - IV are expressed in these terms. The only detailed reconciliation of all three sets of data was done for 1973 and summarized in our Capital Requirements paper. This is used in Chapter V to discuss capital flows. Since the difficulty in linking these universes has been one of the main sources of misunderstanding in earlier papers, we will try to make the treatment more uniform throughout in the next draft, including a shift to 1974 dollars for all series in constant prices. Many of the present figures, although correct in the present context, will therefore be revised for the sake of greater uniformity.

Handwritten notes: accuracy of particular figures. The "Flow of External Capital" I thought weak but I doubt you can strengthen it now.

3. After we receive your preliminary reactions to this draft, we can decide on the amount of revision needed and the dates for submission to the Board and subsequent discussion in a Board seminar. I have held off on making any commitment to a DAC seminar until we reach this stage. Ideally, I would like to get your reactions to the numerous policy assumptions that we have made and then revise the calculations underlying the later chapters before producing a final version.

Handwritten notes: Check the ODA projections with Treasury Williams.

cc: Messrs. Tims/Holsen, Saxe, Hulley

HBC Chenery:di

Handwritten note: Why not '75?

Handwritten notes: ③ It is desirable to distribute the final document quickly - then it will be ready. Let Paul review the final draft. OK end

6/17 To Dr. Chenery

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: June 16, 1975

FROM: Hollis B. Chenery, ^{ASST}VP, Development Policy

SUBJECT: Terms of Trade

1. Should not
not try to develop
Terms of Trade
index
v. of Chenery not

1. You rightly point out the difference between (i) the UN/UNCTAD terms of trade index (flat between 1957 and 1971); and (ii) our own index of the purchasing power of primary commodities in terms of manufactured goods (declining by 25 percent between the same years). The reason for this is that developing countries export manufactures, which improves their terms of trade performance, and also import primary commodities, particularly petroleum and foodgrains. For the period 1957-1971 the latter factor improved their terms of trade, but since that year it has, of course, substantially contributed to their worsening.

not
an index
of the
purchasing
power of
primary
commodities

2. Both indices are, therefore, correct in terms of what each tries to represent. While heavy and continued dependence on exports of primary commodities is disadvantageous to most countries, over the past 15 years a substantial shift in export composition of the developing countries has compensated for the weakness of primary commodity prices.

we
should
emphasize

cc: Messrs. E. Stern
W. Tims

it is not to
be interpreted
as an index of
terms of trade
L Chenery

HBChenery:Wtims:gss

Copy given to Mr Tims
+ Mr Stern

6/16

6/7 To Dr. Chenery
 These are significant
Attachment
 differences.
 When index is
"correct" ?
 L.M.W.

DEVELOPING COUNTRIES' TERMS OF TRADE: TWO INDICATORS

YEAR	UN/UNCTAD ^{1/}	IBRD/EPDCE ^{2/}
	1963=100 ^{3/}	1963=100 ^{4/}
1955	111	130
1956	108	128
1957	103	118
1958	101	111
1959	104	110
1960	104	106
1961	100	98
1962	97	97
<u>1963</u>	<u>100</u>	<u>100</u>
1964	103	109
1965	101	109
1966	104	109
1967	102	100
1968	103	102
1969	106	104
1970	106	102
1971	101	89
1972	n.a.	87
1973	n.a.	108
1974	n.a.	100

- 1/ Unit value index of exports of developing countries, excluding petroleum, divided by unit value index of imports.
 Source: U.N. Monthly Bulletin of Statistics, July 1972, April 1975.
- 2/ Index of prices of 34 commodities (excluding petroleum), weighted by 1967-69 values of developing countries' exports, deflated by index of developed countries' export prices of manufactures, 1973=100.
 Source: IBRD, EPD/CE/IE.
- 3/ 1963 weights.
- 4/ Weighting pattern as in note (2), rebased for comparison with UN/UNCTAD index.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 12, 1975

FROM: Hollis B. Chenery *HBC*SUBJECT: Prospects for Developing Countries: 1976-1980

*In Prospects -
note book*

1. Attached is the current draft of this paper. The four central chapters have gone through two weeks of intensive discussion and revision within the drafting group. While some of our ideas have been substantially modified in this process, the main policy conclusions are essentially those of my paper for The Hague seminar (which was based on the first draft). In this version priority has been given to the analytical content; the style and presentation should be further improved in the next draft.

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3. After we receive your preliminary reactions to this draft, we can decide on the amount of revision needed and the dates for submission to the Board and subsequent discussion in a Board seminar. I have held off on making any commitment to a DAC seminar until we reach this stage. Ideally, I would like to get your reactions to the numerous policy assumptions that we have made and then revise the calculations underlying the later chapters before producing a final version.

cc: Messrs. Tims/Holsen, Saxe, Hulley

HBChenery:di

6/6 To Dr. Chenery

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: June 5, 1975

FROM: Hollis B. Chenery, ^{HBC}VP, Development Policy

SUBJECT: Papers on Population

1. The attached volume contains papers from the first meeting of the Social Science Research Consortium (IBRD, Ford, IDRC, Rockefeller, AID) on Population and Development last fall. It reflects the post-Bucharest shift to a broader view of population policy, which I think is quite promising. A continuing working group was set up at this meeting.

2. As you requested, Baum and I are preparing a review of the Bank's population work in the context of the trends of policy analysis in this field.

Attachment

cc: Messrs. R. Gulhati
T. King

HBC:gss

July 15

all papers ready
when
will this
be ready
for discussion
LHC

4/5

6/5 to Mr. McNamara

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: June 4, 1975
 Through: *ES* Mr. H.B. Chenery, VP, Development Policy *ES*
 FROM: Ernest Stern, *ES* Director, Development Policy
 SUBJECT: Buffer Stock Financing

1. Attached is the proposed outline for the paper on buffer stock financing. As soon as we have your comments, work can be started.
2. Because it would be desirable to have a paper completed before the Annual Meeting and the Special Session of the U.N. General Assembly, the paper focusses in quickly on buffer stocks (which is also the mechanism most suitable for Bank financing) and will try to develop cost estimates for a buffer stock operation for a sample of two to three most likely commodities. With these limits, we propose to complete a first draft by June 30 and a draft for your review by the end of July.
3. The paper will involve principally the staff of the Commodities and Export Projections Division of the Economic Analysis and Projections Department, and the Policy Planning Division of the Policy Planning and Program Review Department. Mr. Vibert will be in overall charge.

Attachment

cc and cleared with: Messrs. Haq, Tims
 cc: Messrs. Vibert, Takeuchi

EStern/lis

The problem is too focused on buffer stock financing. Can't you broaden its discussion of the pros & cons from - mostly agreements designed to stabilize prices & the effects on producers & consumers
ES

6/4

OUTLINE

THE WORLD BANK AND COMMODITY PRICE STABILIZATION

1. The General Framework

Importance of primary commodity trade to developing countries, by groups. (Drawing on Stern/Tims paper, "Relative Bargaining Strengths of the Developing Countries", and material for the 1975 "Prospects" paper.) Principal long-term trends. Basis for current interest. Recent steps taken (e.g. Lome, CIPEC, bauxite, cocoa) or under consideration (UNCTAD Integrated Program, OECD Study, IMF Buffer Stock revisions). Stated objectives of major groups of importers and exporters.

2. Objectives and Approaches

Primary objective is sustained and balanced long-term development of trade, as an element in furthering the growth of the developing countries, based on efficient production. There are two basic methods for supporting such an objective -- compensatory financing and international buffer stocks. (Producer arrangements are a special case of international buffer stocks. To the extent they have only a price stabilization objective, they are identical; if they seek to raise the price above the market, their viability is determined by the market structure and the time needed to develop substitutes.)

Compensatory financing aims at offsetting current fluctuations in total export earnings. Because of its close relationship with short-run balance of payments problems and financing, it is unlikely to be a mechanism which the Bank could support easily. Buffer stocks, which involve long-term financing of the stock itself and of associated investments in either production of the commodity or diversification into other areas, is more suitable to Bank objectives and capacities.

Buffer stocks and compensatory financing schemes are mutually reinforcing, not competitive. If buffer stocks reduce price fluctuations for specific commodities, compensatory financing schemes can provide broader coverage with a given amount of resources.

In terms of international buffer stocks the objective of sustained and balanced growth of trade implies:

- (a) Stabilization of the prices of individual commodities around a long-term trend which takes account of development costs, demand and production;
- (b) Possibility that the long-term price may be stagnant or declining because of demand factors or the growth of substitutes. This may require limiting production and, consequently, financial assistance in diversification;
- (c) Security of supply to consumers as counterpart of (a) and (b).

Thus, long-term market-determined price trends are the basic element, except where a degree of price maintenance is accepted explicitly, recognizing the possible implications for substitution. Volumes of trade and production are the disciplinary elements in the system.

3. The Potential of Buffer Stocks Financing

Which commodities? Competing and non-competing commodities; single commodity versus grouped commodities.

- Assessment of benefits to producers (price stabilization effects on earning and investment planning) and to consumers (security of supply, improved basis for production and investment planning, an alternative form of aid).
- Net benefits to LDCs after indirect effects.

4. Buffer Stock Financing (section to be supported by 2-3 examples)

Size of the buffer stocks envisaged (relation to floor price/ceiling price objectives).

- Cost of buffer stock with alternative floor/ceiling price ranges.
- Effect of cost of stocking, transportation and warehousing.
- Quantification of benefits to producers/consumers.
- Location of buffer stocks - national/international.
- Supply management - export controls (cocoa [automatic]; wheat; coffee; tin [not automatic]).

5. Issues Relating to Bank Group Financing

Technical assistance role -- to what extent should the Bank seek to promote other buffer stock agreements and help to create buffer stock authorities which meet our lending criteria.

- Relationship of Bank financing to other sources of financing available, e.g. IMF facilities, country contributions.
- Should Bank financing be restricted to agreements involving both producers and consumers or would it also finance agreements involving producers only?
- Extent of participation required by major consumers/producers.
- Whether direct to buffer stock authority or to member countries.
- Cooperation and collaboration with other agencies in the field.
- Effectiveness of use of Bank resources compared to other types of lending.
- Impact on project lending for increased production, storage facilities or diversification.

6. Conclusions

Timing of Study

First draft - June 30
Final - July 30

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: The Hague Symposium on a New
International Economic Order

DATE: May 28, 1975

*Discussed in brief
but not sent*

1. The symposium was very well organized and the attendance was close to the list of original invitees. The Bank paper was extensively discussed in the Finance Group and to some extent also in the Trade Group. The Chairman's summary on Finance (written by Philippe de Seynes) is attached along with the final program. Pronk plans to have the proceedings issued within the next three weeks in order to affect the UN Preparatory Committee.

2. The main propositions that I suggested in my summary paper were generally accepted, and there was considerable discussion of the possibility of linking aid and trade targets. This was put in rather general terms in the paper in order to elicit comments. We will have a more detailed analysis of the magnitudes involved in the paper on "Prospects for the Developing Countries" that is under preparation.

3. There was surprisingly little discussion of the Algerian-type proposals for restructuring primary commodity markets as a way of transferring resources in either the trade or finance groups. This reflects the mainly European membership of the symposium rather than the emphasis that they will get when the UN takes up these topics.

Attachment

cc: Messrs. W. Clark
I.P.M. Cargill
E. Stern
J.B. Knapp
M. Haq

HBChenery:gss

McN notebook

OFFICE MEMORANDUM

TO: Mr. Robert S. ~~McNamara~~

DATE: May 14, 1975

FROM: Hollis B. Chenery *ABC*

SUBJECT: Study on Raw Materials

1. I agree that we should review how we can contribute to the discussion and resolution of commodity problems. However, we should not start with too narrow a focus. Mr. Kissinger's speech, in addition to the reference to new ways to finance raw material investments, also indicates that the US is prepared to "discuss new arrangements in individual commodities on a case-by-case basis...." I do not think we need to interpret that as being limited to bilateral channels only.

2. I would propose that a small group be established to come up with a draft statement by the end of the month which would cover:

current assessment of commodity prospects;

status of UNCTAD proposals;

most likely areas for action in price or earnings stabilization and the role of the Bank therein;

estimated investment requirements to achieve our projected production targets for major commodities by 1985; prospects for these investment flows; and the role the Bank/IFC can play in mobilizing additional capital required and the necessary technical and managerial skills.

3. The group should include a member each of the Economic Analysis and Projections Department, Industrial Projects Department, Legal Department and Mr. Cargill's staff. It could be chaired either by Mr. Adler or Mr. Stern, but co-chairmanship, at least for a quick initial effort, would be inefficient.

cc: Mr. J. Burke Knapp

IPM Cargill

EStern:HBChenery:di

T W Sings

AJ Stern

(S) Bann

Steering Committee
Adler - 14
Stern
John L...
Fischer
Wanda Sings
Contact Sings
on Cargill - Adler?

5, 14

HBC files

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 6, 1975

FROM: Hollis B. Chenery *HBC*

SUBJECT: Report on Country Economic Work

1. In memoranda to Burke Knapp (copies attached), Messrs. Benjenk and Krieger have taken issue with the recommendation in para. 70 of the Report on Country Economic Work which calls for the establishment of a Bank-wide coordinating or priorities committee. The purpose of this Committee is not, as they suggest, to alter the existing distribution of responsibility for country economic work programming, but rather to provide a mechanism for harmonizing the overlapping interests of the various departments. The DPS, for example, allocates directly or indirectly up to 50% of its effective staff time in support of country economic work, while the Regional Offices are called upon to contribute substantial amounts of staff to such Bank-wide economic work as the energy-related studies. I have in mind a group comprising the Regional Chief Economists, DPS Directors, and possibly other senior staff representatives from CPS and P&B, who would meet twice a year. The group would take departmental priorities and programs as given but address itself to resolving any issues arising from these programs--such as conflicting work priorities, policies or staffing requirements--which impede a concerted, Bank-wide effort to improve the relevance and quality of country economic work. It would also provide a continuing review of the general policies set out in the Report.

Sounds desirable

2. I have discussed this issue with Burke Knapp and agreed on a clarification of the purpose and functioning of the coordinating committee. I would rephrase the first part of para. 5(iii) in my covering memorandum to you dated April 8, 1975 as follows:

5. (iii) To ensure that priority demands are clearly specified and that they are met through the provision of adequate staff resources on a Bank-wide basis, the programming of country economic work should be strengthened. This should be done by:

--establishing a Bank-wide coordinating or priorities committee under my chairmanship, with the Program Review Division as its secretariat; the

*Incl. with structure
of the Report
Remaining goals will be
double checked by
Program Review
Task force report*

May 6, 1975

committee will review (a) the
priorities of ~~country~~ economic work/ in the Bank as a whole

(b) the matching of Regional demands
upon (and other Central Staff)
/and DPS/staff support/, and (c) any

important policy issues that may arise
in the course of programming/~~of-country~~ ^{Bank}
economic work.

/ with their staff availabilities, and
conversely of DPS (and other Central
Staff) demands upon Regional economic
staff with their staff availabilities

Cleared with and cc: Mr. J. Burke Knapp

cc: President's Council (without attachments)

SChernick:HBChenery:di

Mr. J. Burke Knapp
Senior Vice President, Operations

April 18, 1975

M. P. Benjank, Regional VP, SMO/NA

Report on Country Economic Work

1. I have commented on the earlier version (my memo of March 6, 1975 to Mr. Stern) of this report and expressed my agreement with its general thrust and emphasis on making country economic work more useful operationally, and its suggestion for permitting greater flexibility in the format of reports. I also indicated my reservations on some of the organizational and procedural changes suggested.

2. My main disagreement is with the recommendations contained in Mr. Chenery's memorandum to Mr. McNamara of April 8, 1975 (para.5 (iii)) which I quote below:

" --establishing a Bank-wide coordinating or priorities committee under my chairmanship with the Program Review Division as its secretariat; the committee will review (a) the priorities of country economic work, (b) the matching of regional demands and DPS staff support, and (c) any important policy issues that may arise in the course of programming of country economic work.

--Strengthening the office of the Regional Chief Economists by assigning him, in addition to his present responsibility for supervising the quality of economic work, increased responsibility for planning, coordinating and monitoring all economic and sector work".

3. I feel that the programming and implementation of the economic work cannot be separated from each other and from operational considerations. Unless Department Directors have as active an interest in this part of the work as other operational questions, the chances for the improvement of the program and the quality of output will be limited. Establishing priorities of country economic work is a responsibility which has to stay in the Regions and the proposed change is contrary to the spirit of the 1972 reorganization. In the earlier draft of this report, the establishing of a coordinating committee was suggested, which was supposed to help determine "priorities for DPS support" for the Regions. I had no objection to this. In this version, however, the scope of this activity seems to have been significantly increased into determining the priorities for the Region under DPS chairmanship and secretariat. This was never discussed with the Regional Vice Presidents. DPS already has the opportunity of commenting and questioning the priorities for country economic work within the CPP process. I doubt the need for further coordination as suggested in the new version of the report, the more so since it cuts across "staff" and "line" concepts.

This seems to be a problem

April 18, 1975

4. I agree with the idea of strengthening the office of the Regional Chief Economist, as we have already done in EMENA. The Chief Economist in this Region, with the help of two senior economists, actively participates in the planning of the economic work and carries out the quality control functions. However, I still believe that the primary responsibility for programming and implementation of economic work must remain with the Program Departments.

cc: Messrs. McNamara
Chenery ✓
Stern
Kearns
Haq

Husain (S.S.)
Chaufournier
Bell
Weiner
Krieger

Bart
Paijmans
Wapenhans
Karacosmanoglu

Mr. J. Burke Knapp

April 21, 1975

Adalbert Krieger

Country Economic Work

1. I have received a copy of a memorandum from Mr. Chenery to Mr. McNamara dated April 3, 1975, transmitting the "Report on Country Economic Work". I continue to be seriously concerned with the detrimental implications to our work of a number of proposals contained in Mr. Chenery's report and his accompanying memoranda.

2. I believe that we can adapt to our needs the proposal to limit economic reports to three categories: (a) Basic, (b) Country Economic Memoranda, and (c) Special Economic Reports. However, the proposal that the priorities of country economic work and any important policy issues that may arise in the course of programming of country economic work should be decided by the Bank-wide Coordinating Committee under the chairmanship of the Program Review Division of IPS, seems to me to portend bureaucratic chaos. The principle of reorganization carried out two years ago envisaged the establishment of clear cut lines of responsibility and authority within the Regions. The present proposal undermines the very roots of this principle.

3. Under the present system the requirements for country economic work are determined within the Program Departments and the Office of the Regional Vice-President. All country economic work is closely linked to operational requirements and supervised and reviewed by the Resident Office Senior Economists and the Chief Economist of the Region and programmed in close cooperation and consultation with the Division Chiefs. I believe their separation from operational considerations would be detrimental to our work. Moreover, the content of CPAs is also reviewed by IPS, I&M, GFS, etc. at the Working Level and finally by Management. In the case of Special Reports (e.g., Northeast Brazil, Caribbean Regional Survey, etc.) the Region also circulates its reports for broader Bank-wide review and comment. In this manner comments and suggestions from outside of the Region are always welcome. These, however, are advisory rather than mandatory in character and those who have the responsibility also have the authority as to what is covered in these reports. Under the proposed system the authority regarding priorities of country economic work and important policy issues in the programming of country economic work will lie outside of the Region, whereas the responsibility for carrying out the tasks will continue to be in the Region. This would lead to further overburdening of both IPS and country economic staffs and would reduce the capacity of the Regions to respond promptly and adequately to country economic policy issues instead of leading to an improvement in the scope and quality of country economic work.

cc: Messrs. McNamara
Benjenk
Bell
Chenery
Stern ✓

Kearns
Rag
Husain
Chaufournier
Wiener

Knox
Lerdau
Wiese
de Vries

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis ^{ABC}Chenery and Mervyn L. Weiner ^{subid}

SUBJECT: INDIA - Export Trends

DATE: April 24, 1975

1. At your request, the tables showing historical and projected export trends for India, which were originally sent to you on March 31, 1975, have been revised. The projections now include a third alternative based on the actual GOI targets for 1978/79.
2. We have also incorporated into the tables the latest information on the disaggregation of exports in 1973/74, the estimate of total exports in 1974/75 and the projection for 1975/76. The major effect is to reduce current price exports in both 1974/75 and 1975/76 by \$100 million.
3. It should be noted that the GOI targets for sugar and oilcake exports are expressed in current prices. To be consistent we have converted these to constant 1973/74 prices. This reduces the overall annual growth rate implied by the GOI targets for the period 1973/74 to 1978/79 from 9.2% to 8.7%.

Attachment

cc: Messrs. Diamond, Baneth, Kraske, Kavalsky/Pilvin,
Alisbah, Wolf and Baird

MBaird:is

cc Stern and Hughes

INDIA
EXPORTS IN CONSTANT 1973/74 PRICES
(US\$ Million)

TABLE I

	A C T U A L S								Estimate 4/	P R O J E C T I O N S 5/				Compound Annual Growth Rates (%)		
	1960/61	1965/66	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74		1974/75	1975/76	1976/77	1977/78	1978/79	68/69 - 73/74	73/74 - 78/79
Jute manufactures	414.0	466.3	338.3	295.8	290.7	347.1	300.5	291.7	282.6	250.0	A 263.3 B 250.0 C 242.8	277.2 250.0 235.7	291.7 250.0 228.9	- 2.9	0.0 - 3.0 - 4.7	5.3 0.0 - 2.9 6/
Tea	194.7	192.7	196.7	170.2	194.7	202.5	188.8	185.9	186.7	187.5	A 191.3 B 190.3 C 187.5	195.1 193.2 187.5	199.0 196.1 187.5	- 1.1	1.5 1.1 0.2	2.0 1.5 0.0
Oilcakes	77.5	148.3	148.9	126.1	157.9	132.8	179.1	218.9	180.8	175.9	A 198.8 B 181.2 C 175.9	224.6 186.6 175.9	253.8 192.2 175.9	8.0	3.0 - 2.6 - 4.6	13.0 3.0 0.0
Unmanufactured tobacco	n.a.	n.a.	59.2	61.0	53.3	64.3	106.1	87.8	86.3	77.0	A 87.1 B 80.8 C 79.3	98.5 84.7 81.7	111.5 88.9 84.1	8.2	4.9 0.2 - 0.9	13.1 4.9 3.0
Iron ore	21.6	86.3	112.9	118.7	152.5	143.2	148.2	170.5	175.0	180.0	A 201.2 B 194.6 C 189.0	225.0 210.3 198.5	251.8 227.4 208.4	8.6	8.1 5.9 2.3	11.8 8.1 5.0
Sugar	12.2	67.7	21.8	17.8	75.7	69.0	22.2	54.5	109.0	152.6 7/	A 145.0 B 152.6 C 152.6	137.7 152.6 152.6	130.8 152.6 152.6	20.1	19.1 22.9 22.9	5.0 0.0 2/
Leather and leather manu. 1/	n.a.	n.a.	189.2	188.0	192.2	233.6	392.6	234.7	199.5	180.0	A 223.4 B 194.2 C 187.9	277.2 209.6 196.2	343.3 226.1 204.8	4.4	7.9 - 0.7 - 2.7	24.1 7.9 4.4 5/
Cotton textiles and yarn 2/	219.3	213.1	190.3	213.7	189.3	165.8	209.2	268.6	313.6	265.0	A 309.8 B 290.2 C 278.3	352.1 317.7 292.2	422.8 347.9 306.6	7.1	9.5 5.3 2.7	16.9 9.5 5.0
Engineering goods							212.1	233.3	245.0	A 307.7 B 289.1 C 269.5	386.5 341.1 296.5	485.2 402.5 326.1		18.0 13.7 9.0	25.6 18.0 10.0	
Other Exports 3/	n.a.	n.a.	1,462.2	1,400.4	1,522.6	1,589.7	1,569.9	1,462.6	1,568.9	A 1,799.0 B 1,732.8 C 1,641.2	2,050.9 1,902.6 1,706.9	2,337.0 2,089.0 1,775.1	2.8	9.8 7.4 3.9	14.0 9.8 4.0 5/	
TOTAL Exports 3/	n.a.	n.a.	2,719.5	2,591.7	2,828.3	2,946.0	3,116.6	3,187.3	3,335.7	A 3,726.6 B 3,555.8 C 3,404.0	4,234.8 3,868.4 3,523.7	4,826.9 4,172.7 3,650.2	3.2	8.7 5.5 2.8	14.2 9/	

SOURCES for 1960/61 and 1965/66 - based on "Economic Situation and Prospects of India," May 1974, Volume III, Statistical Appendix Table 3.1.
Historical data: 1968/69 to 1973/74 - based on B. Aliebah's "India - Export Trends," Appendix Table III.

1/ Excludes raw cotton and cotton apparel.
2/ Excludes raw cotton and cotton apparel.
3/ Historical data based on weighted index for selected exports (which cover approximately 75% of total exports) in B. Aliebah's "India - Export Trends," assuming the volume of excluded exports grows at same rate as total selected exports.
4/ 1974/75 - based on volume changes or the current price series deflated for price changes.
5/ 1975/76 - based on expected volume changes or the current price series deflated for price changes. The current price forecasts in A. Hone's "India's Export Prospects 1975/76," have been revised where they are inconsistent with our volume and price expectations (see footnote 4, Table II).
6/ 1976/77 to 1978/79 - Three alternative projections are presented. 'A' is based on the targets for 1978/79 (adjusted where necessary for differences in base year values) in the GOI's paper on "Export Prospects." The data for 1976/77 and 1977/78 assume a constant growth rate from 1975/76. 'B' is based on the annual growth rate, for the period 1973/74 to 1978/79 as a whole, implicit in the GOI targets. Because we are assuming a lower growth for most exports during 1974/75 and especially 1975/76, the level of exports achieved in 1978/79 is significantly less than the target presented in 'A'. 'C' is what we consider to be the more likely growth rate, given no major change in export policy. (For assumptions, see footnotes 6 to 9).
7/ Based on the historical trend over the period 1968/69 to 1973/74.
8/ It is assumed perhaps optimistically, that India will be able to export 700,000 tons of sugar in 1975/76, compared to the estimate of 500,000 tons in 1974/75 and 250,000 tons in 1973/74. The GOI projections are based on a target of 600,000 tons for 1978/79. Because this is less than our projection for 1975/76, we have assumed zero growth in sugar exports during the period 1976/77 to 1978/79 in projections 'B' and 'C'. This is not unreasonable given that the recent large volume increases have been induced by high prices (which are not projected to continue) and achieved by a diversion of supplies from the domestic market. Sugar is the only export for which projection 'B' is not based on the growth rate assumed by the GOI for the period 1973/74 to 1978/79 as a whole.
9/ Over the period 1968/69 to 1973/74 (and including fast growing engineering goods) 'other exports' grew at only 2.8% per annum. However, this category does include several relatively new exports (e.g. steel, coal, cement) which will help boost the annual growth rate to our projected 4% per annum over the period 1975/76 to 1978/79. Any additional growth is unlikely without major policy changes.
10/ The annual growth rate over the period 1975/76 to 1978/79 (8.2%) is less than that projected by the GOI over the period 1973/74 to 1978/79 (8.7%) due to our assumption that all the growth in sugar exports occurs during 1974/75 and 1975/76.

EXPORTS IN CURRENT PRICES
(US\$ Million)

TABLE II

	A C T U A L S								Estimate 3/	P R O J E C T I O N S 4/				Compound Annual Growth Rates (%)		
	1960/61	1965/66	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74		1974/75	1975/76	1976/77	1977/78	1978/79	68/69 - 73/74	73/74 - 78/79
Jute manufactures	283.8	384.0	290.6	275.5	253.9	356.4	324.4	291.7	325.0	250.0	A 289.1 B 274.5 C 266.6	330.1 297.8 280.7	375.4 321.8 294.6	0.1	5.2 2.0 0.2	14.5 8.8 5.6
Tea	259.6	241.2	208.6	166.0	197.7	210.0	191.1	185.9	245.0	250.0	A 235.1 B 233.9 C 230.4	260.1 257.5 249.9	273.6 269.6 257.8	- 2.3	8.0 7.7 6.8	3.1 2.5 1.0
Oilcakes	30.0	72.8	66.0	55.3	73.9	53.9	97.0	218.8	130.0	140.0	A 159.4 B 145.3 C 141.1	181.0 150.4 141.8	212.7 12/	27.1	- 0.6 - 6.0 - 7.6	15.0 4.8 1.7
Unmanufactured tobacco	30.7	41.1	44.2	43.6	41.9	56.8	79.2	87.8	90.0	90.0	A 112.8 B 104.6 C 102.7	141.1 121.3 117.0	174.9 139.5 132.0	14.7	14.8 9.7 8.5	24.8 15.7 13.6
Iron ore	35.8	88.4	117.8	126.2	156.4	140.7	142.5	170.5	200.0	215.0	A 263.6 B 254.9 C 247.6	327.6 306.2 289.0	420.5 379.8 348.0	7.7	19.8 17.4 15.3	25.1 20.9 17.4
Sugar	5.1	22.0	13.5	11.4	36.8	40.6	17.2	54.5	335.0	500.0	A 316.8 B 333.4 C 333.4	232.4 257.6 257.6	181.8 12/	22.2	27.2 31.2 31.2	-28.6 -24.9 -24.9
Leather and leather manu.	56.6	72.6	106.5	120.7	111.3	135.3	239.0	234.7	195.0	180.0	A 242.4 B 210.7 C 203.9	330.1 249.6 233.7	452.8 298.2 270.1	17.1	14.0 4.9 2.8	36.0 18.3 14.5
Cotton textiles and yarn 1/	130.1	130.6	113.1	133.4	127.9	126.7	163.0	268.6	345.0	265.0	A 334.9 B 313.7 C 300.8	403.0 353.6 325.2	511.6 421.0 371.2	18.9	13.8 9.5 6.7	24.5 16.7 11.9
Engineering goods 2/	37.8	41.6	89.8	119.4	153.3	163.1	184.9	212.1	270.0	310.0 10/	A 429.9 B 403.9 C 376.5	585.9 517.1 449.5	794.8 659.3 534.2	18.8	30.2 25.5 20.3	36.9 28.6 19.9
Other goods	517.0	597.5	780.4	832.8	891.8	876.9	1,106.2	1,462.6	1,765.0	1,900.0 11/	A 2,360.3 B 2,273.4 C 2,153.3	2,906.1 2,696.0 2,418.7	3,342.9 3,166.9 2,691.1	16.0	19.4 16.7 13.0	23.1 18.6 12.3
TOTAL Exports	1,386.5	1,691.8	1,810.5	1,884.3	2,046.9	2,160.4	2,344.6	3,187.3	3,900.0	A 4,744.3 B 4,548.3 C 4,356.3	5,697.4 5,207.1 4,763.1	6,941.0 6,029.3 5,258.5	12.0	16.8 13.6 10.5	19.2 13.7 8.7	

SOURCE for 1960/61 to 1973/74 - "Economic Situation and Prospects of India," May 1973, May 1974, and forthcoming May 1975, Statistical Appendix, Table 3.1.

1/ Excludes raw cotton and cotton apparel.
2/ Data from 1971/72 use new classification and therefore not strictly comparable with data for earlier years.
3/ 1974/75 - from A. Hone, "India's Export Prospects 1975/76." The values of oilcake, leather, cotton textile, engineering, and 'other' exports have been adjusted to take account of different classifications.
4/ 1975/76 - from A. Hone, "India's Export Prospects 1975/76" (with adjustments for different classifications) unless stated otherwise (see footnotes 9 - 11).
5/ 1976/77 to 1978/79 - based on the constant price forecasts (see footnote 5, Table I), given the price trends we expect over the period (see footnotes 5 - 12).
6/ Prices for jute manufactures are projected to fall 15% in 1975/76 and then rise in line with world inflation in subsequent years. World inflation is assumed to follow the index of International Prices prepared by the Bank's EPD.
7/ Prices assumed to follow the EPD projections after 1974/75.
8/ Prices assumed to follow the EPD projections after 1975/76 (with leather goods related to the hides and skins projection and cotton textiles related to the cotton projection).
9/ Price forecast is based on a projection for groundnut meal prepared by Mr. Pollak (EPD). The price received for India's sugar is projected to rise nearly 7% during 1975/76. This may seem high in light of the recent fall in world sugar prices. However, world prices are still substantially above the level at which the bulk of India's sugar was sold in 1974/75. Our price and volume assumptions result in export earnings of \$500 million in 1975/76 compared to \$425 million in Hone's paper. After 1975/76, prices are assumed to follow the EPD projections.
10/ Prices for engineering goods are projected to rise 10% in 1975/76 and then increase in line with world inflation in subsequent years. Our price and volume assumptions give a 15% rise in export earnings in 1975/76 compared to an 8% fall in Hone's paper.
11/ Prices for 'other goods' are projected to increase 7% in 1975/76, 9% in 1976/77, 8% in 1977/78 and 7% in 1978/79. Our price and volume assumptions give an 8% rise in export earnings during 1975/76 which is higher than that projected in Hone's paper. The price increases during 1976/77 to 1978/79 are slightly lower than the projected increases in world prices.
12/ For consistency, we have not used the current price targets given in the GOI paper for oilcakes and sugar. Instead, we have applied our price forecasts to the GOI's volume targets.

EXCHANGE RATES: 1960/61 to 1970/71 Rs. 7.5 = US\$ 1 1973/74 Rs. 7.791 = US\$ 1
1971/72 Rs. 7.444 = US\$ 1 1974/75 Rs. 7.957 = US\$ 1
1972/73 Rs. 7.706 = US\$ 1 1975/76 to 1978/79 Rs. 8.0 = US\$ 1

OFFICE MEMORANDUM

Holsen

TO: Mr. Robert S. McNamara

DATE: April 21, 1975

FROM: Hollis B. Chenery *HBC*

SUBJECT: Should We Show Projected Petroleum Prices in
"World Economic Indicators"

1. In line with your suggestion, we have added projections for 1980 to the commodity price data shown in World Economic Indicators. This report is now being issued in "blue cover" and is widely distributed; it is likely to be quoted as the World Bank's view despite the disclaimer on the cover. In next month's issue we shall add a statement on the assumed rate of "world inflation" and the other main assumptions upon which these projections are based. Unless you object, we also plan to omit the projected price for petroleum from the 1980 column. In this particular case, we believe the danger of misrepresentation outweighs the benefits from publication.

2. Last month's issue carried the base period price and an index for 1980 from which the reader could conclude that we were projecting a petroleum price of \$14.25 per barrel in 1980. (Our Paris office advised us that the AP wire service reported this figure as the World Bank's projection.) Under present circumstances the price of petroleum cannot be projected in the same way as are other commodity prices; any figure is really a working hypothesis rather than a forecast. What was shown in Economic Indicators was the hypothesis that there would be no change in the price of petroleum in real terms (since, given our inflation assumptions, \$14.25 in 1980 is the equivalent of \$9.40 in 1974). Publication of such projections is almost certainly going to be subject to misinterpretation. Because of the sensitivity of this topic, we believe it would be better to confine ourselves to historical data on petroleum.

MAY 7 1975

*7 3/6
OK
want*

JAHolsen/ddm

cc: Mr. Knapp
Mr. Baum
Mr. W. Clark

*Present in
your
Petroleum
Estimates*

- 1. Mr. Chenery
- 2. Mr. Holsen

[Handwritten signature]

Complete memo + HBC
attachments on
MCN Pending folder

Mr. Robert S. McNamara, President

April 16, 1975

Hollis B. Chenery, VP, Development Policy

Reduction of DPS Professional Positions

1. Mr. Adler has advised me that you did not accept his recommendations regarding the DPS budget. The decision was made without an opportunity to discuss our budget with you. Two of the points in Mr. Adler's memorandum (attachment 1) are of considerable concern, and their implications are discussed below. I should like to meet with you to review this matter before the budget figures are made final.

2. The most serious problem relates to the proposed reduction of two professional positions. This decision has been related to the staffing requirements of the new health unit in CPS but, in fact, there is no connection other than that the Health Policy Paper, which led to the creation of the new unit, was written in DPS. Obviously, we cannot have a policy which charges to us all the manpower required to implement any policy papers written by the DPS. You accepted this position after discussion with Mr. Stern in February, as noted in your memorandum of February 7 (attachment 2). Consequently, the decision to reduce the DPS by two positions must be based on a general assessment of the manpower required to carry out our assignments. On that basis, I do not believe that your decision is justified. Quite the contrary. It was only because I was acutely aware of the budgetary pressures that I refrained from requesting additional professional positions to proceed with the staffing of the International Economy Division which, as you noted during the review of the Capital Requirements paper, is still grossly undermanned.

DPS Work Program and Staff

3. The total staff of the DPS has remained essentially unchanged in three years despite a major growth in responsibility and output.

Table 1. Utilization of DPS Authorized Positions

	<u>FY1974</u>	<u>FY1975</u>	<u>FY1976</u>
Budget Positions (Professional)	149	150	150
Effective Staff Years Utilized	144.2	147.4	148.5
Percent Utilization	96.8	98.3	99.0

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *ABC*

SUBJECT: Topics for the Governors' Speech

DATE: April 9, 1975

1. The topics discussed in our last two meetings have centered on two main themes:

- (1) The International Economy and the adjustment problems of the developing countries (Technical Notes 4, 5 and 6).
- (2) Internal Development Strategy: Rural and Urban Development, Income Distribution (Technical Notes 1, 2 and 3).

Since it is not possible to give a full treatment to both, our main problem is to decide their relative weight.

2. The two outlines attached illustrate possible combinations of these two themes:

- Alternative A would devote perhaps a third to the international theme and would focus on urban development, drawing some parallels to your earlier statements on rural development.
- Alternative B reverses the emphasis; it would focus on the adjustment to the aftermath of the oil crisis and related commodity problems. The distributional aspects would be taken up in Section III.

3. Messrs. Stern, Clark, Rao and I discussed these alternatives yesterday and agreed that we would recommend some version of Alternative B to you. The main reasons for our conclusions are: (i) that these problems are uppermost in the minds of most of the ministers, and (ii) that this would provide an opportunity for you to discuss the Bank's role in the adjustment process and the need for increases in both Bank and Third Window funds. The latter argument would be strengthened if you succeed in launching the Third Window this summer.

4. If the urban development theme is not stressed in the September speech, there would be an opportunity for you (or your representative) to do so at the UN meeting on human settlements in Vancouver next May. The Bank will be submitting a considerable amount of research and policy material to that conference, which would provide an ample basis for such a statement.

Attachments

HBChenery:di

cc: Messrs. William Clark, Ernest Stern, D. C. Rao

Alternative A

THEMES FOR 1975 GOVERNORS SPEECH

INTRODUCTION

/ Background: Refer to examination of "New World Order" at U.N. Special Session on Development and International Cooperation in following weeks. /

- Two themes:
- (1) Bank response to oil crisis and recycling and assistance in readjustment process.
 - (2) Progress on our longer term objectives of distribution and growth.

I. BANK RESPONSES TO WORLD DISEQUILIBRIUM

- Expansion and reallocation of Bank resources toward most affected countries
- Shift in borrowing patterns (OPEC and U.S. more prominent)
- New techniques (third window, increased program lending (?), etc.)
- Closer relation of Bank and Fund in supporting readjustment process (Development Committee agenda)

II. PROGRESS ON RURAL DEVELOPMENT AND DISTRIBUTION

1. Objectives: Restate from 1972 and 1973 speeches, stress small farmer and integrated rural development. Objectives need to be reinterpreted to take account of increased urgency of food production in some countries.
2. Role of Small Farmer in Production: Must be integral part of production program. Small farmer as efficient user of resources, especially land.
3. Bank Progress toward Nairobi Objectives: Countries of concentration, Bank experience to date.
4. Further Evidence on Income Distribution and Identification of Poverty Groups

III. URBAN DEVELOPMENT

(See Gulhati note based on Urban Poverty Task Force results and Urban Transport and Housing papers)

1. Nature of the Problem:

- All countries urbanizing rapidly, particularly those in lower to middle incomes (\$150 to \$500).
- Urbanization is shifting part of poverty problem from rural to urban areas. Growing squatter settlements, inadequate infrastructure, poor access to jobs accentuate the problems of the poor.
- Despite social and economic disruption caused by rapid migration, average urban incomes are much above rural and will continue to attract migrants.

2. Need for Integrated Approach to Urban Development:

- Essence of Urban Problem: to secure balance between rural and urban investment (now usually skewed toward urban), greater efficiency of urban systems, and more equal access for poverty groups.
- Increasing Efficiency: need to recognize resource limits, adopt more appropriate design (avoidance of "overdesigning"), locate infrastructure to facilitate productive investment, etc.
- Increasing Incomes of Poor: need minimum "urban package" of housing, access to infrastructure, credit for informal sector, etc. Analogy to rural development package.

3. Evolution of Bank Programs for Urban Development:

- General approach: integrating of investment in infrastructure, housing (?), education, technical assistance. Concentration on 15-20 cities.
- Appropriate design of infrastructure, housing to avoid excessive concentration on upper incomes. Special problems of transportation.
- Dimensions of future Bank programs.

OUTLINE OF GOVERNORS' SPEECH

I. WORLD ECONOMIC OUTLOOK

(a) External Influences on LDC Prospects

- OECD slowdown
- commodity price changes (including oil)
- terms of trade (worse than forecast last year)

(b) Capital Flows (1974-75)

- Rise in OPEC support
- Total capital inflow 3% of GNP of LDCs; unlikely to increase much further in absolute terms

(c) Nature of Required Adjustments (1975-80)

- OPEC, OECD balance of payments and capital flows
- factors limiting resumption of LDC development

II. LDC ADJUSTMENT TO EXTERNAL DISEQUILIBRIUM

- LDCs have initiated a range of difficult measures to adjust to added pressure on balance of payments and capital shortage. (Illustrate from Technical Note No. 5.) Differences among main country groups.

- Required combination of capital flows in short run, export expansion in longer run. (Middle income countries now more seriously affected because of drop in exports, limits to borrowing.)

III. INTERNAL DEVELOPMENT STRATEGY

(a) Overwhelming balance of payments problems tend to distract attention from basic questions of growth strategy: how can the poor get a fair share of the benefits of growth? Danger both for Bank and LDCs. Need to reconcile distribution objective with payments constraint.

(b) Allocation of resources and effort between urban and rural aspects of development:

- (i) Rural - integrated rural development projects aimed specifically at benefiting small farmers. (Example of Philippines.) Food production strategy (Note No. 4).
- (ii) Urban - improve access of poor to urban services - implications for location, quality standards, pricing. Examples from policy papers and ongoing research on urban transport, health, and housing (Note No. 3).

IV. INTERNATIONAL SUPPORT FOR LDCs AND BANK ROLE

- (a) Need international effort to
 - (i) at least maintain ODA in real terms and increase total official lending (Capital Requirements paper).
 - (ii) improve LDC access to market borrowing - discuss present constraints and possible remedies.
 - (iii) stabilize/improve terms of trade in commodities - refer to UNCTAD proposals.
- (b) Bank has stepped up rate of lending - money from OPEC - Bank capital.
- (c) Third Window and IDA V.
- (d) Development Committee and Consultative Group on Food Production.

McN
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HBC
(5)

Mr. Robert S. McNamara, President

April 16, 1975

Hollis B. Chenery, VP, Development Policy

Reduction of DPS Professional Positions

1. Mr. Adler has advised me that you did not accept his recommendations regarding the DPS budget. The decision was made without an opportunity to discuss our budget with you. Two of the points in Mr. Adler's memorandum (attachment 1) are of considerable concern, and their implications are discussed below. I should like to meet with you to review this matter before the budget figures are made final.

2. The most serious problem relates to the proposed reduction of two professional positions. This decision has been related to the staffing requirements of the new health unit in CPS but, in fact, there is no connection other than that the Health Policy Paper, which led to the creation of the new unit, was written in DPS. Obviously, we cannot have a policy which charges to us all the manpower required to implement any policy papers written by the DPS. You accepted this position after discussion with Mr. Stern in February, as noted in your memorandum of February 7 (attachment 2). Consequently, the decision to reduce the DPS by two positions must be based on a general assessment of the manpower required to carry out our assignments. On that basis, I do not believe that your decision is justified. Quite the contrary. It was only because I was acutely aware of the budgetary pressures that I refrained from requesting additional professional positions to proceed with the staffing of the International Economy Division which, as you noted during the review of the Capital Requirements paper, is still grossly undermanned.

DPS Work Program and Staff

3. The total staff of the DPS has remained essentially unchanged in three years despite a major growth in responsibility and output.

Table 1. Utilization of DPS Authorized Positions

	<u>FY1974</u>	<u>FY1975</u>	<u>FY1976</u>
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Effective Staff Years Utilized	144.2	147.4	148.5
Percent Utilization	96.8	98.3	99.0

In the past we have been able to accommodate the increase in workload by three means:

- (a) A more effective recruitment policy, as shown in Table 1 above;
- (b) Upgrading the quality of staff; and
- (c) Extensive use of temporary research assistants. We have had to reallocate our FY1975 budget resources to provide for 12.6 staffyears of special service and secretarial positions at a cost of \$203,000.

With our current utilization of budget positions at 98.3 percent and present high quality, we have virtually exhausted the possibility of further productivity increases via these routes.

4. Within our tightly stretched human and financial resources, we have reduced our total research and reoriented our priorities to respond to the needs of Regions for operational support, while maintaining a high level of policy output. As Table 2 (attached) shows, total available staff-years increased by 7.2 between 1974 and 1976, of which 1.5 is due to an increase in assigned Young Professional time and 5.7 staffyears are the result of more effective timing of recruiting. Of this increase 47 percent was allocated to country and sector work, and 35 percent to policy work. Research will decrease by 2 staffyears. The allocation of staff time by these major categories for FY1974-1976 is shown in Table 3 for each Division.

5. The major elements of our output during FY1975 are familiar to you, and I need not detail our product here. Policy work has included:

- Extensive analysis of the world economic situation, culminating in R-477. This work is continuing, and a new "Prospects" paper is scheduled for June.
- A study on Family Planning for Bucharest, which was published.
- Policy papers on Health and Housing.
- A large-scale effort on urban poverty, the first results of which you have already seen.

- Principal responsibility for the paper on Long-Term Capital Requirements of the Developing Countries and papers on the Third Window and Trust Fund, as well as liaison with the Development Committee in general.
 - A thorough analysis of the Bank's country economic work and recommendations for its improvement.
6. DPS operational work involved expanded support to the Regions, including evaluation of population projects, implementation of the Nairobi approach and, as in Malaysia and Brazil, a major effort to improve basic country work through coordinated research on basic country issues.
7. DPS research is designed to pave the way for future policy initiatives - as it already has in the cases of income distribution, rural and urban development and the impact of commodity price changes - as well as to improve the quality of country and sector analysis. Our research capacity is concentrated in nine units, each responsible for several topics: the commodity division of the Economic Analysis and Projections Department, the five divisions of the Economics Department, and the three divisions of the Research Center. Apart from the larger commodities unit, these divisions have an average staff of eight and spend three manyears on research, which usually includes participation in several external research projects. This is the minimum scale needed to carry on the mix of immediately applicable and longer term projects that the Research Committee and the Board feel to be desirable.
8. The staff available to meet the increasing demand for operational support and policy work, to sustain our growing involvement in a variety of international economic issues, to expand our leadership in data work, and to maintain an effective research effort is the minimum necessary.

Effects of Budget Cuts: Population and Human Resources Division

Review

9. Even though the question of the size of the DPS should be judged primarily in terms of its total responsibilities, I want also to comment briefly on the impact of removing two positions from the Population and Human Resources Division. This division consists of a Division Chief and eight professionals, and divides its time among policy, research and mission support in proportions which are typical of the Development Economics Department. One of the professionals is working on the

relationship between education and development. The remaining seven deal with population and nutrition (none directly with health) on a proposed work program summarized in Attachment 3. The time of the seven staff members between March 1975 and July 1976 would be used as follows:

Table 4

Allocation of Staff Time to Population and Related Work:
March 1975 - June 1976

	<u>Policy</u>	<u>Research</u>	<u>Operations</u>	<u>Total</u>
Effectiveness of Delivery Systems	12	12	15	39
Population and Development	3	8	15	26
Fertility Determinants	3	25	-	28
Other	-	-	5	5
	18	45	35	98

10. This program seems to me the minimum necessary to extend our knowledge about the critical interrelationships between the relevant aspects of development and family size as well as to carry out your specific mandate to strengthen evaluation in population projects so as to define better the measures necessary to increase the effectiveness of delivery systems. With a smaller staff, I do not believe that a significant effort in this broad and complex field is possible, after allowing for necessary operational support.

Financial Aspects of the Budget Cut

11. A second subject of concern is your decision to limit our budget to the FY1975 level in real terms. This involves two issues. First, the FY1976 budget includes an increase in effective staffyears from 147.4 in FY1975 to 148.5. At an average salary of \$22,000, these additional 1.1 staffyears require \$25,000 in additional salary. I assume it was not your intention to penalize the fuller utilization of authorized budget positions. Secondly, although you approved an increase in non-professional slots, but less than the 14 requested, you deleted any financing for salary. Our budget proposal

April 16, 1975

envisaged financing these positions through a combination of savings below the FY1975 mid-year levels in several categories plus the marginal increase in our budget. The requested positions are urgently needed, as is amply demonstrated by our very large overrun in FY1975 expenditures on temporaries and overtime. The bulk of the positions requested (as well as the FY1975 excess expenditures in the temporary and overtime categories) are in the Economic Analysis and Projections Department. The additional special services and secretarial staff is required if we are to continue and extend our analyses of the impact of world economic developments while avoiding slippage in our program to improve our data base and make data more generally available for analysis. Even limiting the additional support positions to less than 14, as you instructed, we would need an additional \$50,000 in salaries, after taking into account maximum savings in other categories.

Attachments

cc: Mr. Adler

EStern/HBChenery:ls

OFFICE MEMORANDUM

Attachment 1

TO: Mr. Hollis B. Chenery

DATE: April 14, 1975

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

*JA*SUBJECT: FY76 Administrative Budget

1. This is to advise you that Mr. McNamara has not accepted our recommendations regarding DPS. I attach a copy of para. 25 of my memorandum which contains the recommendations. Mr. McNamara decided

- (a) that there should not be a real increase in the ✓
DPS budget;
- (b) that the transfer of consultant funds for the
Science Adviser mentioned in para. 25 should be ✓
considered a real reduction in the base allocation
for DPS;
- (c) that the base allocation for DPS should be further
reduced by two professional positions and associated
costs in connection with the establishment of the
Health Unit in CPS, as indicated in his memorandum
to Mr. Baum, Mr. Stern and Dr. Lee of February 7;
and
- (d) that the number of non-professionals should be // ✓
increased by less than fourteen.

Revised

2. As to (d), Mr. McNamara has agreed to the transfer of funds from temporary staff, overtime, and consultants to fund non-professional positions, but he has objected to the use of travel funds for that purpose.

3. In view of these decisions, I have asked Mr. Bowron to work with Mrs. Fabietti to revise the budget allocations accordingly.

Attachment

cc: Mr. Stern ✓

JHADler:ajw

estimates are correct, FAO will have to reduce its planned activities in the remainder of this calendar year to stay within the biennium ceiling. Combining the reduced level for the first six months of FY76 with the real growth of about 6% per year which we have been planning for the next biennium would give a total of \$3,640,000 for our FY76 budget for FAO. FAO has estimated that its cost to the Bank for the FY76 period will be about \$4,200,000 under the proposed \$9.8 million plan for the 1976-77 biennium (\$9.8 million would be the Bank's 75% share of the proposed total cost of \$13.1 million). The matter is under discussion with FAO and we intend to have it resolved before we send the budget to the Board. In the meantime, we propose to use a figure of \$3,900,000 for the FAO FY76 budget to minimize the potential further adjustment.

Support Staff

25. DPS and External Research. A maximum figure of \$6.12 million (FY75 \$) has been agreed on for the DPS discretionary budget. This would mean a real increase of 1.9%. It will decrease slightly when we finish working out the full amount to be deleted because of the Science Advisor's transfer to CPS (the adjustment has already been made for all but some \$25,000 to \$36,000 of consultant funds). The \$6.12 million may also drop by as much as 1% depending on what we are able to work out regarding the possible deletion of two professional positions in connection with the establishment of the Health Unit in CPS (see copy of your note attached as Annex 2). DPS would not increase its professional positions under our agreement, but fourteen non-professionals would be added, in large part paid for by reductions in the allowances for temporary staff, consultants, and travel. We have agreed to recommend this year's level of External Research again for FY76 (\$1,986,000 in FY75 dollars).

$\frac{1.120}{6.12} = 1.9\%$

(7)

26. Computing Activities Department. We agreed to recommend an increase of two professional and two secretarial/clerical positions for CAD on a no cost increase basis. Compensating reductions in contract programming, temporary staff, and overtime funds have been made from FY75's levels to cover the additional staff. The department's only significant cost increases will be full-year rental of equipment added during FY75, additional supplies and materials reflecting the expanded output of the department, and \$54,000 which we agreed to recommend for further enlargement of the computer's memory. The latter item will substantially reduce job waiting time and will give us an in-house time-sharing capability.

27. External Computing. This item covers the use of computers outside the Bank on a time-sharing basis through terminals located in various departments throughout the Bank. (There are 37 departments making use of this facility.) It amounts to \$162,100 in this year's budget. We estimate that the actual expenditure for the year will be at least \$250,000, and possibly more. The requests for FY76 total \$425,000. P & B and CAD have gone over the requests and recommend



OFFICE OF THE PRESIDENT

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

February 7, 1975

MEMORANDUM FOR: MR. BAUM ✓
MR. STERN ✓
DR. LEE

Mr. Stern has convinced me that no one of the 10 professionals assigned to DPS's Population and Human Resources Division is a health specialist and therefore no one of the men is particularly well qualified to be transferred to Dr. Lee's new health activity.

He states that if the issue is not the transfer of personnel but the transfer of budgeted positions, this is a matter that should be considered in connection with the FY 76 Budget. I have agreed with his position. But I remain convinced that at the time of the budget review we should transfer two of the budgeted positions from DPS to Dr. Lee. I say this without prejudice to DPS's right to raise the issue at that time.


Robert S. McNamara

cc: Mr. John Adler
Mr. Kearns

Attachment 3

Summary of Proposed Work Program for the Population and Human Resources Division March 1975 - June 1976

A. Effective Delivery Systems for Family Planning

1. A review of all significant experiments and innovations in family planning delivery systems and implication for Bank projects.
Target: October 1975.
2. Participation in three Bank population project missions to improve design of research and evaluation aspects.
3. A paper on the design of the activity-mix and training needs of multi-purpose family planning-cum health community workers. First draft in May, completed survey by January 1976.

B. The Interrelationships between Population Growth and Development

1. "Special reports on population and development" for Thailand, Brazil (?) and Korea to provide a basis for an exchange on policy questions with key government officials.
2. 'Guidelines for the treatment of population issues in Country Economic Work.' Target: April 1976.
3. A study of the relation between size and composition of households and their savings.
Target: March 1976.
4. A paper on the interrelationship between income distribution and fertility. Target: June 1976.

C. Economic Factors in Fertility Decisions

1. Comparative anthropological village studies in India, Nigeria, Kenya and Sri Lanka, and implications for Bank projects. Target: May 1976.
2. Botswana rural household survey. Report analyzing fertility, employment and income distribution issues, will be completed by May 1976.

3. Northeast Brazil pilot survey on household decisions about fertility, education and labor supply. Target: October 1976; a larger survey, with several rounds of interviews during FY1976 is now being prepared.

D. Other Activities

1. Technical assistance: This has been provided to the Bangladesh Institute of Development Studies in setting up a Population Studies Center. This should be completed by June 1976.
2. The Monitoring of Fertility Trends and Family Planning Developments is a continuous activity of the Division.
3. The Division provides population and other demographic projections to Regional economists on demand.

Table 2

SUMMARY OF DPS WORK PROGRAM

Attachment 4

Professional Staff Years

	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>% Change FY74/FY76</u>	<u>Analysis of Increase FY74/FY76</u>	
					<u>Staff Years</u>	<u>% of Total Staff Year</u>
<u>Direct Output</u>						
<u>Country Work</u>						
A. Manpower to Region Regions & CPS	19.6	22.1	20.2	3.1	0.6	8.3
C. Country & Sector Work	<u>12.2</u>	<u>13.5</u>	<u>15.0</u>	<u>23.0</u>	<u>2.8</u>	<u>38.9</u>
Sub-Total Country Work % of I	31.8 (32.9)	35.6 (34.7)	35.2 (34.5)	10.7	3.4	47.2
B. <u>Policy Direction</u> % of I	20.3 (21.0)	21.3 (20.8)	22.8 (22.3)	12.3	2.5	34.7
E. <u>Research</u> % of I	34.7 (35.8)	34.3 (33.5)	32.8 (32.2)	-5.5	-1.9	-26.4
Sub-Total A,C,B,E % of I	86.8 (89.7)	91.2 (89.0)	90.8 (89.0)	4.6	4.0	55.5
<i>Services and</i> F. <u>Other Direct Output</u> % of I	10.0 (10.3)	11.3 (11.0)	11.2 (11.0)	12.0	1.2	16.7
Total Direct Output % of Total Staff Years	96.8 (66.4)	102.5 (67.8)	102.0 (66.7)	5.4	5.2	72.2
<u>Indirect Output</u>						
D. Conferences & Liaison Management & Admin. Sub-Total	5.4 19.2 <u>24.6</u>	3.7 20.0 <u>23.7</u>	4.3 21.0 <u>25.3</u>	-20.4 9.4 <u>2.8</u>	-1.1 1.8 <u>0.7</u>	-15.3 25.0 <u>9.7</u>
Overhead (Leave, Training, etc.)	24.3	25.0	25.6	5.3	1.3	18.1
Total Indirect Output % of Total Staff Years	48.9 (33.6)	48.7 (32.2)	50.9 (33.3)	4.1	2.0	27.8
Total Staff Years YP Credit	145.7 1.5	151.2 2.5	152.9 3.0	4.9	7.2	
	<u>144.2</u>	<u>148.7</u>	<u>149.9</u>			

Table 3

DPS SUMMARY WORK PROGRAM

FY74 - FY75 - FY76
Professional Staff Years

	A Direct Manpower to Regions & CPS			B Policy Direction			C Country & Sector Work			D Conferences & Liaison			E Research			F Other Direct Output			Sub-Total A-F			Management & Administration			Overhead			TOTAL		
	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76	FY74	FY75	FY76
OFFICE OF THE VP.																			4.2	4.5	4.2	0.8	0.7	0.8	5.0	5.2	5.0			
DEVELOPMENT ECONOMICS DEPT.																														
Office of the Director	-	0.16	0.16	0.50	0.42	0.42	-	-	-	0.17	0.17	0.17	0.33	1.08	1.08	-	-	-	1.00	1.83	1.83	2.33	2.33	2.33	0.67	0.83	0.83	4.00	4.99	4.99
Economics of Industry	1.67	2.50	2.00	1.25	0.96	0.83	-	-	0.25	-	0.29	0.38	3.67	3.47*	3.57*	0.42	0.88	0.46	7.01	8.10	7.49	0.58	0.50	0.42	1.60	1.75	1.50	9.19	10.35	9.41
Urban & Regional Econ.	3.25	1.89*	2.61*	0.75	0.88	0.50	-	-	-	-	-	0.25	2.17	3.69*	2.36*	-	-	0.25	6.17	6.46	5.97	0.67	0.50	0.50	1.25	1.53	1.53	8.09	8.49	8.00
Population & Human Res.	1.50	2.83	2.90*	2.17	1.00	0.50	0.33	0.50	0.35	0.75	0.58	0.33	4.00	3.33	2.67	0.67	0.08	0.83	9.42	8.32	7.48	-	0.42	0.42	1.67	1.75	1.60	11.09	10.49	9.50
Employment & Rural Dev.	1.00	1.58	2.00	0.50	1.17	1.17	-	-	-	0.15	0.33	0.42	1.75	2.08	2.83	-	0.50	0.67	3.40	5.66	7.09	0.67	0.42	0.42	0.67	1.25	1.50	4.74	7.33	9.01
Public Finance	2.17	2.08	1.92	0.75	0.17	0.42	-	-	-	0.17	0.17	0.25	2.33	2.57*	2.25	-	0.58	0.58	5.42	5.57	5.43	1.25	0.42	0.42	1.69	1.18	1.17	8.36	7.17	7.03
Sub-Total	9.6	11.0	11.6	5.9	4.6	3.8	0.3	0.5	0.5	1.2	1.5	1.8	14.3	16.2	14.8	1.1	2.0	2.8	32.4	35.8	35.3	5.5	4.6	4.6	7.6	8.3	8.1	45.5	48.7	48.0
ECONOMIC ANALYSIS & PROJS. DEPT.																														
Office of the Director	-	0.08	0.08	-	-	-	-	0.66	0.66	-	0.17	0.25	0.25	0.17	0.25	1.50	2.00	2.17	1.75	3.08	3.41	1.69	2.25	2.41	0.34	1.03	1.17	3.78	6.36	6.99
International Economy	-	-	0.17	0.58	0.96	0.71	1.00	1.67	2.50	0.75	-	-	0.25	0.16	0.08	0.25	0.33	0.29	2.83	3.12	3.75	0.25	0.42	0.42	0.50	0.71	0.83	3.58	4.25	5.00
Comparative Analysis & Proj.	3.33	3.48	3.50	-	1.97	1.95	1.94	0.35	0.50	0.10	0.10	0.10	0.50	0.57	-	0.73	0.24	0.13	6.60	6.71	6.18	0.50	0.44	0.50	1.42	1.74	1.33	8.52	8.89	8.01
Economic & Social Data	2.92	2.00	1.92	0.42	0.58	0.58	2.59	2.08	2.33	0.33	0.25	0.25	0.50	0.58	0.58	2.00	1.58	1.42	8.76	7.07	7.08	0.58	0.42	0.42	1.95	0.60	1.50	11.29	8.09	9.00
External Debt	2.42	-	-	-	-	-	4.75	6.00	6.40	0.50	0.17	0.25	0.67	-	-	0.50	1.50	0.92	8.84	7.67	7.57	1.00	2.00	2.42	2.00	1.93	2.00	11.84	11.60	11.99
International Finance	-	-	-	2.00	1.23	1.80	0.83	1.25	1.25	0.10	-	-	-	-	-	0.90	0.67	0.67	3.83	3.15	3.72	0.42	0.42	0.42	0.86	0.83	0.83	5.11	4.40	4.97
Commodities & Exp. Proj.	0.33	4.17	1.58	2.95	1.75	3.67	0.75	0.83	0.83	1.50	0.67	0.92	4.33	4.32*	5.05*	0.54	0.50	0.25	10.40	12.24	12.30	0.83	0.67	1.00	2.58	3.02	2.70	13.81	15.93	16.00
Sub-Total	9.0	9.7	7.3	6.0	6.5	8.8	11.9	12.9	14.5	3.3	1.3	1.7	6.5	5.8	6.0	6.4	6.8	5.8	43.1	43.0	44.1	5.3	6.6	7.5	9.6	9.9	10.4	58.0	59.5	62.0
POLICY PLANNING & PROGRAM REVIEW																														
Office of the Director	-	-	-	0.42	0.42	0.42	-	-	-	0.17	0.17	0.17	-	-	-	-	0.50	0.50	0.59	1.09	1.09	0.88	0.60	1.08	0.29	0.23	0.43	1.76	1.92	2.60
Policy Planning	-	-	-	3.58	4.41	4.41	-	-	-	0.17	0.17	0.17	-	-	-	0.67	-	-	4.42	4.58	4.58	0.42	0.42	0.42	1.00	1.10	1.00	5.84	6.10	6.00
Program Review	0.98	1.17	1.17	4.42	5.13	5.13	-	-	-	-	0.13	0.12	0.14	0.25	0.25	1.60	0.67	0.67	7.14	7.35	7.34	0.83	0.67	0.67	1.64	1.60	1.60	9.61	9.62	9.61
Sub-Total	1.0	1.1	1.2	8.4	9.9	9.9	-	-	-	0.3	0.5	0.4	0.1	0.3	0.3	2.3	1.2	1.2	12.1	13.0	13.0	2.1	1.7	2.2	2.9	2.9	3.0	17.1	17.6	18.2
DEVELOPMENT RESEARCH CENTER																														
Office of the Director	-	-	-	-	0.08	0.12	-	-	-	0.25	0.05	0.04	2.00	0.58	0.42	-	0.33	0.33	2.25	1.04	0.91	0.83	1.23	1.33	0.63	0.42	0.42	3.71	2.69	2.66
Income Distribution	-	-	-	-	-	-	-	-	-	0.10	0.08	0.08	4.00	4.33	4.33	0.17	0.17	0.17	4.27	4.58	4.58	0.42	0.42	0.42	0.93	1.00	1.00	5.62	6.00	6.00
Development Planning	-	0.08	0.08	-	0.06	0.17	-	0.08	-	0.10	0.08	0.08	4.25	3.71	3.42	0.01	0.15	0.08	4.36	4.16	3.83	0.42	0.50	0.33	0.97	0.83	0.83	5.75	5.49	4.99
Special Topics	-	0.20	-	-	0.20	-	-	-	-	0.17	0.20	0.20	3.58	3.40	3.60	-	0.60	0.80	3.75	4.60	4.60	0.42	0.40	0.40	0.83	1.00	1.00	5.00	6.00	6.00
Sub-Total	-	0.3	0.1	-	0.3	0.3	-	0.1	-	0.6	0.4	0.4	13.8	12.0	11.7	0.2	1.3	1.4	14.6	14.4	13.9	2.1	2.6	2.5	3.4	3.2	3.3	20.1	20.2	19.7
DPS TOTAL	19.6	22.1	20.2	20.3	21.3	22.8	12.2	13.5	15.0	5.4	3.7	4.3	34.7	34.3	32.8	10.0	11.3	11.2	102.2	106.2	106.3	19.2	20.0	21.0	24.3	25.0	25.6	145.7	151.2	152.9
Of which YP *		0.6	0.8											1.4	1.6										0.5	0.6		2.5	3.0	

Footnote: YP Totals: FY75 FY76

Development Economics Dept. 2.0 2.0
Economic Analysis & Proj. 0.5 1.0

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4/8

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: April 8, 1975
FROM: Hollis B. Chenery, ^{HBC}VP, Development Policy
SUBJECT: Report on Country Economic Work

1. You asked me to report on the scope and effectiveness of country economic work and to indicate how the responsibility of the DPS for guidance, support and quality enhancement is being exercised. The attached report, prepared by the Program Review Division, responds to your request.

2. The main conclusions reached in the present report essentially support the recommendations I had made to you in my memorandum of June 22, 1971, (Annex I). As you will recall, we agreed at that time that routine economic reporting would be reduced to make room for more fundamental analysis of the structural problems of our borrowers through the introduction of Basic and Special Reports. It was decided that basic reports would be prepared on a trial basis for a year or so before preparing a new Operational Memorandum on Country Economic Analysis and Reports. This trial period was interrupted by the reorganization of the Bank a year later and the shift in responsibility for economic reporting that took place then. The present report evaluates country economic work against this background and makes specific recommendations about how the process of reform initiated in 1971 should be carried forward.

3. This report has been reviewed extensively at all levels in the Bank over the last two months. While not everyone agrees with every conclusion and recommendation, there is a broad consensus on its major conclusions. The report was also discussed by Mr. Knapp with the RVPs on March 24 and, as shown in the minutes of the meeting (attached), there was general agreement with its main recommendations.

4. A parallel Status Report on Sector Work has been prepared by CPS, which deals with concerns similar to those expressed here and which reinforces the need for a shift from large descriptive country reports to more selective analysis. We are in complete accord with those recommendations.

5. - Our major recommendations are summarized on pages (i) to (vii). If you agree with them, I will initiate steps for their implementation in consultation with Mr. Knapp and the Regional Vice Presidents. Specifically, I request approval of the following general principles on which the recommendations are based:

April 8, 1975

- (i) To respond more effectively to the various demands for economic work, and the different priorities which may be accorded to these, the scope and content of economic work in the Bank should shift from the present emphasis on current, self-contained, comprehensive reporting to the analysis of longer-term development issues and the policies and programs required to tackle them.
- (ii) To do this, the present system of economic reporting should be restructured around two fundamental elements:
 - a Country Economic Memorandum, which will provide a current, concise assessment of the performance and prospects of our borrowing countries;
 - a Basic Economic Report, which will periodically provide a longer-term perspective of the country's development problems, and will be built up from a flexible series of special and sector reports covering specific policy issues.
- (iii) To ensure that priority demands are clearly specified and that they are met through the provision of adequate staff resources on a Bank-wide basis, the programming of country economic work should be strengthened. This should be done by:
 - establishing a Bank-wide coordinating or priorities committee under my chairmanship, with the Program Review Division as its secretariat; the committee will review (a) the priorities of country economic work, (b) the matching of regional demands and DPS staff support, and (c) any important policy issues that may arise in the course of programming of country economic work.

April 8, 1975

--Strengthening the office of the Regional Chief Economists by assigning him, in addition to his present responsibility for supervising the quality of economic work, increased responsibility for planning, coordinating and monitoring all economic and sector work.

6. If you are in agreement with these recommendations, I will prepare, in consultation with the Organizational Planning Department, a memorandum for circulation to the Regions giving instructions for their implementation within a specified time period. This will be followed up by the preparation of a revised O.M. 1.11 on country economic analysis and reports.

Attachments

cc: President's Council

SChernick/MHag/HBChenery:gss

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
ROUGH: H.B. Chenery *H.B. Chenery*
FROM: John H. Duloy, Director, Development Research Center
SUBJECT: Poverty in Brazil

DATE: April 2, 1975
9

1. Mr. Chenery copied to me your memorandum of March 18 to Mr. Knapp concerning the Brazilian Government's policy on small farm productivity and its implications for the continuation of Bank lending in Brazil.
2. It would indeed appear that the previous Brazilian Government had little or no commitment to raising the income of the rural poor, most of whom are located in the Northeast, and had no effective program for increasing their productivity. However, there are some indications that changes in policy are occurring or under consideration by the present Government. Part of the problem is that this is an exceedingly difficult area for development, and there is little understanding of specific policies and programs needed to reach the rural poor, which need to be tailored to the different and diverse socio-economic and ecological conditions of the region. What is required is a complex package of institutional reform (particularly land tenure), improved technologies and the associated inputs, marketing, and overall supporting government policies.
3. The DRC is involved in a collaborative research study with SUDENE^{1/} to provide more information on these issues. The research is designed to evaluate the following:
 - (a) the present position of the rural poor in the Northeast;
 - (b) the constraints on rural development in the area, including institutional and land tenure problems; and
 - (c) policy packages required to support programs of rural development which will reach the poor.
4. The first objective has largely been attained and a report based on a survey of 8,000 farms in the NE is in draft and under discussion with SUDENE. Results of analysis, which are still tentative, indicate that existing tenure structures are often a major obstacle to the adoption of some of the available improved techniques. Reform seems required therefore on efficiency grounds and not only on equity considerations.

^{1/} The federal agency charged with the development of the Northeast.

April 2, 1975

5. While recently in Brazil, I concluded an agreement with SUDENE in the form of a statement of intent to maintain the momentum of this work over the next two years. SUDENE intends to establish a special unit for the purposes of this work.

6. Results from the research study, particularly on points (b) and (c) above, should assist considerably in defining the nature and extent of the commitment required from the Government, the discussion of which so far has tended to be in general and open-ended terms. I anticipate that we will have research results suitable for this purpose in about eighteen months. In the meantime, the research results are already providing important information for the specific project activities under way.

7. Even if there were a sweeping change in Government commitment, its implementing agency, SUDENE, has very limited staff capacity to generate programs and policies. The problem is that of staff quality, and it is recognized by its new Superintendent. In recent discussions with him, he requested that I might explore, on an informal basis, the willingness of the Bank to provide an assessment of the training needs of his staff and the design of a program for inservice training. I propose to discuss this matter with Messrs. Krieger and Kamarck.

cc: Messrs. Knapp, Operations
Baum, Projects Staff
Chenery, Development Policy
Krieger, Latin America and the Caribbean
Kamarck, Economic Development Institute
Skillings, Chief, LC2DA

JEDuloy:vec

FORM NO. 75
(2-60)

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Date

April 4, 1975

NAME

ROOM NO.

Mr. Weiner

XX

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

From

Hollis Chenery

OFFICE MEMORANDUM

① This please revise
the tables to add.

TO: Mr. Robert S. McNamara, President

DATE: March 31, 1975

FROM: Hollis B. Chenery and Mervyn Weiner

a 3rd alternative:

SUBJECT: Indian Export Trends

The GOI targets for 1979
without adjustment

1. In answer to your request, we enclose two tables showing the historical and projected Indian export trends in constant and current prices. The historical data clearly indicate that in constant prices, India's export performance has been poor. For most years during the last decade, the growth rate has been less than 4% (i.e. much below the overall increase in world trade). The rapid rise in export earnings during 1973/74 and 1974/75 has been almost entirely due to higher prices. Because of the current recession in world demand, we are projecting a 1.5% decline in constant price exports during 1975/76.

the Base
Year
① Target
March
both the
"constant"

2. For the years after 1975/76, we have included two alternative projections. Projection A is based on the GOI's targets for 1978/79 (in constant 1973/74 prices) as presented in the recent paper on "Export Prospects" which was discussed at your meeting with Mr. Subramaniam on January 18, 1975. However, the GOI itself would probably now consider these targets optimistic given the current recession in world demand. We have therefore modified the GOI projections to include our estimate of exports during 1974/75 and our forecast for 1975/76. For subsequent years, we have used the annual growth rate implicit in the GOI's targets. ^{1/} Because we predict a lower growth rate for most exports through 1975/76, the level of exports achieved in 1978/79 is significantly less than the initial target suggested in the GOI paper. These projections require major changes in Indian policy, as indicated in the Chenery-Gilmartin-Hughes memorandum.

+ "constant
prices" table
is one sheet
I believe
they will
fit.
LH ✓

3. Projection B shows what we consider is likely to happen after 1975/76 if there is no such improvement in export policy. While the experience of individual export commodities can be expected to vary there is no reason to expect that the real growth rate of total exports will be significantly different from the historical trend. It is obvious that a major export drive will be required if a real growth rate of more than 4% per annum is to be achieved over the next five years.

^{1/} Except for sugar where it is assumed that the rapid growth in export volumes is concentrated in 1974/75 and 1975/76 with no growth thereafter.

March 31, 1975

4. While iron ore, coal, sugar and other primary commodities must not be neglected, manufactures are the most hopeful export growth sector from both the terms of trade and the employment point of view. At present India's exports of manufactures account for a very small and declining proportion of total LDC exports of manufactures in all categories except leather. (See Table III, LDC Exports of Manufactures to Developed Countries, 1972). LDC exports are of course only a small proportion of total world trade in manufactures. The policy changes required to stimulate a significant growth in manufactured exports were noted in the memorandum of February 26, 1975. They will be outlined in more detail in the forthcoming Economic Report on India as a basis for further dialogue with the Government of India.

Attachments

cc: Messrs. W. Diamond
J. Baneth
J. Kraske
B. Kavalsky
M. Wolf
M. Baird

MBaird/HHughes:HBChenery:gss

INDIA

EXPORTS IN CURRENT PRICES
(US\$ Million)

TABLE II

	ACTUALS								Estimate 1974/75	PROJECTIONS ^{4/}				Compound Annual Growth Rates (%)		
	1960/61	1965/66	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74		1975/76	1976/77	1977/78	1978/79	68/69 - 73/74	73/74 - 78/79	75/76 - 78/79
Jute manufactures	283.8	384.0	290.6	275.5	253.9	356.4	324.4	291.7	325.0	250.0 ^{5/A}	274.5	297.8	321.8	0.1	2.0	8.8
										B	266.6	280.7	294.6		0.2	5.6
Tea	259.6	241.2	208.6	166.0	197.7	210.0	191.1	185.9	245.0	250.0 ^{6/A}	233.9	257.5	269.6	-2.3	7.7	2.5
										B	230.4	249.9	257.8		6.8	1.0
Oilcakes	30.0	72.8	66.0	55.3	73.9	53.9	97.0	219.0	130.0 ^{7/}	140.0 ^{7/A}	145.3	150.4	161.1	27.1	-6.0	4.8
										B	141.1	141.8	147.4		-7.6	1.7
Unmanufactured tobacco	30.7	41.1	44.2	43.6	41.9	56.8	79.2	87.8	90.0	90.0 ^{8/A}	101.8	115.0	128.7	14.7	7.9	12.5
										B	101.8	115.0	128.7		7.9	12.5
Iron ore	35.8	88.4	117.8	126.2	156.4	140.7	142.5	170.5	200.0	215.0 ^{9/A}	254.9	306.2	379.8	7.7	17.4	20.9
										B	247.6	289.0	348.0		14.7	16.3
Sugar	5.1	22.0	13.5	11.4	36.8	40.6	17.2	54.4	335.0	520.0 ^{10/A}	346.6	267.9	220.5	32.2	32.3	-25.0
										B	346.6	267.9	220.5		32.3	-25.0
Leather and leather manu.	56.6	72.6	106.5	120.7	111.3	135.3	239.0	228.5	190.0	175.0 ^{11/A}	203.9	240.5	285.9	16.5	4.6	17.8
										B	197.3	225.1	258.9		2.5	13.9
Cotton textiles and yarn ^{1/}	130.1	130.6	113.1	133.4	127.9	126.7	163.0	268.5	350.0 ^{10/}	270.0 ^{10/A}	319.7	360.3	428.9	18.9	9.8	16.7
										B	306.5	331.3	378.2		7.1	11.9
Engineering goods ^{2/}	37.8	41.6	89.8	119.4	155.3	163.1	184.9	258.0	325.0	375.0 ^{11/A}	485.6	621.9	792.7	23.5	25.2	28.3
										B	452.7	540.5	642.1		20.0	19.6
Other exports	517.0	597.5	760.4	832.8	891.8	876.9	1,106.2	1,423.0	1,810.0	1,915.0 ^{12/A}	2,284.4	2,698.9	3,159.0	13.4	17.3	18.2
										B	2,171.6	2,439.0	2,714.0		13.8	12.3
TOTAL Exports	<u>1,386.5</u>	<u>1,691.8</u>	<u>1,810.5</u>	<u>1,884.3</u>	<u>2,046.9</u>	<u>2,160.4</u>	<u>2,544.6</u>	<u>3,187.3</u>	<u>4,000.0</u>	<u>4,200.0</u>	<u>4,650.6</u>	<u>5,316.4</u>	<u>6,148.0</u>	<u>12.0</u>	<u>14.0</u>	<u>13.5</u>
										B	<u>4,462.2</u>	<u>4,880.2</u>	<u>5,390.2</u>		<u>11.1</u>	<u>8.7</u>

- 1/ Excludes raw cotton and cotton apparel.
2/ Data from 1971/72 use new classification and therefore not strictly comparable with data for earlier years.
3/ Source: 1974/75 - A. Hone "India's Export Prospects 1975/76." The value of 'other exports' has been revised upwards slightly.
4/ Sources: 1975/76 - A. Hone "India's Export Prospects 1975/76," unless stated otherwise (see footnotes 9-12). 1976/77 to 1978/79 - Based on the constant price forecasts (see footnote 5, Table I), given the price trends we expect over the period (see footnotes 5-12).
5/ Prices for jute manufactures are projected to fall 15% in 1975/76 and then rise in line with world inflation in subsequent years. World inflation is assumed to follow the Index of International Prices prepared by the Bank's EPD.
6/ Prices assumed to follow the EPD projections.
7/ Based on Hone's figures for groundnut extraction which is assumed to account for 66% of oilcake exports (as in 1973/74). The price forecast is based on a projection for groundnut meal prepared by Mr. Pollak (EPD).
8/ Prices assumed to follow the EPD projections after 1975/76 (with leather goods related to the hides and skins projection and cotton textiles related to the cotton projection).
9/ The price received for India's sugar exports is projected to rise nearly 11% during 1975/76. This may seem high in light of the recent fall in world sugar prices. However, world prices are still substantially above the level at which the bulk of India's sugar was sold in 1974/75. In addition, the EPD projections still show sugar prices rising 14% during 1975. Our price and volume assumptions result in export earnings of \$520 million in 1975/76 compared to \$425 million in Hone's paper (although Hone now feels his projection is pessimistic). After 1975/76, prices are assumed to follow the EPD projections. Hone's figures have been adjusted to take account of different classification.
10/ Prices for engineering goods are projected to increase 10% in 1975/76 and then rise in line with world inflation in subsequent years. The 10% price increase in 1975/76, combined with our assumption of 5% volume growth, results in export earnings of \$375 million compared to \$300 million in Hone's paper.
11/ Prices for 'other goods' are projected to increase 5% in 1975/76, 9% in 1976/77, 8% in 1977/78 and 7% in 1978/79. The 5% price increase in 1975/76, combined with our assumption of -1.5% volume growth (and the higher value of 'other exports' used in 1974/75) results in export earnings of \$1,915 million, which is higher than projected in Hone's paper. The price increases during 1976/77 to 1978/79 are slightly lower than the projected increases in world prices.

EXCHANGE RATES: 1960/61 to 1970/71 Rs. 7.5 = US\$ 1
1971/72 Rs. 7.444 = US\$ 1
1972/73 Rs. 7.706 = US\$ 1
1973/74 Rs. 7.791 = US\$ 1
1974/75 Rs. 7.957 = US\$ 1
1975/76 to 1978/79 Rs. 8.0 = US\$ 1

SOURCES for 1960/61 to 1972/73 - "Economic Situation and Prospects of India," May 1973 and May 1974, Historical Statistical Appendix, Table 3.1.
data: 1973/74 - Data on engineering and leather goods from A. Hone "India's Export Prospects 1975/76." All other data from B. Alishah "India--Export Trends," Appendix Table II.

South Asia Country Programs
March 1975

INDIA

EXPORTS IN CONSTANT 1973/74 PRICES
(US\$ Million)

TABLE I

	ACTUALS								Estimate 1974/75	PROJECTIONS				Compound Annual Growth Rates (%)		
	1960/61	1965/66	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74		1975/76	1976/77	1977/78	1978/79	68/69 - 73/74	73/74 - 78/79	75/76 - 78/79
Jute manufactures	414.0	466.3	338.3	295.8	290.7	347.1	300.5	291.7	282.6	250.0	A 250.0 B 242.8	250.0 235.7	250.0 228.9	- 2.9	- 3.0 4.7	0.0 - 2.9
Tea	194.7	192.7	196.7	170.2	194.7	202.5	188.8	185.9	186.7	187.5	A 190.3 B 187.5	193.2 187.5	196.1 187.5	- 1.1	1.1 0.2	1.5 0.0
Oilcakes	77.5	148.3	148.9	126.1	157.3	132.8	179.1	219.0	180.8	175.9	A 181.2 B 175.9	186.6 175.9	192.2 175.9	8.0	- 2.6 - 4.6	3.0 0.0
Unmanufactured tobacco	n.a.	n.a.	59.2	61.0	53.3	64.3	106.1	87.8	86.3	77.0	A 78.6 B 78.6	80.3 80.3	82.0 82.0	8.2	- 1.4 - 1.4	2.1 2.1
Iron ore	21.6	86.3	112.9	118.7	152.5	143.2	148.2	170.5	175.0	180.0	A 194.6 B 189.0	210.3 198.5	227.4 208.4	8.6	5.9 2.3	8.1 5.0
Sugar	12.2	67.7	21.8	17.8	75.7	69.0	22.2	54.4	108.8	152.3	A 152.3 B 152.3	152.3 152.3	152.3 152.3	20.1	22.9 22.9	0.0 0.0
Leather and leather manu. ^{1/}	n.a.	n.a.	189.2	188.0	192.2	233.6	392.6	228.5	194.2	163.7	A 175.8 B 170.1	188.8 176.7	202.8 183.6	3.9	- 2.4 - 4.3	7.4 3.9
Cotton textiles and yarn ^{2/}	219.3	213.1	190.3	213.7	189.3	165.8	209.2	268.5	319.1	270.0	A 295.7 B 283.5	323.7 297.7	354.5 312.6	7.1	5.7 3.1	9.5 3.0
Engineering goods)								258.0	283.8	298.0	A 351.6 B 327.8	414.9 360.6	489.6 396.6		13.7 9.0	18.0 10.0
Other Exports ^{3/})	n.a.	n.a.	1,462.2	1,400.4	1,522.6	1,589.7	1,569.9	1,423.0	1,533.9	1,545.6	A 1,690.9 B 1,607.4	1,849.8 1,671.7	2,023.7 1,738.6	2.8	7.3 3.2	0.4 4.0
TOTAL Exports ^{3/}	n.a.	n.a.	<u>2,719.5</u>	<u>2,591.7</u>	<u>2,828.3</u>	<u>2,948.0</u>	<u>3,116.6</u>	<u>3,187.3</u>	<u>3,351.2</u>	<u>3,300.0</u>	A <u>3,561.0</u> B <u>3,418.9</u>	<u>3,849.9</u> <u>3,536.9</u>	<u>4,170.6</u> <u>3,666.4</u>	3.2	5.5 2.8	8.1 3.6

^{1/} Based on volume growth of leather and footwear exports.
^{2/} Excludes raw cotton and cotton apparel.
^{3/} Based on weighted index for selected exports (which cover approximately 75% of total exports) in B. Alisbah's "India - Export Trends," assuming the volume of excluded exports grows at same rate as total selected exports.
^{4/} Source: 1974/75 - based on volume changes or the current price series deflated for price changes.
^{5/} Sources: 1975/76 - based on expected volume changes or the current price series deflated for price changes. The current price forecasts in A. Hone's "India's Export Prospects 1975/76," have been revised where they are inconsistent with our volume and price expectations (see footnote 4, Table II).
1976/77 to 1978/79 - two alternative constant price projections are presented. Unless stated otherwise, 'A' is based on the growth rate assumed in the GOI's paper on "Export Prospects" for the period 1973/74 to 1978/79 (see footnote 8). However, because we are assuming a lower growth for most exports during 1974/75 and especially 1975/76, the level of exports achieved in 1978/79 is significantly less than the target suggested in the GOI paper. 'B' is what we consider to be the more likely growth rate, given no major change in export policy. (For assumptions, see footnotes 6 to 9).
^{6/} Based on the historical trend over the period 1968/69 to 1973/74.
^{7/} The GOI's projected growth rate has been adopted.
^{8/} It is assumed, perhaps optimistically, that India will be able to export 700,000 tons of sugar in 1975/76, compared to the estimate of 500,000 tons in 1974/75 and 250,000 tons in 1973/74. The GOI projections are based on a target of 600,000 tons for 1978/79. Because this is less than our projection for 1975/76, we have assumed zero growth in sugar exports during the period 1976/77 to 1978/79. This is not unreasonable given that the recent large volume increases have been induced by high prices (which are not projected to continue) and achieved by a diversion of supplies from the domestic market. Sugar is the only export for which projection 'A' is not based on the growth rate assumed by the GOI for the period 1973/74 to 1978/79 as a whole.
^{9/} Over the period 1968/69 to 1973/74 (and including fast growing engineering goods) 'other exports' grew at only 2.8% per annum. However, this category does include several relatively new exports (e.g. steel, coal, cement) which will help boost the annual growth rate to our projected 4% per annum over the period 1976/77 to 1978/79. Any additional growth is unlikely without major policy changes.
^{10/} The annual growth rate over the period 1975/76 to 1978/79 (8.1%) is less than that projected by the GOI over the period 1973/74 to 1978/79 (9.2%) due to our assumption that all the growth in sugar exports occurs during 1974/75 and 1975/76.

SOURCES for 1960/61 and 1965/66 - based on "Economic Situation and Prospects of India," May 1974, Volume III, Historical data: Statistical Appendix Table 3.1.
1968/69 to 1973/74 - based on B. Alisbah's "India - Export Trends," Appendix Table III.

South Asia Country Programs
March 1975

Table III

Export of Manufactures 1/ to Developed Market Economy Countries by Leading Developing Country Suppliers
in 1972

(\$ million)

	<u>Leather & Footwear</u>	<u>Textiles</u>	<u>Clothing</u>	<u>Iron & Steel</u>	<u>Motor Vehicles</u>	<u>Other Engin- eering & Metal Products</u>	<u>Total Mfg. Exports</u>	<u>Growth Rate 1962-1972</u>
Argentina	65.0	1.0	5.4	18.9	0.9	15.8	297.7	12.0
Brazil	81.4	66.4	15.3	51.8	5.9	48.3	671.4	22.9
Hong Kong	61.6	220.1	1073.8	0.2	0.9	454.5	2433.3	19.4
India	139.5	396.3	36.7	15.1	0.2	34.5	678.1	6.3
Israel	4.0	28.9	64.7	1.0	0.5	28.4	296.2	19.4
Korea, Rep. of	59.8	145.3	346.2	64.5	0.2	130.1	1087.5	66.6
Malaysia	3.1	7.1	10.3	0.1	-	10.0	242.8	21.3
Mexico	20.3	46.3	63.8	54.2	28.1	333.3	826.7	22.7
Singapore	1.9	14.6	56.7	0.1	0.5	228.6	387.3	41.2
Yugoslavia	45.4	63.7	199.1	69.0	15.0	227.1	953.4	18.0
Other DC	122.9	522.3	133.2	164.2	2.9	49.3	2,283.5	-
<u>All Developing Countries</u>	<u>604.9</u>	<u>1512.0</u>	<u>2005.2</u>	<u>439.1</u>	<u>55.1</u>	<u>1610.3</u>	<u>10,157.9</u>	<u>15.4</u>

1/ Excluding petroleum products and unworked non-ferrous metals.

Source: UNCTAD, Trade in manufactures of developing countries and territories: 1973 review, TD/8/c.2/140, December 1974, Annex, p.4.

Note: Data in this table is not strictly comparable to that in Table I and II.

MCN notebook

(Report is in
MCN ^{pending} folder in
desk drawer)

Mr. Robert S. McNamara

March 31, 1975

Hollis B. Chenery

Science and Technology Activity in the Bank

1. Attached for your information is a report on the science and technology aspects of Bank operations, prepared by Mr. Weiss, the Science Adviser, based on information supplied by the Regions. The topic is often raised in the UN and other international forums and you may wish to consider distributing the report to the Board for information. Mr. Hoffman suggests that it also be distributed to the ACC.

2. I shall forward a brief description of the work of the Office of Science and Technology to date within the next few days. That report is intended for internal information only and was prepared as a summary review of Mr. Weiss's work prior to the transfer of his office to CPS.

Attachment

CWeiss:EStern:di

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President **DATE:** March 31, 1975
FROM: Hollis B. Chenery, VP, Development Policy *HSZ*
SUBJECT: Investment in Agricultural Research

The Evenson paper that you requested is attached. It reports on research sponsored under our research program (RPO 215), which will shortly be published as a book.

Attachment

HBChenery:gss

Agenda Item 4

Data Requirements of Consultative Group

Mr. Evenson's paper was commissioned by the World Bank as a basis for discussion at the November 1973 Consultative Group meeting. It reflects the views of the author and not necessarily those of the World Bank.

3/25 To Dr. Channing
Heller, please obtain
a copy of this report
+ send
and
Lund
||

WFC headquarters is being established in Rome pointing toward an initial meeting of the 36-nation council (ministerial level) no later than 1 July 1975. On the agenda will be ways and means of increasing food production in the developing countries, implementation of food aid, food security, fertilizer and pesticide availability, and the international fund for agricultural development.

The new Consultative Group (CGFPI) under the chairmanship of Edwin Martin is to coordinate and improve the effectiveness of existing and new bilateral and multilateral flows for agricultural and food production. A task force is now spelling out the terms of reference for this new institution.

8. Studies Show High Returns to Agricultural Research

Economists have recently released results of a series of studies which estimate the productivity of international and national agricultural research. While highly aggregative in nature and methods used are subject to considerable refinement, estimates are sufficiently high to command attention. (Some studies show low returns, too, as in the case of estimates made for wheat and cotton research in Colombia by Reed Hertford and associates.)

Dana Dalrymple has made direct estimates of the impact of international institutes on crop production (wheat and rice) showing that increases in the area in high-yielding varieties and growth in yield were in fact joint products of the international centers and of national programs. While pointing out limitations in methodology and in data, Dalrymple estimates that in areas where high-yielding variety packages were adopted, crop yields and production appear to have increased significantly. His rough initial calculations suggest that the added gross value of wheat and rice production in Asia alone in 1972-73 may have been about \$1 billion.

Evenson's estimates are somewhat higher than those of Dalrymple. Evenson holds that the research dollar buys income streams many times as large as the average development dollar, estimating that making due allowance for time lags the price of growth through research investment is probably one-fifth to one-eighth as high as in most development projects. He estimates that in the case of wheat for the first generation improved varieties 1965-70 the income stream generated per thousand dollars of research was of the order of \$225,000. For rice a comparable figure was estimated at \$270,000 per thousand dollars of research. The second generation of improved varieties which were introduced in 1970-73, though still producing high returns, generated lower new income streams per thousand dollars research than the first generation innovations.

Of interest though not directly comparable are estimates of research productivities in the United States. Engstrom of the University of Minnesota has estimated that in 1969 the average output per dollar of agricultural research in the ten largest agricultural states was \$351 and in the ten smallest agricultural states in the U.S. was \$97.

HBC
MEN note -
Lysk (also
in MEN folder
with Stern)

Mr. Robert S. McNamara, President

March 18, 1975

H.B. Chenery, VP, Development Policy
E. Stern, Director, Development Policy
Proposal for the Multilateral Financing
of Resource Development in the LDCs

Attached is a note on the proposal Chuck Robinson sent you. We have tried to be as constructive as possible, but may have succeeded only in being polite - since the proposal has few advantages and many problems.

Attachment
EStern/lis

Proposal for the Multilateral Financing
of Resource Development in the LDCs

Objective

1. The draft proposal deals with three important long-term issues: (a) adequate supplies of industrial raw materials and access thereto; (b) broadening the investment opportunities for OPEC countries; and (c) getting OPEC countries to participate in joint efforts. One of the problems with the preliminary outline is that it does not set these objectives out very clearly nor are the implications traced. Instead, certain assumptions about short-term economic developments are advanced as premises. These premises would not be generally accepted and should be explored much more fully. Some of them are referred to below.

Interest Groups

2. There are three potential groups who might benefit from the proposal - the industrialized countries, OPEC and the LDCs. If the proposal is to be persuasive, the interests of these groups should be defined more clearly. For instance:

OPEC Members

3. The OPEC countries primarily wish to invest their surplus capital with security and at a reasonable rate of return. They also have some interest in assisting the developing countries. They have only a very small direct interest in the supply of raw materials and even their indirect interest is limited. The proposed scheme, tied as it is to the price of commodities, is likely to fall short of the investment security objective, particularly compared to presently available alternatives. The same is true for the rate of return objective. These features could be improved, but then one would be back to essentially what the World Bank does, namely, issuing financial instruments, backed collectively by its members. This would raise the question as to why a new institution is thought to be necessary. Insofar as the OPEC countries are interested in assisting the developing countries, there are more direct and politically more attractive ways of doing so. Investments in mining do not generate much employment, are closely associated with foreign private investment and the external involvement contemplated (which is not entirely clear) might be inconsistent with OPEC countries' policies regarding oil companies.

Industrialized Countries

4. The industrialized countries, e.g. the United States, might have several objectives, including channeling surplus OPEC capital and providing more assured access to raw materials. As to the former, presumably pretty much the same objectives could be achieved in a number of ways, including expansion of the World Bank lending program and increased borrowing from OPEC countries. However, the resources required by this proposal are small compared to the potential surplus. Regarding security of supply, there are two aspects - price and access. The present proposal skirts the issue of price stabilization even though it would need to be an integral component of any long-term financing. As to access, the proposal provides no assurances, except possibly through increased production. To what extent increased production is consistent with price stabilization needs to be explored.

LDCs

5. Depending on the commodities involved, a relatively small number of LDCs are likely to benefit, and these are largely among the higher income groups. The benefit to these countries depends on the assumptions (i) that capital is not otherwise available (which remains to be demonstrated), and (ii) that the long-term price will be favorable. The disadvantages will almost certainly be seen to lie in the external involvement in raw material production and the real, or imagined, derogation of sovereignty this involves. The reaction will depend on the type of investment relationship envisaged, and the proposal is still vague on this. In those industries where technology is reasonably steady, a wide range of investment and ownership arrangements are likely. While the proposal is not explicit on this, has the question of U.S. support for investments in largely publicly owned enterprises been faced?

Definition of Coverage

6. The proposal refers to basic industrial raw materials, but this is not defined further. We have assumed that the focus is on the minerals. To include such items as cotton, jute, cocoa, would exacerbate the problems of price management. However, in agricultural raw materials, there are some areas where major new investments are necessary. For instance, as we have reported earlier, there is expected to be a major short-fall in investment in sugar refining. However, we know of no similar situation in the minerals.

Price Stabilization

7. The proposal clearly assumes either a fixed price or a stable price for commodities, but there is no discussion of how this is to be achieved. Commodity price stabilization is a complex subject and presently under discussion in UNCTAD. It requires, among other things, an international buffer stock. Without such a stock, price levels would be erratic and the financial instruments based on them speculative - either for the buyer or the debtor. If the United States is prepared to support price stabilization, the obvious question is whether an important first step would not be to support the UNCTAD proposals for commodity agreements and buffer stock arrangements.

Other Issues

8. There are a number of other points which need to be developed more thoroughly. For instance, it is not self-evident that there will be a simultaneous recovery in the industrial countries, that this will be sufficiently rapid to strain raw material supply capacity or that, in the future, the economies of the industrialized countries will remain in step. Another question is the need for a new institution at a time when many countries have expressed concern at the proliferation. Unless it is thought that tri-partite management will generate capital not otherwise available, how does the proposed bank differ from increased IBRD lending plus price stabilization?

EStern/lS
March 17, 1975

ROUTING SLIP		Date March 3, 1975
NAME		ROOM NO.
Mrs. H. Hughes (on leave)		
Mr. J. Baneth		
Mr. E. Stern		
<i>Chenery has original in 1929 folder in his drawer.</i>		
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		
"3/3 <u>To Dr. Chenery</u>		
Please send me a table showing past and future export data for India (volume, value, etc.); for the future, show your estimates vs. India's, if they differ.		
RMCM"		
From Doris (In Mr. Chenery's absence)		

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 26, 1975

FROM: Hollis Chenery, William Gilmartin, Helen Hughes

SUBJECT: Prospects for Indian Exports

1. This memorandum summarizes the Indian export situation and our impression of Government policies and programs to encourage exports after discussion during the past three days with principal officials of the Indian government concerned with exports and economic policy, including:

C. Subramaniam, Minister of Finance
T.A. Pai, Minister for Industries
P.N. Haksar, Deputy Chairman, Planning Commission
M.G. Kaul, Secretary, Ministry of Finance
Y.T. Shah, Secretary, Ministry of Commerce
S. Chakravarty, Chairman of Export Committee.

A. IMPORTANCE OF EXPORTS TO INDIAN POLICY

2. Exports have played a minor role in Indian development policy over the past twenty years. Development strategy has been built around import substitution and the achievement of self-sufficiency, which has the effect of creating a protected domestic market for domestic producers and at the same time discriminating against exports. Although measures have been taken to offset these effects they have not succeeded in creating sufficient incentives for industrial exporters from either the private or public sectors. Even with a stagnant domestic market and excess capacity in many sectors, exports have only grown at 3% per year over the past five years, a period in which world trade has been very buoyant. Most of the recent improvement in export performance has been due to favorable prices, some of which cannot be expected to continue.

3. Because of its past policy of extreme import substitution, India has been in perhaps the worst position of any major country to meet the effects of the recent rise in prices of oil, food and fertilizers. Since the existing imports are limited to goods that are essential to the functioning of the economy, the additional import cost of some \$1.5 billion must be added to the existing import bill of \$3.5 billion. Largely as a consequence of the import stringency, there has been no growth in per capita income for the past two years.

4. It is technically feasible to postulate a reasonable growth rate of 4.5 - 5.0% (2.0% or more per capita) if effective measures are taken to eliminate the need for continuing food imports and if export growth of the order of 7 - 8% (in constant prices) can be achieved. Progress on these two requirements should make it possible to secure the increase in both concessional and intermediate term lending that is needed over at least the next five years until export growth can begin to close the gap between import costs and export earnings. With export growth significantly less than this rate, it will not be possible to service sufficient debt to sustain the borrowing needed during the transitional period. The failure of exports to

313 To Dr. Chenery

Please send me a table showing past

MY + future export data for India (volume, value, etc). for the

future show your estimates

India's, they differ Chen

W/28

grow is therefore likely to have a double effect on import capacity by reducing borrowing capacity as well.

5. While from an economic standpoint an acceleration of export growth of this magnitude appears to be feasible, it is only likely to be achieved if exporting becomes widely recognized as a crucial element of India's development strategy, with a corresponding reduction in the manifold obstacles that currently reduce the incentives to export. Serious balance of payments deterioration appears to have strengthened the conviction at top levels of economic management as to the necessity to improve the export record. It is not possible to foresee in detail the products or markets in which India will be able to succeed in expanding exports. It is therefore desirable to change the general system of incentives so that this possibility will be considered by producers in a wide variety of sectors. Since it is not feasible to bring about this change through sweeping measures such as trade liberalization or devaluation, the incentives provided should be applicable to a wide range of sectors.

6. It must be recognized that a change in incentives of sufficient magnitude to achieve the required increase in exports will at the same time increase the profits of some firms in the private sector and offset in at least a minor way the redistribution of income that the government has been trying to achieve. However, the cost of not providing sufficient export incentives must also be examined. The effects of a failure to restore a national growth of at least 2% per capita will have a much more serious effect on employment and on the income of the lower income groups than any minor diversion to the profits of exporters -- in fact the benefits for the poverty groups of 2% growth as compared to the present prospect of zero growth would swamp the minor losses through possible excess profits. Under these circumstances, the cost to social objectives of inadequate action to promote exports is likely to be much higher than the cost of being too liberal with the private sector. Once a successful process of export growth is established it should not be too difficult to tax profits in cases where they prove to be excessive.

B. IMPLEMENTATION

7. India is embarking on an accelerated export effort at a time when the markets in industrialized countries are constrained by recession, and when many countries, developing and developed, are also engaged in exceptionally strong export efforts to offset the increase in oil prices. A number of developing countries, moreover, now has several years of experience of exporting industrial goods. Their implementation of export incentives has become very efficient, and as a result they are very competitive in prices and delivery times. The newly opened up Middle Eastern markets, which form an exception to stagnating world trade trends, are well located for India, and the Government of India is aware of the opportunities they imply, particularly in the sale of contracting services and in sub-contracting for major equipment suppliers. However, this market too is very competitive, and early entrants are likely to tie up trade channels.

8. The Government of India has taken several steps to improve the

export climate. The stabilization of the economy in the past year freed domestic manufacturing capacity for exports and made exporting relatively profitable. The improvement in the power situation in the Eastern region has made production for export easier. Coal output after years of stagnation is expected to increase from 78 to 88 million tons in 1974/75, and by 1975/76 it is expected to reach 96 to 98 million tons. Increased investment in power stations and transmission lines will further improve overall productive capacity.

9. The diversion of sugar, cement and high grade rice from domestic to export markets improved export performance in the past year, and such measures are to be continued if necessary. Unfortunately, however, this type of action has only a limited effect in broadening the export base.

10. Recent months have seen a change in the licensing of additional capacity utilization and to some extent, in the use of existing capacity. Thus existing capacity in engineering can be used for general production, provided it is for export, and not only for the outputs specified in the license, as in the past. A capacity increase of 5% per year is to be allowed for five years without the need for an additional license. There is to be a loosening of licensing for exports by "large houses" and foreign investors. Attention is being directed to attracting foreign firms to use India as an export base, and for 100% exporting ventures limitations on foreign ownership are to be relaxed. These approaches reflect a new recognition by the Minister of Industry of the wastefulness of the under-utilization of capacity. Overall this loosening up of licensing should free productive capacity for exports. However, much will depend on the implementation of complementary measures which would make competitive production for exports possible.

11. The Government of India is aware of the need to streamline the processing of the many licences, permits and exemptions required by manufacturers if exports are to be competitive internationally. A committee under the chairmanship of Prof. S. Chakravarty is to report on the situation later this year. A committee on the engineering industry has already identified bottlenecks in exporting engineering goods, and its recommendations are shortly to be implemented by an Inter-Ministerial Empowering Committee. Again, much will depend on the degree to which procedures exporters must follow will be simplified in practice.

12. The immediate strategy is focussed on identifying industries capable of rapid increase in exports. The textile and garment industries are both, for example, important in this respect. However, the textile industry requires equipment to modernize, and raw cotton and other imports at world prices to be competitive. The garment industry is so highly competitive internationally that even minor delays in granting equipment licences, or exemptions which enable manufacturers to import buttons and other sundries, can mean not only the loss of an order but also the loss of a permanent market outlet.

13. Export zones could play an important role in Indian exports if their use could in practice reduce the paper work involved in exporting and give producers ready access to imported inputs. However, the Santa Cruz

electronics zone near Bombay has got off to somewhat of a slow start. Only some 38 firms have been approved, and not all of these have tied up their technical and marketing arrangements with foreign firms. The absence of a guaranteed power supply is a problem. By international standards even the forms required for initial application are exceedingly cumbersome. Indeed, to some extent there may be a danger of duplicating the amount of paper work required of exporters if they locate in an export zone rather than reducing it.

C. CONCLUSIONS

14. To sum up, the Government of India has moved toward a greater stress on exports, and some practical steps have been taken to support exporters in industries identified as having a high export potential. However, the Indian regulatory system is so pervasive and complex that filling each export order involves a number of government permits. Thus the achievement of the present export targets will depend in the first instance on the extent to which policy changes now in train can be effectively and speedily implemented with inducement enough to draw producers away from the comforts of a highly protected domestic market into the competitive pressures of world markets. A sense of urgency about the need to export will have to be conveyed to the implementing officials who have hitherto been mainly concerned with the import substitution aspects of industrial development. For the longer run export zones offer an opportunity for avoiding much of the regulatory framework and thus open up possibilities for increasing exports to a considerably higher level.

c.c. Mr. Weiner
Mr. Diamond
Mr. Baneth
Mr. Kraske
Mr. Kavalsky

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 5, 1975

FROM: ^{for} Hollis B. Chenery *ES*SUBJECT: Organization of Health Functions

1. Before I leave, I want to comment briefly on the memorandum of January 31 from Messrs. Baum and Kearns on this subject.
2. The proposal to reduce the DPS staff in order to create a health staff in the CPS is contrary to the accepted division of labor between the Central Projects Staff and ourselves. While it is true that health operations will often be experimental and that therefore research and operations must be closely connected, the same could be said for population, where you have repeatedly stressed the need for our involvement in the evaluation of experimental projects and in research; or for rural development, where we continue to be responsible for a significant research program.
3. Secondly, the staff which prepared the health paper are not health specialists. They are general economists who have been recruited to work in the general area of human resources, including health, nutrition, population and education. Their transfer would not only remove our capacity to deal with health aspects of income distribution, rural development and other intersectorial programs, but would reduce the capacity of our staff to discharge its general responsibilities in population and human resources.
4. It seems to me it is not feasible to argue that every time the DPS develops a policy paper which introduces the Bank to a new field of activity, the general economic staff which has taken the initiative must be transformed into the specialists which deal with this topic. I do not doubt the need for additional positions in the CPS, but there is a great deal of work to be done in the human resources area generally. Accepting operational responsibility in health should not be at the expense of our capacity to understand better the human capital aspects of the development process.

cc: Mr. Baum
Mr. Kearns

EStern:di

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: February 5, 1975

FROM: Hollis B. Chenery, VP-DP *HBC*SUBJECT: Visit of Mr. Alexandre F. Beltrao

1. Mr. Alexandre Beltrao, Executive Director of the International Coffee Organization (ICO), is seeing you at 6 p.m. on Friday, February 7. We do not know the purpose of his visit, but he may raise with you issues concerning Bank assistance for and Bank financing of coffee buffer stocks, possible support for the re-negotiation of the coffee agreement and staff help in forecasting coffee production. Mr. Tims can join you in this meeting if you wish. Mr. Singh is available to take notes.

2. The first five year coffee agreement came into operation in 1963 and the second five year agreement was negotiated in 1968. An important feature of the second agreement was the creation of a Coffee Diversification Fund. The Bank staff helped in drafting the Charter of the Fund and provided other staff support to the ICO. Both were export quota type agreements with a price range fixed each year. After 1971, support for the agreement waned considerably and economic provisions were virtually scrapped; the agreement lapsed in 1973. As negotiations for a new agreement broke down, a bare-bone arrangement, without any economic provisions, was retained to preserve the organization. The functions are reduced to information gathering and providing a forum for the negotiation of the new agreement this year.

3. Although in real terms coffee prices are now as low as in 1962, it is generally reported that the dominant producer (Brazil) and the largest consumer (United States) are not keen on a meaningful coffee agreement with strong economic provisions.

4. After the lapse of the agreement in 1973, the producers agreed on a stock retention scheme of their own, limiting supplies to the market. This scheme failed completely; actual exports reached a record level. Evidently the financial burden of carrying stocks was unbearable for many of the small coffee exporting countries, particularly in Central America which traditionally has been the weakest link in the chain. Recently Venezuela promised to allocate \$80 million to finance holding of stocks by the Central American countries. Venezuela would finance only 27¢ per pound (January price 56¢) with interest rates varying from 8 percent, if the price is below 64¢, to 10 percent, if the price is above 68¢. Although several coffee producing countries have welcomed the Venezuelan offer, trade circles tend to discount its effectiveness and so the market has not reacted to the Venezuelan offer.

Mr. Robert S. McNamara

February 5, 1975

5. World production and consumption are in tight balance and stocks are relatively low. Nonetheless, prices remain weak because expectations are that production will rise somewhat faster than demand. Our staff forecasts are close to those made by the ICO; the important exception is Brazil. ICO estimates of Brazilian output are considerably higher than ours, due to different yield consumptions.

6. During a meeting in London in January between Shamsher Singh of our staff and the ICO Secretariat, Mr. Beltrao said that the ICO was finding it difficult to project coffee supply. They needed to estimate coffee production costs in key countries and develop an analytical framework (or model) which could enable them to derive policy conclusions for market management under a set of price objectives that may be set by a new coffee agreement. We promised to furnish the ICO the data gathered by our regular economic and sector missions and offered to participate in joint work on production costs in one or two key countries. In connection with the development of a policy-oriented coffee model, we offered to hire Professor Peter Ady of Oxford University as a consultant to work directly for the ICO. The offer has been tentatively accepted by the ICO and Miss Ady.

7. A statement concerning Bank policy towards financing of buffer stocks for presentation at the next week's meeting of the UNCTAD Committee on Commodities is already with you for clearance. Coffee is included among the 18 products covered by the UNCTAD proposal for a Common Fund to finance buffer stocks. Of the 11 billion dollar line of credit (at 1970-74 prices) required for the Fund, \$1.1 billion is accounted for by coffee. The UNCTAD proposal does not preclude separate buffer stock operation for individual commodities. However, request for buffer stock financing by ICO would be premature in the sense that it will take a year, if not more, before a coffee agreement with a buffer stock and economic provisions is successfully concluded by the participating countries and brought into operation.

cc: Messrs. E. Stern
Tims
Holsen
S. Singh
de Vries
Hoffman

SSingh/HBChenery:gbo

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: January 31, 1975

FROM: Hollis B. Chenery, VP-DP *HBC*

SUBJECT: OPEC Balance of Payments

*This, as we
discussed Saturday,
I would like to
receive a revision
of the attached schedule*

The attached memorandum gives a revision of the estimates in our 477 and a comparison to the estimates just released by the Morgan Guaranty Trust Company and the U.S. Treasury. We do not yet have the details of the Treasury study and will provide you a further note when it becomes available.

*as soon
as
possible.*

Since only limited data are available for 1974, all estimates at this point are based on extrapolation from very short trends and subject to a large margin of error. The figures given in our 477 were partly normative and therefore assumed that the OPEC countries would make good use of their surpluses for long-term investment. The main changes have been a more rapid increase in imports and a corresponding reduction in the amounts available for external investment.

*Thereafter
it should
be revised
and reviewed
monthly.
HBC*

Attachment

*Hand. delivered
2/3* { *CC: Tims/Guden*
*Krasnowski (+ copy of full
Tims/Guden
memo 1/1/75)*

HBC Chenery:di

Reserve Position^{a/} of Oil Exporting Countries in Relation
to Potential IBRD Bond Sales^{b/}

	Units	1973	1974	1975	1976	1977	1978	1979	1980
400/1600 Algeria	Accumulated Reserves \$b	1.1	2.5	3.9	5.0	6.0	6.0	8.0	8.8
	Increase in reserves over previous year \$b		1.4	1.4	1.1	1.0	1.0	1.0	.5
	Potential 1980 bond sales \$m				8.5	51.5 ^{c/}	71.0 ^{c/}	31.7 ^{c/}	75.0 ^{c/}
	Potential IBRD bond sales as % of increase in reserves				.7%	5.1%	7.1%	3.2%	9.4%
Indonesia	Accumulated Reserves \$b	.9	1.3	2.9	3.5	3.6	3.2	2.8	2.4
	Increase in reserves over previous year \$b		.4	1.6	.6	.1	.4	.4	.4
	Potential 1980 bond sales \$m								
	Potential IBRD bond sales as % of increase in reserves								
Iran	Accumulated Reserves \$b	1.6	6.0	15.6	26.6	40.1	53.6	66.7	78.5
	Increase in reserves over previous year \$b		4.4	9.6	11.0	13.5	13.5	13.1	11.0
	Potential 1980 bond sales \$m			200.0	200.0	200.0	200.0	200.0	200.0
	Potential IBRD bond sales as % of increase in reserves			2.0%	1.8%	1.4%	1.4%	1.5%	1.7%
Iraq	Accumulated Reserves \$b	2.4	7.8	15.4	22.7	30.0	36.7	43.2	49.4
	Increase in reserves over previous year \$b		5.4	7.6	7.3	7.3	6.7	6.5	6.2
	Potential 1980 bond sales \$m								
	Potential IBRD bond sales as % of increase in reserves								
Kuwait	Accumulated Reserves \$b	4.5	11.3	18.8	27.2	36.4	46.5	57.2	68.8
	Increase in reserves over previous year \$b		6.8	7.5	8.4	9.2	10.1	10.7	11.6
	Potential 1980 bond sales \$m			100.0	100.0	250.0	350.0	350.0	400.0
	Potential IBRD bond sales as % of increase in reserves			1.3%	1.2%	2.7%	3.4%	3.2%	3.4%
Libya	Accumulated Reserves \$b	3.4	7.5	11.6	15.7	20.2	24.9	29.9	34.8
	Increase in reserves over previous year \$b		4.1	4.1	4.1	4.5	4.7	5.0	4.9
	Potential 1980 bond sales \$m			100.0	100.0	300.0	300.0	300.0	300.0
	Potential IBRD bond sales as % of increase in reserves			2.4%	2.4%	6.6%	6.4%	6.0%	6.1%
Nigeria	Accumulated Reserves \$b	2.8	7.1	11.1	15.0	18.7	22.0	24.7	26.4
	Increase in reserves over previous year \$b		4.3	4.0	3.9	3.7	3.3	2.7	1.7
	Potential 1980 bond sales \$m								
	Potential IBRD bond sales as % of increase in reserves								
Qatar	Accumulated Reserves \$b	.23	1.7	3.3	5.3	7.5	10.0	12.9	16.2
	Increase in reserves over previous year \$b		1.47	1.6	2.0	2.2	2.5	2.9	3.3
	Potential 1980 bond sales \$m				8.5 ^{c/}	51.5 ^{c/}	71.0 ^{c/}	31.7 ^{c/}	75.0 ^{c/}
	Potential IBRD bond sales as % of increase in reserves				.4%	2.3%	2.8%	1.1%	2.3%
Saudi Arabia	Accumulated Reserves \$b	7.9	31.7	59.7	97.1	126.7	167.2	214.2	265.7
	Increase in reserves over previous year \$b		23.8	28.0	32.4	34.6	40.5	47.0	52.0
	Potential 1980 bond sales \$m			1141.0	1000.0	1000.0	1000.0	1000.0	1000.0
	Potential IBRD bond sales as % of increase in reserves			4.1%	3.0%	2.9%	2.5%	2.1%	1.9%
U.A.E.	Accumulated Reserves \$b	1.5	6.5	12.7	20.7	30.1	40.8	53.1	67.0
	Increase in reserves over previous year \$b		5.0	6.2	8.0	9.4	10.7	12.3	14.1
	Potential 1980 bond sales \$m				16.0 ^{c/}	103.0 ^{c/}	142.0 ^{c/}	62.5 ^{c/}	150.0 ^{c/}
	Potential IBRD bond sales as % of increase in reserves				.2%	1.1%	1.3%	.5%	1.1%
Venezuela	Accumulated Reserves \$b	2.4	6.2	14.8	17.5	22.8	27.5	33.6	34.5
	Increase in reserves over previous year \$b		3.8	8.6	2.7	5.3	4.7	6.1	0.9
	Potential 1980 bond sales \$m			480.0	500.0	500.0	500.0	500.0	500.0
	Potential IBRD bond sales as % of increase in reserves			8.8%	18.5%	15.1%	13.1%	10.8%	9.4%
Total	Accumulated Reserves \$b	28.73	92.8	169.8	251.3	340.1	435.5	541.9	643.2
	Increase in reserves over previous year \$b		64.07	77.0	81.5	88.8	96.4	105.4	111.3
	Potential 1980 bond sales \$m			2492.0	2173.0	2756.0	2384.0	2735.0	2960.0
	Potential IBRD bond sales as % of increase in reserves ^{a/}			3.2%	2.7%	3.1%	3.0%	2.6%	2.7%

- a/ Includes income earned on reserve holdings.
b/ Excludes central bank 2 year bonds and offset borrowing.
c/ Borrowings classified as "Other" in Table III have been assumed to be divided as follows:
UAE 50%, Qatar 75%, Algeria 25%.
d/ Interpolated using 1975-80 average yearly growth rate.
e/ Interpolated using a composite of the 1973-75 and 1975-80 average yearly growth rates.

OFFICE MEMORANDUM

*This, as we
discussed Saturday*

TO: Mr. Robert S. McNamara, President

DATE: January 31, 1975

FROM: Hollis B. Chenery, VP-DP *HBC*

*I would like to
receive a revision
of the attached schedule*

SUBJECT: OPEC Balance of Payments

The attached memorandum gives a revision of the estimates in our 477 and a comparison to the estimates just released by the Morgan Guaranty Trust Company and the U.S. Treasury. We do not yet have the details of the Treasury study and will provide you a further note when it becomes available.

*as soon
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Since only limited data are available for 1974, all estimates at this point are based on extrapolation from very short trends and subject to a large margin of error. The figures given in our 477 were partly normative and therefore assumed that the OPEC countries would make good use of their surpluses for long-term investment. The main changes have been a more rapid increase in imports and a corresponding reduction in the amounts available for external investment.

*Thereafter
it should
be almost*

Attachment

*and revised
monthly
LHM*

*CC: [unclear]
[unclear]*

*Tom (through Stein) sent
update to MAN Feb 30/75*

Reserve Position^{a/} of Oil Exporting Countries ~~In Relation~~
to Potential IBRD Bond Sales^{b/}

	Units	1973	1974	1975	1976	1977	1978	1979	1980
Algeria									
Algeria	\$b	1.1	2.5	3.9	5.0	6.0	6.0	8.0	8.8
	\$b		1.4	1.4	1.1	1.0	1.0	1.0	1.3
	\$m				8.5	51.5	71.0	31.7	75.0
	%				.7%	5.1%	7.1%	3.2%	9.4%
Indonesia	\$b	.9	1.3	2.9	3.5	3.6	3.2	2.8	2.4
	\$b		.4	1.6	.6	.1	.4	.4	.4
	\$m								
	%								
Iran	\$b	1.6	6.0	15.6	26.6	40.1	53.6	65.7	78.5
	\$b		4.4	9.6	11.0	13.5	13.5	13.1	11.0
	\$m			200.0	200.0	200.0	200.0	200.0	200.0
	%			2.0%	1.8%	1.4%	1.4%	1.5%	1.7%
Iraq	\$b	2.4	7.8	15.4	22.7	30.0	36.7	43.2	49.4
	\$b		5.4	7.6	7.3	7.3	6.7	6.5	6.2
	\$m								
	%								
Kuwait	\$b	4.5	11.3	18.8	27.2	36.4	46.5	57.2	68.8
	\$b		6.8	7.5	8.4	9.2	10.1	10.7	11.5
	\$m			100.0	100.0	250.0	350.0	350.0	400.0
	%			1.3%	1.2%	2.7%	3.4%	3.2%	3.4%
Libya	\$b	3.4	7.5	11.6	15.7	20.2	24.9	29.9	34.8
	\$b		4.1	4.1	4.1	4.5	4.7	5.0	4.9
	\$m			100.0	100.0	300.0	300.0	300.0	300.0
	%			2.4%	2.4%	6.6%	6.4%	6.0%	6.1%
Nigeria	\$b	2.8	7.1	11.1	15.0	18.7	22.0	24.7	26.4
	\$b		4.3	4.0	3.9	3.7	3.3	2.7	1.7
	\$m								
	%								
Qatar	\$b	.23	1.7	3.3	5.3	7.5	10.0	12.9	16.2
	\$b		1.47	1.6	2.0	2.2	2.5	2.9	3.3
	\$m				8.5	51.5	71.0	31.7	75.0
	%				.4%	2.3%	2.8%	1.1%	2.3%
Saudi Arabia	\$b	7.9	31.7	59.7	97.1	126.7	167.2	214.2	265.2
	\$b		23.8	28.0	32.4	34.6	40.5	47.0	52.0
	\$m			1141.0	1000.0	1000.0	1000.0	1000.0	1000.0
	%			4.1%	3.0%	2.9%	2.5%	2.1%	1.9%
U.A.E.	\$b	1.5	6.5	12.7	20.7	30.1	40.8	53.1	67.0
	\$b		5.0	6.2	8.0	9.4	10.7	12.3	14.1
	\$m				16.0	103.0	142.0	62.5	150.0
	%				.2%	1.1%	1.3%	.5%	1.1%
Venezuela	\$b	2.4	6.4	14.8	17.5	22.8	27.5	33.6	34.5
	\$b		7.0	5.0	2.7	3.4	3.0	4.6	4.6
	\$m		3.8	400.0	500.0	500.0	500.0	500.0	500.0
	%			8.8%	18.5%	15.1%	13.1%	10.8%	9.4%
Total	\$b	28.73	92.8	169.8	251.3	340.1	436.5	541.9	653.2
	\$b		64.07	77.0	81.5	88.8	96.4	105.4	111.3
	\$m			2492.0	2173.0	2756.0	2984.0	2735.0	2940.0
	%			3.2%	2.7%	3.1%	3.0%	2.6%	2.7%

- a/ Includes income earned on reserve holdings.
- b/ Excludes central bank 2 year bonds and offset borrowing.
- c/ Borrowings classified as "other" in Table III have been assumed to be divided as follows:
UAE 50%, Qatar 25%, Al-Jazeera 25%.
- d/ Interpolated using 1975-80 average yearly growth rate.
- e/ Interpolated using a composite of the 1973-75 and 1975-80 average yearly growth rates.

OFFICE MEMORANDUM

TO: Mr. H.B. Chenery

FROM: W. Tims and E.B. Yudin *EBY*

SUBJECT: OPEC Balance of Payments Projections

DATE: January 31, 1975

Since the presentation of our estimates of the prospective developments in the balance of payments of OPEC countries in Report 477 (July 1974) we have kept actual developments under careful review. The wide publicity which was given to our estimates of cumulative foreign exchange surpluses available for investment has caused a substantial number of alternative estimates to be made by others outside IBRD. The subsequent dialogues with staff of the OECD, the US Treasury Department and some of the leading commercial banks have been helpful in a variety of ways.

The construction of a first estimate, as we undertook in May and June 1974, is a major challenge; improvements in the data base and the information now available for the year 1974 make it both desirable and useful to revise the original projections, as those now appear to be out of line with observed developments. This applies in particular to the growth of OPEC imports which exceeds by a wide margin the projection of R477.

The original projection of R477 assumed a doubling of the value of OPEC imports between 1973 and 1975, and an increase thereafter by 22 percent per year in volume terms. The evidence we have gathered so far for 1974 suggests that imports may be almost doubling in value terms between 1973 and 1974; a high rate of growth is likely to occur again in 1975. At this moment it is not possible to do any detailed analysis of the balance of payments developments of OPEC countries individually as most of our information derives from trade and payments statistics for the industrial countries in relation to the OPEC countries as a group. The attached table with a preliminary revision of the OPEC balance of payments on current account for the period 1974-1980 is therefore by necessity aggregative; country detail is not available and may take some months to put together. We expect to be able to provide country detail for the "Outlook" paper in May/June of this year.

The revised projection of the current account and its main components in the attached table shows that OPEC imports in 1974 will exceed the level estimated in R477 by about \$10 billion. The export estimate (on an accrual or physical shipments basis) is also somewhat increased, resulting in a net reduction of the current account surplus by \$8 billion. As payments for oil lag behind shipments by 3-6 months, actual cash flows to OPEC are smaller than our current account estimate suggests. In R477 the difference was estimated at \$21.5 billion, but the most recent IMF estimate is reduced to \$16.2 billion. As a consequence the current account balance on a cash flow basis is not much reduced from the original estimate of R477: the revised estimate is \$61.3 billion against \$64 billion originally. It may also be noted that the current account surplus on a cash flow basis is now somewhat higher for the "low absorbers" which constitute

Group I (Saudi Arabia, Kuwait, Abu Dhabi), but significantly lower for the other OPEC countries.

The increase of OPEC imports between 1973 and 1974, which is estimated at 92 percent in value terms, probably reflects both volume and price changes to the same extent. The sharply rising trend over the course of 1974 makes it very likely that import volumes in 1975 will rise again by something in the order of 30 percent. Prices will rise less in 1975 as compared to 1974 and a value increase of some 45 percent for total OPEC imports is therefore a reasonable estimate. For subsequent years (1976-1980) we have adopted the same growth rates of volumes and prices as were used in R477; imports thus rise parallel to the earlier projection but at a higher level as the 1974 and 1975 estimates are now significantly raised. One could well argue for lower growth rates of imports after 1975 but the basis for any such judgment is bound to be very weak, given what little we know about absorption capacity in general and the lack of information on the commodity composition of imports at present and for the future.

The projected export earnings differ only little from those in R477; prices are now somewhat higher and volumes in later years somewhat reduced as a consequence. Values of exports thus change only marginally. Combined with higher import projections, the current account surplus is significantly reduced, and investment incomes derived from surplus resources invested abroad are therefore also smaller in the revised projection. The current account surplus shown for 1980 in R477 was \$107 billion; the revision brings this down to \$48.3 billion. The comparison for Group I countries with those in Group II and III shows that the latter which can absorb resources faster could well find themselves in deficit before 1980, instead of accumulating surpluses as projected in R477. However, the Group I countries will continue to be in substantial and increasing surplus.

In the table below, the original and the revised projections are shown in comparison to the current account estimates shown in the January 21 issue of "World Financial Markets" of the Morgan Guarantee Trust Company of New York.

Comparison of Estimates of OPEC's
Current Account Balances in 1974, 1975 and 1980
(in billions of current US\$ and 1974 exchange rates)

	<u>1974</u>	<u>1975</u>	<u>1980</u>
<u>Current Account Surplus:</u>			
IBRD estimates, July '74 (R477)	64	80	107
Ibid., revised January '75	61	58	48
Morgan Guarantee Trust Company	65	60	-53

We consider the latter not realistic as their OPEC current account deficit of \$53 billion in 1980 implies a deficit for the Group II and III countries of

the order of \$100 billion in that year, taking account of the surplus we estimate for the Group I countries. The Group II and III countries will need to reduce their import growth long before that as neither reserves nor capital flows will be adequate to support a deficit of such magnitude. The Morgan Trust projection of imports is therefore not realistic; we also have a problem with their projection of oil export receipts which is based on both lower prices and volume assumptions and therefore lacks internal consistency.

The current account surpluses on a cash flow basis constitute the surplus resources available in each year for investment abroad. When accumulated through 1980, these resources amount in total to \$407 billion, as compared to the original estimate of \$653 billion in R477. More than 80 percent of the total accrues to the countries in Group I. The accumulated surpluses amount to \$247 billion measured in constant 1974 dollars. Our direct enquiries to the U.S. Treasury Department regarding their estimate (reported in the Washington Post of January 29) of "OPEC reserve accumulation" in 1980 provided about the same figure, as their estimate of \$200-250 billion is also in 1974 dollars: ours is at the upper end of that range.

The flow of surplus resources changes over time, most clearly so for the Group II and III countries which may find themselves in current account deficit after 1978. In order to be able to meet these deficits, these countries must make sure that the surpluses accruing to them through 1978 are invested in ways which permit quick liquidation after 1978. Direct investments abroad are therefore least attractive, whereas lending with maturities exceeding 5-7 years may also be considered less desirable. It is therefore unlikely that these countries will be an important (let alone a lasting) source of long-term capital.

The countries of Group I face a different perspective with surpluses between 1974 and 1980 of some \$45 billion per year on the average and rising over time. These countries will increasingly have to consider long-term investment possibilities and need not be concerned about liquidation of their investments as their cash flows will remain very large in each year. It would therefore be logical to expect increasing portions of the annual surpluses to flow into direct foreign investment (participations, stocks, real estate etc.) and into long-term bonds which offer good security, at the expense of short-term deposits, Euro-currency market lending and, possibly, the investment in national government securities.

WTims/EBYudin:aws

Revised to Mr. Stinson

ESTIMATED CURRENT ACCOUNT OF THE OPEC COUNTRIES' BALANCE OF PAYMENTS IN 1974, 1975 AND 1980

(in billions of current US\$ and 1974 exchange rates)

	IBRD R477			IBRD (Jan. 1975)			MORGAN GUARANTEE		
	1974 (implied)	1975	1980	1974	1975	1980	1974	1975	1980
All OPEC									
Exports of Goods, NFS	121.0	125.0	210.0	123.0	130.5	208.3	112	117	158
Oil	113.8	116.0	186.0	115.8	121.5	184.3	105	110	143
Other (incl. NFS)	7.2	9.0	24.0	7.2	9.0	24.0	7	7	15
Imports of Goods, NFS	36.0	51.0	110.0	46.0	66.0	188.0	(46)	(60)	(222) ^{a/}
Resource Balance	85.0	74.0	70.0	77.0	64.5	20.3	(66)	(57)	(-64)
Factor Service Payments (net)	0.5	6.0	37.0	0.5	6.0	28.0	(-1)	(3)	(11)
- Investment Income	4.5	11.0	42.0	4.5	11.0	33.0	3	8	16 ^{a/}
- Other	-4.0	-5.0	-5.0	-4.0	-5.0	-5.0	(-4)	(-5)	(-5)
Current Account Balance	85.5	80.0	107.0	77.5	70.5	48.3	65	60	-53
Less: Adjustments, Errors b/	-21.5	-	-	-16.2	-12.1	-	-	-	-
Adjusted current Account Balance	64.0	80.0	107.0	61.3	58.4	48.3	-	-	-
Group I									
Exports of Goods, NFS	54.3	56.0	88.0	58.5	61.8	88.7			
Oil	52.3	54.0	83.0	55.5	59.8	83.7			
Other (incl. NFS)	2.0	2.0	5.0	2.0	2.0	5.0			
Imports of Goods, NFS	9.0	11.0	29.0	11.0	21.0	55.0			
Resource Balance	45.3	45.0	59.0	44.5	40.8	33.7			
Factor Service Payments (net)	-0.5	3.0	27.0	-0.5	3.2	22.0			
- Investment Income	2.5	6.0	32.0	2.5	6.2	27.0			
- Other	-3.0	-3.0	-5.0	-3.0	-3.0	-5.0			
Current Account Balance	44.8	48.0	86.0	44.0	44.0	55.7			
Less: Adjustments, Errors b/	-9.9	-	-	-7.5	-5.6	-			
Adjusted current Account Balance	34.9	48.0	86.0	36.5	38.4	55.7			
Groups II and III									
Exports of Goods, NFS	66.7	69.0	122.0	64.5	68.7	119.6			
Oil	61.5	62.0	103.0	59.3	61.7	100.6			
Other (incl. NFS)	5.2	7.0	19.0	5.2	7.0	19.0			
Imports of Goods, NFS	27.0	40.0	111.0	32.0	45.0	133.0			
Resource Balance	39.7	29.0	11.0	32.5	23.7	-13.4			
Factor Service Payments (net)	1.0	3.0	10.0	1.0	2.8	6.0			
- Investment Income	2.0	5.0	10.0	2.0	4.8	6.0			
- Other	-1.0	-2.0	-	-1.0	-2.0	-			
Current Account Balance	40.7	32.0	21.0	33.5	26.5	-7.4			
Less: Adjustments, Errors b/	-11.6	-	-	-8.7	-6.5	-			
Adjusted current Account Balance	29.1	32.0	21.0	24.8	20.0	-7.4			

a/ The algebraic difference between imports of goods, NFS, and other factor service payments is imports of goods and services as reported by Morgan Guarantee.

b/ Trade data are based on shipments; cash payments, particularly for exported oil, show a lag of 3 - 6 months. The current account balance therefore overstates the accumulation of investable finance in periods of sharply rising prices.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: January 24, 1975

FROM: Hollis B. Chenery, VP-DP *HBC*

SUBJECT: Studies for the Development Committee

You have asked me to take responsibility for the preparation of three studies to be submitted to the Development Committee, with appropriate collaboration. The terms of reference, timing and responsibility for drafting these studies are outlined below.

1. Capital Requirements of Developing Countries

The capital requirements of the developing countries can only be determined in the context of a broader analysis that covers the growth prospects and policies of the OECD and OPEC countries, as well as the policies of the LDCs themselves. We propose to prepare this analysis in two parts:

- (i) A concise report to the Development Committee on the model of last year's Interim Report, focussing on the capital requirements to sustain reasonable growth.
- (ii) A more complete analysis of Prospects for the Developing Countries, including factors determining trade and capital flows from OECD and OPEC and their relation to LDC growth.

The latter study would provide a background for the June revision of the Bank's lending program and your Governors' speech, as well as for the report to the Development Committee.

An outline of the report to the Development Committee is attached at Annex A. It will be prepared by the Economic Analysis and Projections Department. A draft will be submitted to you by the first week in April.

The second study will provide a complete revision of "Prospects for the Developing Countries" (R477), giving a less detailed treatment of oil but more attention to the effects of inflation and recession in the OECD and the structural changes required in the world economy. After our experience last year in preparing R477 and my Foreign Affairs article, I think it will be possible to present a simpler and more readable analysis. A draft would be submitted to you in the latter part of May, with the timing related to the June Board paper on the Budget.

January 24, 1975

The critical element in the timing of these two papers is the analytical work on each country in the CPP cycle, which is only completed in May. The later the date for the Prospects paper, the more nearly consistent it can be with the country detail coming from the Regions. In the future, a more logical timing would be to complete this analysis in July (or later) each year and to prepare the annual revision of the Bank program in the Fall. So long as CPP projections, world-wide analysis and Bank Programs are prepared simultaneously, the consistency among them can only be approximate.

2. Study of the Third Window

Stern and I have discussed with Peter Cargill the scope of the paper and the preparatory work needed. A proposed outline is attached at Annex B. Frank Vibert of Policy Planning and Joe Wood of P and B will prepare a draft. Since most of the background analysis is already available, a draft can be submitted to you by the end of February.

3. Special Trust Funds

This study is a joint responsibility with the IMF. We are still discussing the approach with them and will have a proposal to you by Monday evening, as you requested.

Attachments - 2

cc: Mr. Cargill
Mr. J. Adler
Mr. E. Stern
Mr. Tims

Outline: Long-term capital requirements of the developing countries, 1974-1980

I. Introduction

II. Background Assumptions:

(will specify the external factors which determine the outlook for the developing countries' growth and trade)

- a) growth and inflation in industrial countries
- b) energy outlook, oil price prospects
- c) prices of other primary commodities, world trade

III. Supply of External Capital:

(will present the presently estimated flows of capital by type, donor and recipient groups, along lines of case B in R477)

- a) OPEC: balance of payments prospects for the OPEC countries and reserve accumulation
- b) OECD
- c) projected supply of private and public capital

IV. Prospects for the Developing Countries:

(will provide resultant growth on the basis of the assumptions presented in II and III, and estimate additional capital requirements for higher target growth rates)

- a) growth prospects by country groups
- b) alternative growth patterns and associated capital requirements

V. Characteristics of Projected Capital Flows:

(will briefly survey the magnitudes of projected capital flows in terms of their burdens on capital exporters)

- a) by categories: concessional, at market terms, at intermediate terms
- b) comparisons with GDP and GDY in capital exporting countries
- c) the purchasing power of projected capital flows
- d) implications of the estimated net inflow requirements for gross disbursements and for commitments

Schedule: Draft to be ready for submission to the President by April 4, 1975.

Submission to Board on April 18, 1975.

Board discussion on May 8, 1975.

The document will not be more than 20 pages, including Mr. McNamara's cover memorandum. Annexes may be provided for the materials in Chapters II, IIIa and IV, which would not exceed 5 pages each.

Third Window

- A. Rationale for new mechanism and for proposed size of initial operation.

- B. Financial Aspects
 - 1. Subsidy fund - size, sources.
 - 2. Impact on Bank reserve position of additional lending.
 - 3. Additional borrowing requirement.
 - 4. Direct borrowing from governments at low rates.
 - 5. Effect on Bank and IDA lending programs.

- C. Operational Features
 - 1. Terms of lending; trade-off between interest spread, grace and maturity per subsidy dollar.
 - 2. Type of lending - proportion of quick disbursing loans.
 - 3. Eligibility criteria.
 - 4. Management structure.
 - 5. Criteria for starting operations.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: January 17, 1975

FROM: Hollis B. Chenery, VP-DP *hbc*

SUBJECT: Estimate of OPEC Surplus

The attached memorandum comments on the question you raised about the EEC estimate, as well as a newer comparison in The Economist. Both refer to the OECD Energy Assessment, in which the December version is more optimistic than earlier drafts about OPEC absorption.

cc: Mr. Tims, Director, EPD
Mr. Stern, Director, Development Policy, VPD
Ms. Yudin, Division Chief, EPDIE

HBChenery:di

5:50

OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery, Vice President, DP

DATE: January 16, 1975

FROM: Elinor B. Yudin, Chief, IED *EBY*

SUBJECT: Estimates of OPEC Surplus in 1980 by EEC and The Economist

A. EEC Estimate of OPEC Surplus in 1980: \$300 billion

1. We are presently unaware of any projection of the OPEC surplus made by the EEC. Their latest medium-term projection (dated December 18) does not include a projection of OPEC/OECD surpluses/deficits.

2. It seems likely, however, that Simonet was drawing broadly on (August 1974) draft of the Long-Term Energy Assessment (LTEA) of the OECD: in their case based on an oil price of \$6, in 1972 US dollars, the OPEC surplus in 1980, also in 1972 US dollars, is \$281 billion -- a figure not far from \$300 billion. According to the LTEA, the corresponding current dollar figure is \$553 billion. The difference between the latter and our own \$653 billion stems primarily from different assumptions with respect to inflation.

B. The Economist, January 11, 1975

The Economist characterizes the World Bank outlook on OPEC surpluses as "more alarmist" (than that of the OECD Secretariat). The article refers, presumably, to the published version of the LTEA (December 1974). As shown in the table below, the OECD's published projections of the OPEC surplus differ from those shown in the August draft:

Projections of "OPEC Surplus" in 1980
OECD Long-Term Energy Assessment

	<u>August Draft</u>		<u>December</u>
	<u>\$6</u>	<u>\$9</u>	<u>(Published) Version^{a/}</u>
Current Dollars			
Current Balance	79	99	50
Cumulative Current Balance	553	741	500
1972 Dollars			
Current Balance	40	50	25
Cumulative Current Balance	281	376	175-250

^{a/} The text does not clearly specify which case (\$6 or \$9) these estimates describe.

January 16, 1975

OPEC's cumulative balance by 1980 is \$500 billion, in current dollars. One apparent source of the change from the August draft is a change in assumptions with respect to OPEC's absorptive capacity. Where the draft adopted World Bank estimates, the published version describes the high-absorbers (our Groups II and III) as in near balance by 1980. The OECD estimates that those countries will have spent 40% of their oil receipts on imports in 1974, and will spend 60% on imports in 1975; subsequent years are not specified.

4. There may also have been a change in the LTEA inflation assumption: the published report states only that export prices of manufactures are expected to rise 11 percent in 1975 and 7-8 percent per annum in 1976-80.^{1/} While somewhat higher than assumed in the August draft, these figures should represent only one component of the deflator - but no other components are discussed.

1/ This is broadly consistent with our December 16 projection.

cc: Messrs. J. Waelbroeck
W. Tims (o/r)

OFFICE MEMORANDUM

TO : Files

FROM : Vittorio Masoni *jm*

SUBJECT : Current miscellanea on EEC developments

DATE : December 19, 1974

I understand that figures were in '74 (or '75) prices, some in current prices. Are we actually as

1. As of November 12, 1974 the FED had committed 777 million UA of which 703 for the African countries v. a total available of 906 million UA. Taking into account that 72 million UA of the Third FED are committed for the French Overseas Departments and other small ex-colonies, the amount of the Third FED still to be committed is about 131 million UA.

2. The EEC has paid its cash contribution to the UN Emergency Fund of \$30 million. The balance of the first tranche of \$120 million has now been allocated to various Most Seriously Affected countries. The major beneficiaries are: India, 50 million, Bangladesh, 22 million and Tanzania, 9 million. Smaller amounts have been committed for: Sri Lanka, Mali, Niger, Madagascar, Dahomey, Rwanda, Haiti, Senegal and Somalia. It is expected that most of this money will be spent in the Community for the purchase of food, fertilizers and medical supplies and for the transport of such goods to the beneficiary countries. As to the payment of the second tranche of the EEC contribution to the Fund, \$350 million, a decision will be made by the end of January 1975. Mr. Soames, however, confirmed to Mr. Kissinger that no contribution can be envisaged unless the US and the other industrialized countries participate to the Fund.

3. On November 28, 1974, in a speech given at the International Center for Monetary and Banking Studies of Geneva, Mr. Simonet, EEC Commissioner for Energy, stated that on the basis of current oil prices, the surplus of OPEC countries by 1980 should be estimated at \$300 billion, rather than at \$650 billion as suggested by the World Bank. As to the recycling of oil funds, he has indicated that, in his view, a number of channels should be involved, such as suppliers loans, intergovernmental loans, loans to the EEC, as well as financing to the IMF and the World Bank.

4. The technical negotiations for the "association" with 44 developing countries (now 45 since the EEC has accepted the request of "association" of Guinea-Bissau, while rejecting a similar request from Haiti) are completed. Outstanding points cannot be resolved except by political decisions. A ministerial meeting among all parties concerned is tentatively planned in late December or early January, after the mid-December meeting of the "A & A" in Dakar.

See HOC-MCN of Jan-75

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Y2

*McN
noted*

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: January 15, 1975

FROM: Hollis B. Chenery, VP-DP *HBC*

SUBJECT: Revised Growth Projections for OECD and LDCs

1. Attached is a set of revisions of the principal projections in R477, based on the most recent IMF and OECD estimates for the short run and a revision of our own analysis for the longer term.
2. For the OECD countries, the deeper depression now being experienced will result in near zero total growth (negative per capita) for 1974 and 1975 (Annex A). Thereafter, we project a high potential growth--in excess of 5% for the rest of the decade--if efficient recycling, trade and other policies are undertaken (table 1). However, reaching that potential seems less likely than it did six months ago and we propose to give equal weight to the lower alternative.
3. For the LDCs, the prospects are somewhat worse through 1976 than projected in R477 because of lower export growth and worsening terms of trade (table 2) and the loss will not be made up by 1980. For the time being we have not revised the capital flow assumptions, which will of course be done in the course of the extensive analysis contemplated in the next several months.

Attachment

cc: President's Council
Chief Economists
DPS Directors

HBC Chenery/EBYudin:cjl

OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery, Vice President, DP

DATE: January 14, 1975

FROM: Wouter Tims, Director, EPD *WTT*SUBJECT: Revised Growth Projections for the World Economy

1. Both the OECD and the IMF now estimate lower rates of growth for the industrial countries in 1974 and 1975 than they did six months ago. Their latest documents have become available to us in recent days and have been taken as the basis for a revised set of projections for the developing countries. As these projections differ significantly from the ones presented in "Prospects for the Developing Countries" (R477 of July 8, 1974), they are compared below in summary form for your information.

2. The revisions in the basic assumptions are as follows:

a) Growth in the OECD countries: The projections of R477 suggested a rate of growth in OECD countries of 1.3 percent in 1974; present assessments by the IMF and the OECD Secretariat indicate a rate of less than 0.2 percent. Our projection in R477 for 1975 was 2.5-3.7 percent; the new projections range around 0.5 percent. For the longer term, through 1980, no other international agency makes official estimates. But informal consultations with the staff of OECD and our own studies indicate that our earlier estimates for 1976-80 also need revision. We have developed two projections, both of which take 1973 as data and 1974-75 as projected by the IMF and OECD.^{1/} The high alternative for the subsequent years is based on analyses of potential GNP; the low, on a more conservative view of likely achievement. Table 1, below, presents comparison of the revised rates of growth for the OECD countries with those shown in R477, Table II.3:

Table 1. OECD Real Growth (percent per annum)

<u>Alternative</u>	<u>R477 (July 1974)</u>			<u>Revised (Jan. 1975)</u>		
	1973-76	1976-80	1973-80	1973-76	1976-80	1973-80
High	3.6	5.5	4.7	1.7	5.9	4.1
Low	2.5	4.2	3.5	1.1	4.7	3.1

Source: R477, Table II.3 and Annex A.

^{1/} Present projections by the IMF and OECD differ slightly; our revised estimates for '74-'75 are between them.

The high alternative measures potential growth, based on the assumption of economic policies which favor growth and employment, and deal effectively with the allocation of OPEC surpluses to countries with serious balance of payments disequilibria. For the high alternative, given a deeper recession through 1975, the rate of recovery after 1975 will have to be more rapid; as a consequence, the projected growth rates in the last part of the decade are now higher than projected earlier. The low alternative assumes weaker and/or slower policy responses in the major OECD countries to their recessionary and balance of payments problems. The realism of such high growth rates may be doubtful; this is the main reason why I prefer to attach equal importance to the lower growth alternative, although in R477 only the higher growth path was taken as our base.

b) Projected price of oil: We will, as in R477, continue to consider two cases. For case I, instead of maintaining the assumption of a stable price of oil at \$8.65 per barrel (in 1974-\$) given in R477 Case I projection, it is presently more appropriate to take a price of \$9.60 per barrel in 1974-dollars to be maintained through the end of the decade. Case II will remain as in R477.

c) Capital flows to developing countries: These flows are still projected as in Case B (Table V.5, reproduced as Annex B); they therefore do not take account of possible flows from OPEC countries beyond our modest expectations at the time R477 was written. While concessionary capital may thus be underestimated, it probably makes little or no difference for flows of capital at market terms. (We have not, at this time, estimated a revised version of Case E in R477, the capital flows required to achieve two percent per capita real growth in the low income countries.)

3. The results of the model projections on the old and the new assumptions are shown in Table 2. The terms-of-trade data appeared in Table IV.2 of R477 and the GDP growth rates in Table IV.3. /1

/1 In R477, these data were shown for the period 1973-80; the 1973-76 and 1976-80 figures shown here were implicit in the earlier report.

Table 2. Comparison of Projection Results

Annual Average Percentage Changes	Higher/Middle Income Countries			Lower Income Countries			Total, Non-Oil Developing Countries		
	R477	Jan. '75 Revision		R477	Jan. '75 Revision		R477	Jan. '75 Revision	
		High	Low		High	Low		High	Low
<u>Terms of Trade:</u>									
1973-76	-1.4	-2.2	-2.4	-4.3	-5.0	-5.1	-1.6	-2.4	-2.5
1976-80	0.5	0.7	0.3	-0.8	-0.5	-0.9	00.5	0.9	0.4
<u>GDP:</u>									
1973-76	5.9	3.8	3.4	2.6	0.7	0.5	5.0	3.1	2.6
1976-80	7.1	8.6	7.1	3.9	4.5	3.4	6.4	7.7	6.2
<u>GDP per capita:</u>									
1973-76	3.1	1.0	0.6	0.2	-1.7	-2.0	2.5	0.6	0.1
1976-80	4.3	5.8	4.3	1.5	2.1	1.0	3.9	5.2	3.7

The results on the revised assumptions clearly demonstrate the effects of the recession on the developing countries: compared to our view in R477, the growth rates are reduced significantly for the period 1973-76 and the terms-of-trade deteriorate more rapidly. If the recovery of the OECD countries proceeded as described by the high alternative, the developing countries would grow somewhat faster in the 1977-80 period than was projected in R477, but would still remain well below the rates achieved in the past (1968-72). With the low alternative for OECD growth, the new projections for the developing countries are somewhat below those of R477 in the later period.

cc: Mr. Stern
Mr. Waelbroeck
Miss Yudin
Mr. Carter
Mr. Hicks
Mr. Pekonen
Mr. Pinto

Revised (January 1975) OECD Growth Projections

(percent per annum)

	North America		Japan - Oceania		Western Europe		OECD Total	
	High	Low	High	Low	High	Low	High	Low
1973	6.0	6.0	9.5	9.5	5.3	5.3	6.3	6.3
1974	-1.4	-1.4	-2.1	-2.1	2.6	2.6	0.0	0.0
1975	-1.2	-1.2	2.1	2.1	1.7	1.7	0.3	0.3
1976	4.0	2.5	7.5	7.5	4.5	2.2	4.7	3.0
1977	7.0	4.5	7.0	7.0	6.5	4.2	6.8	4.7
1978	6.5	4.5	7.0	7.0	5.5	4.2	6.2	4.7
1979	5.7	4.5	7.0	7.0	4.2	4.2	5.5	4.7
1980	5.0	4.5	7.0	7.0	4.7	4.2	5.2	4.7
1973-76 ^{1/}	1.8	1.4	4.2	4.2	3.5	3.0	2.8	2.4
1976-80	6.1	4.5	7.0	7.0	5.4	4.2	5.9	4.7
1973-80 ^{1/}	3.9	3.0	5.6	5.6	4.4	3.6	4.3	3.5

^{1/} Figures in Table 1 for 1973-80 of the revised projection have been calculated to correspond directly with those from R477; in this table 1972 = 100.

TABLE V.5 ALTERNATIVE NET CAPITAL FLOW ASSUMPTIONS BY GROUPS OF DEVELOPING COUNTRIES AND BY TERMS OF LENDING, 1973-1980
(billions of US dollars)

	Actual 1973	Case A		Case B		Case E	
		1976	1980	1976	1980	1976	1980
1. <u>Middle/Higher Income Countries</u>	9.1	9.3	12.0	18.6	30.7	18.6	30.7
of which a) ODA	1.2	1.3	1.6	1.9	3.5	1.9	3.5
b) intermediate terms	1.4	1.8	3.6	2.4	3.4	2.4	3.4
c) market terms	6.5	6.2	6.8	14.3	23.8	14.3	23.8
2. <u>Lower Income Countries</u>	2.6	2.8	3.3	5.6	10.1	6.5	13.2
of which a) ODA	2.4	2.4	2.8	4.7	8.9	5.6	12.1
b) intermediate terms	-	-	-	0.3	0.6	0.3	0.6
c) market terms	0.2	0.4	0.5	0.6	0.6	0.6	0.5
3. <u>Oil and Minerals Exporters</u>	4.8	4.2	4.4	0.6	1.8	0.6	1.8
of which a) ODA	2.2	2.2	2.5	1.1	1.0	1.1	1.0
b) intermediate terms	0.5	0.7	1.0	0.6	1.5	0.6	1.5
c) market terms	2.1	1.3	0.9	-1.1	-0.7	-1.1	-0.7
4. <u>Unrecorded Grants</u>	3.3	3.8	4.3	4.7	5.2	5.0	5.8
5. <u>Total, All Developing Countries</u>	19.8	20.1	24.0	29.5	47.8	30.7	51.5
of which a) ODA ^{a/}	9.1	9.7	11.2	12.4	18.6	13.6	22.4
b) intermediate terms	1.9	2.5	4.6	3.3	5.5	3.3	5.5
c) market terms	8.8	7.9	8.2	13.8	23.7	13.8	23.6
6. <u>Net ODA Contributions to Multilateral agencies</u> ^{b/}	0.7	0.9	1.3	1.5	1.8	1.5	2.0
7. <u>Total ODA Contributions</u> ^{c/}	9.8	10.6 ^{e/}	12.5	13.9	20.4	15.1	24.4
8. <u>Total Concessionary Flows</u> ^{d/}	11.7	13.1	17.1	17.2	25.9	18.4	29.9

^{a/} All ODA flows by country groups, plus unrecorded grants.

^{b/} Difference between contributions of donor countries (net) to multilateral agencies and net disbursements of those agencies.

^{c/} Items (5a) plus (6), includes ODA from non-DAC members (\$0.3 billion in 1973).

^{d/} Items (5b) plus (7).

^{e/} This figure is derived from country estimates which in retrospect appear too low; a more appropriate estimate would be considerably closer to Case B.

Source: IBRD staff estimates and projections.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 10, 1975

FROM: Hollis B. Chenery, Vice President, DP *HBC*SUBJECT: Housing Policy Paper

1. The attached Housing Policy paper prepared by the Development Economics Department is scheduled to be distributed to the Executive Directors on January 28 for consideration on February 25, 1975.
2. The question of Bank support for housing in developing countries has been controversial within the Bank for various reasons:
 - housing "deficits" have been thought to be so large that many have traditionally been doubtful of the Bank's ability to make a significant impact;
 - housing is, to some, only a consumer good rather than an investment that can improve the productivity of the poor and the efficiency of cities;
 - housing is in such demand that new housing is likely to be captured by middle or upper income groups.
3. Partly because of the inherently controversial nature of the subject, this paper has taken a considerable time to prepare. However, much has been learned in the process. Data collected on costs of housing (Chapter II) suggest that a large proportion of the urban poor can be reached with appropriate housing policies and some reduction in housing costs in general.^{1/} I think that in the area of urban development we are not far behind our knowledge of rural development. I chaired a staff review of this paper on December 19 (minutes attached) at which issues were identified and differences of opinion narrowed. Subsequently, there has been a further effort by CPS/DPS to arrive at conclusions (Chapter V) which have the support of the operating staff involved in this area and to clarify the main issues.
4. The principal conclusion of the paper is to endorse Bank efforts:
 - to put greater emphasis on upgrading squatter housing;
 - to design sites and services projects so as to reach lower income groups; and
 - to be more active in the support of financial intermediaries involved in the provision of finance for housing.

^{1/} A separate background paper provides the factual base underlying the policy paper.

5. The major remaining issue addressed by the paper is whether there are additional instruments which would be useful for the Bank to have in extending its intervention in urban housing programs. The paper advocates that, in appropriate circumstances, the Bank should be willing to undertake:-

- (a) financing of construction costs (for row houses in intermediate locations and for medium rise buildings near central locations, paras. 93 and 94);
- (b) financing of housing as part of "mixed development" or "comprehensive land development" projects (para. 95).

6. These innovations, if approved, would be components of urban projects in the existing lending program and would not have additional staffing implications.

7. We have discussed draft versions of the policy and background papers with officials of the UN Center for Housing, Building, and Planning. The papers were well received, and this draft incorporates such minor revisions as they thought desirable.

8. I would recommend that a review meeting be held to discuss the paper. Mr. Baum concurs.

Attachments

cc and cleared with Mr. Baum

cc: Messrs. Stern (o/r)
Haq (o/r)
Gulhati
Vibert

FVibert/AHouse/HBChenery:fvf



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

*Noted
(Returned by 4/14/75
before 1/6/75)*

CABLE ADDRESS
INTERFUND

MEMORANDUM

TO: Messrs. McNamara and Witteveen December 27, 1974

FROM: H. B. Chenery and J. J. Polak *WJ*

SUBJECT: Benefits for the Developing Countries--Possible Package for
Negotiation at the January Meetings of the Interim Committee
and the Development Committee

The Interim Committee and the Development Committee have before them two proposals for the benefit of developing countries that are grouped as "Interest Subsidization Proposals" in the paper prepared by the Executive Secretary of the Development Committee (DM/74-8). One proposal relates to the Fund oil facility for 1975, the other to the establishment of a "third window" in the Bank. Agreement on either of these proposals may be difficult to achieve. This memorandum explores the possibility of seeking agreement on a package proposal that would serve both the oil facility and the "third window" and that borrows from the U.S. proposal for a Trust Fund the element of use of the profits on some of the Fund's gold.

The element of this package would be as follows:

(a) The interest subsidy for the benefit of the MSA countries on the oil facility would not be sought from the OPEC countries (as had been proposed by the Fund staff). Instead this subsidy would be financed by profits on the sale of a small amount of the Fund's gold. (Less than 2 per cent of the Fund's present holdings would be needed to finance an interest subsidy of 5 per cent per annum over the 3 to 7 years that the oil facility drawings would be outstanding on estimated 1975 drawings by MSA countries of SDR 1.2 billion.) Since these profits can be considered as belonging to all members of the Fund, all would be making a contribution to the problems of the MSA countries, notionally in proportion to their quotas.

(b) Instead of being asked to contribute to the oil facility, the OPEC countries would be asked to assume their fair share in future IDA contributions and, in addition, to contribute a substantial amount (say \$100-150 million) to the Bank's "third window."

(c) All members of the Bank would also contribute to this "third window" by a decision of the Executive Directors to make a portion of the Bank's profits available to it.

It could not be expected that this package proposal would find general support. Its most important appeal might perhaps be to the OPEC countries. The proposal would meet opposition from those EEC members that are against any sales of gold; however, the quarterly amounts that would have to be sold would be quite small. One might also expect opposition from the United States against use of the Fund's gold to subsidize what the U.S. considers an excessive interest rate paid by the Fund for OPEC money.

You might want to consider whether, in spite of these obstacles, it would be worth having a package of this nature presented to the January meetings, and to explore this with the Chairmen of the two Committees.