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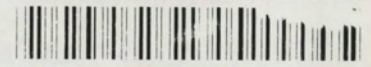
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**PUBLIC DISCLOSURE AUTHORIZED**

McNamara Papers

Memos for record  
1972 (Jan - June)

The World Bank Group  
**Archives**



1771492

A1995-254 Other #: 1

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President's papers - Robert S. McNamara Memoranda for the Record - Memoranda 05

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**WBG Archives**

Review of the Colombia Operations Evaluation Study, May 17, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Chenery, Adler, Avramovic, Zinman, J. Adler, H. Adler, Willoughby

Mr. Alter said that most comments from his Department had been taken into account but he wanted to mention a few points as follows.

1. Because of the high standards applied in the ex post evaluation of Bank activity, very harsh judgment had been passed on its role in Colombia. In order to achieve economic development benefitting the poor segments of the population, it would first be necessary to construct a good fiscal system. Colombia is planning to attack the more difficult aspects of development.
2. The report seems to argue against program loans and in particular against the loan expected to go to the Board shortly.
3. The conclusion that there is a negative correlation between capital inflow to the private sector and private savings is ill-founded and may present obstacles to projects planned for the near future. Mr. McNamara responded that he was convinced that the planned program loan should go ahead and that it does fit with short-term needs of the country. In principle, however, he doubted whether lending for development finance companies in Colombia contributes to the broader goals of development.
4. The report presents with too much certainty the steps needed to improve capital markets.
5. The report's recommendation regarding the change in tariff policy necessary for industrial development was doubtful and this complicated issue would need further study.
6. Although the Bank has not been promoting land reform, the claim that the Bank has had a negative effect on the prospects for land reform was exaggerated. The South America Department is planning to promote studies of land reform and other measures to improve the lot of the poor farmers. Mr. McNamara interjected that it has been demonstrated, however, that the Bank and other lenders have not actively promoted the economic development of the rural poor. To Mr. Alter's question whether the Bank should only lend to small farmers, Mr. McNamara answered that more conventional type loans should be made until more progressive projects can be prepared.
7. Policy recommendations are contradictory or vague and need to be clarified.
8. The recommendations regarding sector lending policy must take into account the activities of other lenders.
9. The Colombian administrative capacity must be regarded as a constraint.

Mr. Hans Adler said that statements about land reform were too rough. He continued to say that recent reappraisal of the Atlantico project had shown a higher return than anticipated and than calculated by the Willoughby group.

Mr. McNamara said that the analysis showed that evaluation of some projects had been done too early before the full effects were known and asked Mr. Willoughby to bring this up when discussing the future work program of his unit. Mr. Adler also disagreed with the validity of the samples used in the evaluation.

President has seen

Mr. McNamara asked that Mr. Alter convene Messrs. McNamara, Knapp and Chenery to discuss the future DFC project.

Mr. McNamara asked that the report be circulated to the Directors with only one change which would bring out more clearly the recommendation regarding program loans. He also asked that Messrs. Knapp, Aldewereld, Chenery and John Adler form a group to suggest how the recommendations in operations evaluations reports should be implemented and have their comments ready by July 6, 1972.

792/1/82

Meeting to Discuss Paper on Preferences in Procurement, May 11, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Chenery, Cope, Stern, Chadenet, Baum, van der Tak

Mr. McNamara asked each one present to express his view on the policy to be followed.

Mr. Knapp preferred to exclude preferential duties from consideration in bid comparison. He felt the paper was excellent but that the Board version should make specific recommendations. The main argument for the policy should be the economic use of Bank resources. Departures should be made only in exceptional cases where it would be to the advantage of the borrowing country, and the Common Market arrangements among developing countries benefitting the borrowing country should be respected.

Mr. Knapp put heavy emphasis on the economic argument and said that the Yaounde countries would probably not lose EEC aid as a result of the policy. In fact most bid comparisons were being made on a cif basis. He mentioned the "Cargill argument" that private borrowers may be forced to pay more if tariff preferences are excluded from bid evaluation. There is also a risk that the Bank may be forced to apply this new policy to indirect procurement and he suggested that this be dismissed early in the paper and a strong defense be prepared for the Board Meeting.

Mr. Cope said he disagreed with Mr. Knapp and felt that, since the amount involved is small, countries should have the option of including or excluding duties as they wish, especially since the Board members now pressing for a change were mainly those who like the U.S. wanted to use Bank policy to further their interest in GATT.

Mr. Chenery said he agreed with Mr. Knapp but Mr. Stern added that secondary procurement should not pose a problem since it could be stated that the Bank's concern for country welfare is insured through the selection of the lowest bidder. Messrs. Knapp and Baum maintained that it was still a problem of trade policy and Mr. McNamara later said that choosing the lowest bidder would not guarantee that the procurement by that bidder would be in the best interests of the country.

Mr. Broches favored either modifying the present policy through stating that countries are free to include or exclude tariffs in bid evaluation or a strongly qualified second alternative. He included the caveat that the Bank's policy should not force countries into breaking trade agreements. He mentioned that most agreements do not force governments to apply preferences in bid evaluation. A few agreements, however, such as the one between the EEC and Tunisia and Morocco, may pose problems.

Mr. van der Tak saw no major argument which made him lean in favor of either policy.

Mr. Baum said he was marginally in favor of the present policy because it lets the borrower decide on his own procedure and because secondary procurement, which accounts for a large part of procurement under Bank loans, cannot easily be dealt with.

Mr. Chadenet said he was not strongly in favor of either alternative but felt that the borrower should be free to decide his policy and favored including a statement to this effect as proposed by Mr. Broches.

President has seen

Mr. Aldewereld said the issue was unimportant for Bank operations but for economic reasons he would agree with Mr. Knapp. Politically he expected the French to favor including preferences and the U.S. and possibly the Germans to favor excluding preferences.

Mr. McNamara summarized by saying that the issue is sure to split the Board. He asked what the practice was under the Tunisia Agreement, since he did not want to be swung by legal arguments if the parties to contracts do not adhere to their clauses. He noted that the present practice is to apply preferences and held the view that the Bank must establish policies which are in the economic interest to its borrowers which led him to favor the exclusion of preferences in the bid evaluation. He agreed that indirect procurement should be dismissed from Bank concern as being administratively impossible to monitor. Finally, he recommended taking preferences for common market partners into account in developing countries with a substantial stake in economic integration

It was agreed that a revised draft would be distributed by May 18, commented on by May 22 and distributed in final form to the Directors by May 25.

AL  
May 12, 1972

792/1/01

MEMORANDUM OF TELEPHONE CONVERSATION WITH MR. WIECZOROWSKI, MAY 8, 1972

1. I read to Mr. Wieczorowski the following extract from Mr. Merriam's memorandum, dated May 4:

"Mr. Wieczorowski said that while the future can't be foretold, he felt the Bank should take it as given now that the U.S. would not be able to participate in a 4th Replenishment of IDA until after Fiscal '75. He noted that he had advised Mr. McNamara of this."

2. I stated that when Mr. Wieczorowski had asked me my view of the effect on the 4th Replenishment of a possible delay in the deposit of the U.S. notes for the 3rd Replenishment, I replied the delay need not affect the 4th Replenishment. I said further I had not understood he had advised me that the U.S. Government would not be able to participate in a 4th Replenishment of IDA until after Fiscal '75.

3. Mr. Wieczorowski agreed that I had spoken as stated above but said he wanted me to know that the effect on the 4th Replenishment of a delay in the 3rd Replenishment was "in some people's minds." I said I did not believe I should accept an oral statement of what was "in some people's minds" as notice of the desire of the U.S. Government to modify in an important respect an international agreement.

4. Mr. Wieczorowski agreed with my view that we should devote our energies now to obtaining ratification of the 3rd Replenishment, and if the U.S. Government wished to raise questions regarding the 4th Replenishment, they could do so after the ratification of the Third had been completed.

Robert S. McNamara

MEMORANDUM FOR THE RECORD

792/1/80

Employment Paper Meeting, May 1, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Chenery, Demuth, Adler, Chadenet, Henderson, Baum, Lind, Stern, Hawkins, Turnham, van der Tak

Mr. Knapp said he was left confused about the concept of shadow pricing and requested a future study or discussion on this subject. Apart from a number of smaller changes and deletions, the paper was approved as presented and there was general agreement that it was excellent.

The paper would be printed on May 2 for distribution May 3 and consideration by the Board on May 23.

AL  
May 2, 1972



792 h/79

Meeting on Policy Paper on Aviation, April 19, 1972

Present: Messrs. McNamara, Chenery, Demuth, Cope, Chadenet, Baum, Adler, Stevenson, Knox, van der Meer, Park

Mr. Chenery said the paper lacked a discussion of arguments for aviation as opposed to other modes of transport. The arguments for domestic aviation purely on the grounds of its past rapid growth and the value of time saved are not convincing. Using these criteria would entail risk of suboptimization and overinvestment.

Mr. Cope felt there was undue emphasis on the time savings argument. He felt that the descriptive Annex I should precede the technical discussion, and would have liked to see a fuller description of airport operation and ownership conditions. Difficulties in applying international competitive bidding should not stand in the way of financing aviation if it were found economic.

Mr. Demuth also refuted the resource saving argument and said that traffic generation and development opportunities as a risk of aviation are much more important. He suggested that ICAO be requested to review the paper before Board presentation.

Mr. Adler was less critical but felt that the paper went too far in endorsing Bank lending to aviation.

Mr. Baum pointed out that this was a policy paper, not a sector paper. Mr. Chenery suggested that the paper include mention of the problem of allocation of investment in transport versus other sectors and within the transport sector.

Mr. McNamara also reacted against the implicit priority placed in aviation and the resource savings argument for investment in this sector. He agreed that a paragraph should be included stating the problem of intersector and intrasector investment allocation. He suggested revision of the rationale for projects given in Annex II and suggested a shift of emphasis to the important over-all transport problems in countries such as Ethiopia, Zaire, and Indonesia.

Mr. McNamara asked that Messrs. Chenery and Chadenet assign one economist and one projects man, respectively, to essentially cut and paste the paper into an acceptable version to be distributed the following Tuesday, for Board discussion on May 16 as planned.

AL  
April 19, 1972

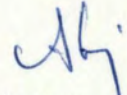
m/R  
792/1/78

MEMORANDUM FOR THE RECORD

April 19, 1972

I spoke to Mr. Arturo J. Griffiths, Executive Director, Washington Ghetto Industrial Development and Investment Corporation, today. He had called and asked to speak to Mr. McNamara regarding the letter Mr. McNamara had sent in response to his request for financial support. Mr. Griffiths made a lengthy and persistent plea for Bank support no matter what amount, claiming that the Bank had given to UGF and that his project had widespread support among U.S. Government organizations and officials (which I have reasons to doubt). He even threatened to discredit the Bank if it would not provide its support. I explained that the Bank's policy was to donate only through UGF, suggested he apply to UGF for funds and reminded him that Mr. McNamara's letter had made the Bank's position clear. I said that if he wished the Bank to cooperate at all he would have to contact Mr. Westebbe who had previously volunteered to serve on an advisory panel.

cc: Mr. Hoffman  
Mr. Wm. Clark  
Mr. Westebbe

  
Anders Ljungh

MEMORANDUM FOR THE RECORD

792 / 1 / 77

Agriculture Sector Program Paper Meeting, April 5, 1972

Present: Messrs. McNamara, Cope, Chadenet, Stern, Baum, Adler, Clark, Hoffman, Henderson, Parish, Evans, Wapenhans, Eccles

Mr. Cope felt that Paras. 2.12 and 2.14 were in conflict. Mr. Stern was asked to resolve this issue. Mr. Cope suggested, and Mr. McNamara agreed, that Tables 4.1, 5 and 5.2 be deleted before Board presentation. On the other hand, Mr. McNamara asked that the tables on Page 55 and the whole of Chapter 5 (dealing with future Bank operations) remain in the Board version of the paper.

Mr. McNamara said it would be desirable to have the operations program in the paper consistent with the budget but the paper should not be delayed because of this. Any inconsistency should be stated clearly.

Staff increase in agriculture was shown to level off considerably in FY75 and onwards. It should be stressed that growth is constrained by the size of the lending program and not by the needs of the developing countries or the Bank's capacity to absorb new staff.

Mr. McNamara said that he would like the paper to deal more fully and explicitly with the problems of the small farmer, stating that the conditions of the majority of farmers cannot be changed unless government policy and Bank activity change considerably and that at present the needs are so large and the problems so complex that neither the Bank nor anyone else at present knows of economic solutions. He asked that Messrs. Stern and Evans cooperate to include this.

Mr. McNamara said he had made a number of comments and changes in the text and asked that Agriculture Staff check them and report any disagreements.

P.S. Mr. Eccles called later to say they had no problems with the suggested changes.

AL  
April 10, 1972

MEMORANDUM FOR THE RECORD

792 / 1 / 76

Meeting to Discuss Mr. McNamara's Speech at Stockholm Environmental Conference, April 5, 1972

Present: Messrs. McNamara, Clark, Lee, Maddux

Mr. McNamara asked Mr. Maddux to prepare a draft statement for the Stockholm Conference. He suggested that Mr. Maddux read Barbara Ward's and Rene J. Dubos' new book and papers issued in preparation for the Conference.

Mr. McNamara questioned whether he should include a reference to the relation between population growth, resources and pollution and concluded that it would not be advisable since the work done so far is somewhat unscholarly and the conclusions available on this subject are still preliminary.

He would like to focus on the necessity to enhance conditions of the deprived millions drawing the conclusion that there must be economic growth in the developing countries. The Bank's experience should be highlighted, mentioning our environmental guidelines and questionnaires. In this connection he asked that Mr. Lee prepare a case study of our experiences and evidence to show that the Bank has done more than most institutions in this regard.

He would also like to point out that the conflict between economic growth and environmental concerns in LDCs is not as serious as some maintain, and the speech should include examples of how environmental penalties have been reduced in Bank projects at low cost, challenging developing countries to show examples to the contrary. He wished to stress that the Bank's policy is to present options to its borrowers rather than impose solutions.

He also asked that Mr. Maddux include a half page of the arguments for economic growth which Mr. McNamara has used previously, namely the unacceptability of malnutrition, illiteracy, disease, etc., since these arguments need to be repeated to gain wider acceptance.

He asked Messrs. Clark and Lee to counsel Mr. Maddux in preparing a draft with a maximum length of 20 double-spaced pages, to be completed by May 1.

AL  
April 10, 1972

President has seen

792/1/75

Urbanization Sector Program Paper Meeting, April 4, 1972

Present: Messrs. McNamara, Knapp, Cope, Adler, Hoffman, Baum, Clark, Stern, Strombon, Dunkerley, Sadove, Chadenet

Mr. Knapp said that it is clear that urbanization and urban growth must be accepted. Most of the Bank's work will be devoted to filling existing needs. He mentioned an important possibility of financing urban infrastructure through land taxes. He would like the paper to include more on the implications for work of the various Projects Departments, especially Public Utilities. He found the sites and services idea for housing promising but was sceptical to urban expressways.

Mr. McNamara agreed on the last point and said that this paper for the first time states correctly the urban transport problem as the trade-off between public and private transportation. Mr. Sadove mentioned that the Bank had already helped Singapore to focus properly on this problem.

Mr. Knapp mentioned that the sector lending program in the paper was not coordinated with country lending programs. Mr. McNamara asked Mr. Sadove to have this aligned within three to six months. Mr. Knapp felt that the build-up of projects to be processed in FY73-FY76 was too rapid. Mr. McNamara asked that the number of projects be reduced to 4 in FY73, 8 in FY74, 10 in FY75 and 14 in FY76. Mr. McNamara added that it may well be possible to delete most of the unidentified projects for the time being.

Mr. McNamara said that it seemed inevitable that the activity would concentrate mostly in capital cities. Mr. Stern suggested projects in sets of medium size and earlier stage of urbanization.

Mr. Cope suggested that the report also treat more futuristic ideas, such as "new towns" and "growth poles." Most others felt that theories of migration and regional economic growth were not yet developed to support such activities.

Mr. Hoffman praised the report for showing explicitly the uselessness of large-scale investment in medium-cost housing.

It was agreed that the paper would be distributed on May 2. (This would imply a deadline for comments of April 25 and would provide ample time for Directors' consideration before Board discussion on June 13 as presently scheduled or even earlier.)

AL  
April 10, 1972

792/1/74

MEMORANDUM FOR THE RECORD

Tourism and Sector Program Paper Meeting, April 3, 1972

Present: Messrs. McNamara, Knapp, Cope, Chadenet, Stern, Baum, Adler, Clark, Henderson, Hoffman, Koch, Glaessner, Qureshi and Mrs. Calvo

Mr. Knapp said that comments had been submitted by several Departments and mentioned especially that Mr. Chaufournier had felt that the paper concentrated too much on those countries already heavily engaged in Tourism.

Mr. Hoffman said that the social effects of Tourism were not adequately treated and that the financing of domestic Tourism is not analagous to financing of industry through DFCs as implied in the paper. Mr. McNamara agreed that the paper should not seem to advocate increases in local consumption.

Mr. Adler would like the paper to emphasize more the need for qualified management in Tourism.

Mr. McNamara said it is important that the priorities for Bank work in Tourism be established so that work is not spread too thin over a large number of countries. He also noted that the paper showed a large number of sector studies and said that the definition of a complete sector study probably varied between sectors and that the concept needed clarification. He asked Messrs. Adler and Henderson to produce a table for all the Departments showing the availability of adequate sector information in various countries.

AL  
April 4, 1972

792/1/73

MEMORANDUM FOR THE RECORD

Meeting Regarding Study on Preferences in Procurement, March 21, 1972

Present: Messrs. McNamara, Knapp, Broches, Cope, Chadenet, Baum, Stern

Subsequent to the Board Meeting where the Congo Railroad project had been approved on condition that the Bank's policy regarding preferences in procurement be clarified before procurement takes place, Mr. McNamara called a meeting to discuss the staff study to be carried out as a base for policy discussions.

Mr. Knapp explained his idea of the study and Mr. Baum outlined a specific approach. First, an inventory would be made of projects planned for Board consideration during the following months to identify those where preference in procurement could pose problems. Second, a study would be undertaken consisting of three parts:

1. Facts on existing preferential treatment agreements, possibly exemplifying them through tariff statistics on a typical list of goods.
2. The impact of preferential agreements on past Bank Group projects. Mr. McNamara asked that special attention be given to calculating the total amount of procurement under past projects in which the U.S. could have an interest and where preferences could be applied against the U.S. It was agreed that this part of the study be limited to loans and credits made in FY70.
3. Recommendations for Bank policy regarding preferences.

Mr. McNamara asked that the study include information on GATT, including the mechanism for complaints, the extent to which the U.S. has used that mechanism and how GATT has handled or is likely to handle U.S. complaints.

The agreements between developing countries would not need to be given very detailed treatment.

It was agreed to exclude secondary procurement and especially difficult categories of goods where the Bank has little control or no information.

Mr. McNamara asked that the study underline that preferences under the Yaounde scheme are reciprocal and granted by the developing countries in return for preferences in EEC countries and aid from FED. The same is true of Commonwealth Preferences in Caribbean countries. Mr. McNamara also asked that the study include an estimate of how the Directors would vote on the preference issue.

Mr. Baum suggested and Mr. McNamara agreed that the study focus on collecting and structuring of facts and present several alternative conclusions.

Mr. van der Tak would act as full-time head of the study with Mr. Stern as liaison to the Economic staff and Mr. Frank as advisor on trade agreements. One more full-time staff member would be employed, in addition to all those who will furnish information on projects with which they are familiar. Mr. McNamara agreed to give the study full priority, except that any rescheduling of missions necessary should be approved by him.

It was estimated that a questionnaire regarding projects could be compiled in three-four days. Searching in files would take three-four weeks and the paper would take two-three weeks to write. With four weeks of revision and review and four weeks for Board review, the total time until Board consideration would be 14-16 weeks.

It was agreed that Mr. Baum would call a new meeting to discuss a detailed work program and an outline of the paper, as soon as any of these is ready. At that time a more detailed time schedule would be set.

President has seen AL  
March 22, 1973

792/1/72

MEMORANDUM FOR THE RECORD

Manpower Planning System, March 16, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Stern, Cope, Chadenet, JAdler, Tims, HAdler, Lejeune, Hansen, Hornstein, Bottelier

→ During the course of the Tanzanian CPP discussion, Mr. McNamara asked Mr. John Adler to assume full responsibility for the consistency of the work programs of Areas and Projects Departments internally and with the operations program prepared in each CPP. There should be an automatic signal to management when projects are in excess of Projects Department's capacity and this should also be evident in the operations program shown in each CPP. Rationing of projects should be done by Messrs. Knapp and Aldewereld.

→ During the same discussion Mr. McNamara requested that Messrs. John Adler and Stern convene a meeting with himself and Messrs. Knapp, Aldewereld and Chenery to discuss the recurring argument in the Bank that satisfactory returns on incremental investments justify them as Bank projects, and, secondly, the subject of net foreign exchange transfers.

AL  
March 16, 1972



792/1/71



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

OFFICE OF THE PRESIDENT

March 15, 1972

MEMORANDUM OF CONVERSATION

I called Andre Meyer to tell him:

a. We are prepared to negotiate the placement of a euro-franc bond issue.

b. As a first step, I propose to ask our Vice President of Finance, Mr. Siem Aldewereld, and our Treasurer, Mr. Eugene Rotberg, to initiate discussions with Christian Valensi.

Andre agreed with the procedure and asked whether we would wish Valensi to come to Washington, and if so, when. I told him I was uncertain as to whether the meeting should take place in Washington or Paris, and I would have to leave the decision to Mr. Aldewereld who would decide after he knew when he would be going to Japan. This was perfectly acceptable to Andre.

Robert S. McNamara

cc: Mr. Aldewereld  
Mr. Rotberg

## OFFICE MEMORANDUM

TO: Mr. Hans C. Hittmair

DATE: March 8, 1972

FROM: Yoon S. Park *YSP*SUBJECT: Managing Underwriters of Euro-franc Issues

The first Euro-franc issue was floated in 1967 by Roussel-Uclaf (F. 60 million) through an international underwriting group led by C.C.F. The second Euro-franc issue was F. 100-million British Petroleum issue of 1968 through an underwriting group led by Crédit Lyonnais. In both 1969 and 1970, no Euro-franc issue was floated, but since 1971, the Euro-franc issues have become popular again. (See Tables 2 and 4.)

Six French banks have been most active in managing Euro-franc issues. Table-1 gives the comparative financial resources of these banks, and Table -3 lists both the principal and participating co-managers for the 11 Euro-franc issues floated between 1967 and February 1972. (The F. 150-million ECSC issue of December 1971 was actually a foreign bond issue rather than a Euro-franc issue, because the issue was floated exclusively by French underwriters and sold primarily within France.)

The following table summarizes the Euro-franc management record of the six French banks:

	<u>No. of issues managed or/ and co-managed</u>	<u>No. of issues managed as the principal</u>	<u>Amount of Issues co-managed* (million F)</u>
C.C.F.	7	6	101
Lazard Frères	6	3	146
Crédit Lyonnais	5	1	123
BNP	4	0	113
Paribas	4	0	86
Société Générale	3	1	66

\* Credit is given to a co-manager on a proportionate-share basis.

cc: Mr. E.H. Rotberg ✓  
Mr. R. Deely

Attachments

Table 1 - Financial Resources of Major French Underwriters\*

(in millions of French francs)

\* Presented a proposal

*Good recommends using all 6 as co-managers with principal call George Woods re history want direct contacts (with Bks) as possible for distrib in France - regard good rep in US but not Europe*

	<u>Deposits</u>	<u>Capital</u>	<u>Reserves</u>
Société Générale <i>opened in 9/71</i>	44,121	250	401
*Crédit Lyonnais	51,485	300	376
BNP (Banque Nationale de Paris)	53,108	380	483
*Paribas	3,952	812	1,395
CCF (Crédit Commerciale de France) <i>opened in 10/71</i>	4,451	257	132
*Lazard Frères	N.A.	N.A.	N.A.

\* As of December 31, 1970

Source: World Banking 1971-72, by the Investors' Chronicle.

Table 2 - Eurobond issues by Currency

(U.S. \$ million equivalent)

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Dollars	1,716.3	2,361.5	1,630.5	1,733.0	2,188.0
Deutsche Marks	148.8	662.5	1,053.6	542.2	807.4
Dutch Guilders	—	—	33.1	390.8	290.0
European Currency Units	—	—	—	50.0	85.0
European Units of Account	19.0	57.0	60.0	54.0	166.5
French Francs	12.2	20.3	—	—	46.8
Luxembourg Francs	—	—	—	—	16.0
E/DM	20.2	28.8	—	—	36.0
	<u>1,916.5</u>	<u>3,130.1</u>	<u>2,777.2</u>	<u>2,770.0</u>	<u>3,635.7</u>

Source: White, Weld & Co.

*who would be the principal agent (Gene has no problem in regard being should underwriting go be small or large the principal does Rothschild had any interest in being co-manager)*

Table 3 - Underwriting Managers for Euro-franc Issues

	<u>Amount</u> (F mill.)	<u>Principal</u> <u>Manager</u>	<u>Co-Managers</u>
1967 Roussel-Uclaf	60	CCF	Crédit Lyonnais; Banque de L'Union Européenne Indus. & Finan.; Commerzbank A.G.; Kredietbank S.A.; White, Weld & Co.
1968 Société Française des Pétroles BP	100	Crédit Lyonnais	BNP; Lazard Frères
1971 Inter-American Devel. Bank	100	Lazard Frères	Crédit Lyonnais; BNP; Paribas
Eurofima (private placement)	50	CCF	Morgan & Cie.
Société Ugine Kuhlmann (private placement)	50	CCF	Morgan & Cie.; Lazard Frères; Banque de Bruxelles
L'Air Liquide	60	CCF	Banque de Suez et de L'Union des Mines; Banque Vernes et Commerciale de Paris; Banca Nazionale del Lavoro; Banque de Bruxelles; Kredietbank; Swiss Bank Corp. Westdeutsche Landesbank
European Investment Bank	100	CCF	Union Bank of Switzerland; Amsterdam-Rotterdam Bank; Banca Nazionale del Lavoro; Kredietbank; Société Générale de Banque (Belgium); Westdeutsche Landesbank
European Coal & Steel (foreign bond issue)	150	Lazard Frères	Paribas; BNP; Société Générale; Crédit Lyonnais
1972 Caisse Nationale des Télécommunications	125	Lazard Frères	CCF; Paribas; Algemene Bank; Banque de Bruxelles; Crédit Suisse (Bahamas)
City of Oslo	100	CCF	Kredietbank; Paribas; Berliner Handels Gesellschaft; Société Générale; Westdeutsche Landesbank; Bergens Privatbank; Christiania Bank; Den Norske Creditbank
Renault	200	Societe Generale	BNP; Crédit Lyonnais; Lazard Frères; Algemene Bank; Deutsche Bank; Société Générale de Banque; Union Bank of Switzerland

Capital Markets Division  
Treasurer's Department

Table 4 - International French Franc Issues

	<u>Issuer</u>	<u>Country</u>	<u>Amount (mil.)</u>	<u>Offer date</u>	<u>Coupon rate</u>	<u>Maturity</u>	<u>No. of years</u>	<u>Offer price</u>
1967	Roussel-Uclaf	France	60	12-15	7	1979	12	98-1/2
1968	Societe Francaise des Petroles BP	Britain	100	3-1	7	1980	12	97
1971	Inter-American Development Bank		100	2-22	8-1/2a	1989	18	100
	Eurofima (private placement)		50	7-30	8-1/4a	1978	7	100
	Societe Ugine Kuhlmann	France	50	9-1	8a	1978	7	99-1/2
	L'Air Liquide S.A.	France	60	10-14	8-1/4a	1981	10	99-1/2
	European Investment Bank		100	12-6	7-3/4a	1981	10	100
	European Coal & Steel Community		150	12-15	8-1/2a	1989	18	100
1972	Caisse Nationale des Telecommunications	France	125	2-4	7-1/2a	1984	12	100-1/2
	City of Oslo	Norway	100	2-18	7-1/4	1987	15	99-1/2
	Renault	France	200	2-25		1987	15	100

Source: Morgan Guaranty Trust Co., World Financial Markets.

INCOMING CABLE

DATE AND TIME  
OF CABLE: MARCH 6, 1972

LOG NO.: WUI TELEX/6

TO: INTBAFRAD

FROM: PARIS

ROUTING

ACTION COPY: MR. ALDEWERELD

INFORMATION  
COPY:

DECODED BY:

TEXT: ATTENTION MR. ALDEWERELD

FOR YOUR PERSONAL INFORMATION WE HAVE SENT THE FOLLOWING TELEX TO MR. MCNAMARA  
KINDEST REGARDS

CHRISTIAN VALENSI

LAZARBAN

" TO THE ATTENTION OF MR. R. MCNAMARA

DEAR MR. CHAIRMAN,

WE BEG TO REFER TO THE TELEPHONE CONVERSATION YOU HAD WITH MR. ANDRE MEYER A FEW  
DAYS AGO, AND TO VARIOUS INFORMATION GIVEN TO US BY THE FRENCH TREASURY FOLLOWING  
YOUR MEETING WITH THE MINISTER OF FINANCE.

WE WISH TO CONFIRM TO YOU THAT THE SYNDICATE WHICH WAS FORMED, AND STARTED STUDIES  
AS EARLY AS 1963 WITH FULL KNOWLEDGE OF THE HIGHEST QUALIFIED AUTHORITIES OF THE  
WORLD BANK, BETWEEN LAZARD FRERES, THE BANQUE DE PARIS ET DES PAYS-BAS AND THE CREDIT  
LYONNAIS FOR FUTURE OPERATIONS OF THE WORLD BANK IN FRANCE OR RELATED TO THE FRENCH  
FRANC IS READY TO MANAGE AT YOUR EARLIEST CONVENIENCE AN EURO-FRANC ISSUE ON BEHALF  
OF YOUR INSTITUTION. ALL THREE MEMBERS OF SUCH SYNDICATE CAN BE TRUSTED FOR HAVING  
THE MOST CURRENT EXPERIENCE OF THE EUROFRANC MARKET WHICH DEVELOPED IN THE LAST  
MONTHS. TWO OF THEM HAVE EFFECTIVELY MANAGED THE FIRST EUROFRANC ISSUE, SINCE THE  
REOPENING OF THAT MARKET, FOR THE ACCOUNT OF CAISSE NATIONALE DES TELECOMMUNICATIONS,  
A FRENCH STATE INSTITUTION WITH THE GUARANTEE OF THE FRENCH REPUBLIC, THEY ARE  
EQUALLY ACTIVE FOR THE MANAGEMENT OF PROMPTLY FORTHCOMING SIMILAR ISSUES, INCLUDING

FOR INFORMATION REGARDING INCOMING CABLES, PLEASE CALL THE COMMUNICATIONS SECTION, EXT. 2021

ORIGINAL

I N C O M I N G   C A B L E

DATE AND TIME  
OF CABLE:

LOG NO.:

TO:

FROM:

PAGE TWO

R O U T I N G

ACTION COPY:

INFORMATION  
COPY:

DECODED BY:

TEXT:

FOR YOUR CONFIDENTIAL INFORMATION ONE FOR THE ACCOUNT OF THE EUROPEAN COAL AND  
STEEL AUTHORITY. WE TRUST THAT WE WOULD BE ABLE TO OFFER TO THE WORLD BANK -  
FOR ANY SUCH ISSUE IT MAY BE WILLING TO DECIDE AND TO LAUNCH (IN AN AMOUNT UP TO  
200 MILLION FRANCS) - TERMS MORE FAVOURABLE THAN THOSE AVAILABLE TO THE BEST  
ISSUER ON THE SAME MARKET AT THE TIME OF THE ISSUE.

WE ARE ACCORDINGLY PREPARED, IF AGREEABLE TO YOU, TO SEND IMMEDIATELY TO WASHINGTON  
REPRESENTATIVES OF THE THREE MEMBER-ESTABLISHMENTS OF OUR SYNDICATE IN ORDER TO  
MEET WITH YOUR STAFF AND REVIEW ANY PROBLEMS RELATED WITH SUCH ISSUE AND OUR  
PRESENT PROPOSAL.    RESPECTFULLY SUBMITTED

LAZARD FRERES ET CIE

BANQUE DE PARIS ET DES PAYS-BAS    CREDIT LYONNAIS "

LF INTL 29684F

SC

# OFFICE MEMORANDUM

TO: Mr. Eugene H. Rotberg

DATE: February 16, 1972

FROM: H.C. Hittmair

SUBJECT: FRANCE - Eurofranc Issues

44 3/11  
A meeting was held on February 14 in the Ministry of Finance in Paris. Present were: Mr. Wahl, Deputy Director for External Affairs, Messrs. Cosserat, Baquiast of the Ministry and Messrs. R. de Lesseps and H.C. Hittmair. The meeting had been arranged at the Bank's request to obtain the views of the Ministry concerning a possible Bank operation in the Eurofranc market. The following summarizes the significant points of the discussions:

(1) The French authorities keep a rather watchful eye on the Eurofranc market. Their main concern is that borrowers might use the funds raised in this market inside France and thus contribute to the creation of undesired foreign exchange reserves. The main prerequisite for obtaining the authorization for a Eurofranc issue from the Ministry is therefore an understanding that the proceeds of an issue would be converted rapidly and disbursed outside France. The Ministry will, furthermore, only let first rate borrowers float issues in the Eurofranc market. The Ministry exercises its control over the market in consultation with the Banque de France; the French issuing banks in turn have to request authorization for an issue from the Banque de France.

(2) Specifically, the Ministry would agree to a Bank operation in the Eurofranc market provided very quick disbursement of the issue proceeds outside France can be assured. Pressed for a more concrete definition of "very quickly" it was stated that two weeks would be the maximum time span during which the funds should be converted and disbursed.

(3) As far as the size of the issue was concerned they did not see any problem on their part to agree to an amount of up to French francs 200 million. It was, however, stressed again that the quick disbursement of the funds as defined in the previous point was of great importance; the Bank might therefore want to tailor the size of the issue to its ability of disbursing the proceeds within two weeks.

(4) Funds raised through a Eurofranc issue would be financial francs. In line with its past operations the Bank would have to convert these financial into commercial francs through arbitrage with the commercial banks. At the moment the rates for both types of French francs are practically identical and the arbitrage cost would presumably be rather small. This point would perhaps deserve some further discussion with the Banque de France in case of an issue.

President has seen



(5) The present Eurofranc issues are offered at the rate of one issue per week. The issue calendar is full until the middle of March and the authorities advised us to decide soon whether we want to be considered for the later part of March. They apparently expect numerous requests for issues with the further easing of conditions in the Eurofranc market.

(6) Regarding the formation of an Underwriting Syndicate and the choice of Managers for such a syndicate, we cannot expect any positive recommendations from the Ministry; they would not even want to express their preference beyond the expectation that the issue manager or managers would be among the big French banks. They agree that it might be advisable to form a very strong management team including all the major banks who have made us offers, in view of our status and the fact that this is our first issue denominated in French francs. On the other hand they would see nothing wrong if we made our choice simply on the basis of the most favorable offer; they would actually favor some competition between the banks. Basically they assure us that we have a completely free hand in working out the syndicate arrangements and they also agreed that for the successful placement of an issue it would most likely be necessary to include foreign banks in the syndicate.

(7) It was confirmed that with Eurofranc issues there is no specific tax levied either on the borrower or the investor.

(8) The discussion of the Eurofranc market in general did not reveal any new aspects. The Eurofranc is a relative newcomer among the Euro-currencies used for bond issues and there is apparently neither enough statistical evidence nor practical experience available to permit a judgment on the size of the market or to assess its future prospects. Mr. Wahl believes that the Eurofranc market is not a strictly temporary phenomenon although present circumstances seem to have favored its development. He thinks that the market will continue to exist in the future even if it is doubtful whether it will ever come close to the importance of the other Eurodollar currencies, in particular, the Eurodollar.

(9) The Ministry did not see any prospects for the foreseeable future that rates in the French domestic market would come anywhere close to the Eurofranc rates. The most they could see at the moment was a possible reduction of  $\frac{1}{4}$  to  $\frac{1}{2}$ % from the present level of about  $8\frac{1}{2}$ %.

HCHittmair:mb

cc: Messrs. Aldewereld  
Deely  
de Lesseps

LAZARBAN  
PARIS

MARCH 7, 1972

LT.

~~By return  
me 3/15  
Lmer  
Other 3/7  
this memo~~

FRANCE

FOR CHRISTIAN VALENSI

THANK YOU FOR YOUR CABLE QUOTING TELEX YOU SENT TO MCNAMARA STOP  
WILL REVERT TO THIS MATTER AS SOON AS POSSIBLE STOP KINDEST  
REGARDS

4/23/10

ALDEWERELD

INTBAFRAD

President has seen

S. Aldewereld

cc: Mr. McNamara ✓

Executive Offices

*M. Coughlin (for S. Aldewereld)*

SA:mc

MAR 6 REC'D

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: MARCH 6, 1972  
LOG NO.: WUI TELEX/6  
TO: INTBAFRAD  
FROM: PARIS

ROUTING	
ACTION COPY:	MR. MCNAMARA
INFORMATION COPY:	MR. ALDEWERELD MR. ROTBERG
DECODED BY:	

TEXT:

TO THE ATTENTION OF MR. R. MCNAMARA

DEAR MR. CHAIRMAN,

WE BEG TO REFER TO THE TELEPHONE CONVERSATION YOU HAD WITH MR. ANDRE MEYER A FEW DAYS AGO, AND TO VARIOUS INFORMATION GIVEN TO US BY THE FRENCH TREASURY FOLLOWING YOUR MEETING WITH THE MINISTER OF FINANCE.

WE WISH TO CONFIRM TO YOU THAT THE SYNDICATE WHICH WAS FORMED, AND STARTED STUDIES AS EARLY AS 1963 WITH FULL KNOWLEDGE OF THE HIGHEST QUALIFIED AUTHORITIES OF THE WORLD BANK, BETWEEN LAZARD FRERES, THE BANQUE DE PARIS ET DES PAYS-BAS AND THE CREDIT LYONNAIS FOR FUTURE OPERATIONS OF THE WORLD BANK IN FRANCE OR RELATED TO THE FRENCH FRANC IS READY TO MANAGE AT YOUR EARLIEST CONVENIENCE AN EUROFRANC ISSUE ON BEHALF OF YOUR INSTITUTION. ALL THREE MEMBERS OF SUCH SYNDICATE CAN BE TRUSTED FOR HAVING THE MOST CURRENT EXPERIENCE OF THE EUROFRANC MARKET WHICH DEVELOPED IN THE LAST MONTHS. TWO OF THEM HAVE EFFECTIVELY MANAGED THE FIRST EUROFRANC ISSUE, SINCE THE REOPENING OF THAT MARKET, FOR THE ACCOUNT OF CAISSE NATIONALE DES TELECOMMUNICATIONS, A FRENCH STATE INSTITUTION WITH THE GUARANTEE OF THE FRENCH REPUBLIC. THEY ARE EQUALLY ACTIVE FOR THE MANAGEMENT OF PROMPTLY FORTHCOMING SIMILAR ISSUES, INCLUDING FOR YOUR CONFIDENTIAL INFORMATION ONE FOR THE ACCOUNT OF THE EUROPEAN COAL AND STEEL AUTHORITY. WE TRUST THAT WE WOULD BE ABLE TO OFFER TO THE WORLD BANK - FOR ANY SUCH ISSUE IT MAY BE

FOR INFORMATION REGARDING INCOMING CABLES, PLEASE CALL THE COMMUNICATIONS SECTION, EXT. 2021

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PAGE TWO

WILLING TO DECIDE AND TO LAUNCH (IN AN AMOUNT UP TO 200 MILLION FRANCS) -  
TERMS MORE FAVOURABLE THAN THOSE AVAILABLE TO THE BEST ISSUER ON THE SAME  
MARKET AT THE TIME OF THE ISSUE.

WE ARE ACCORDINGLY PREPARED, IF AGREEABLE TO YOU, TO SEND IMMEDIATELY TO  
WASHINGTON REPRESENTATIVES OF THE THREE MEMBER-ESTABLISHMENTS OF OUR SYNDICATE  
IN ORDER TO MEET WITH YOUR STAFF AND REVIEW ANY PROBLEMS RELATED WITH SUCH  
ISSUE AND OUR PRESENT PROPOSAL. RESPECTFULLY SUBMITTED

LAZARD FRERES ET CIE

BANQUE DE PARIS ET DES PAYS-BAS

CREDIT LYONNAIS

LF INTL 29684 F

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PAGE TWO

WILLING TO DECIDE AND TO LAUNCH (IN AN AMOUNT UP TO 200 MILLION FRANCS) -  
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IN ORDER TO MEET WITH YOUR STAFF AND REVIEW ANY PROBLEMS RELATED WITH SUCH  
ISSUE AND OUR PRESENT PROPOSAL. RESPECTFULLY SUBMITTED

LAZARD FRERES ET CIE  
BANQUE DE PARIS ET DES PAYS-BAS  
CREDIT LYONNAIS  
LE 04.03.1972

COMMUNICATIONS  
MAR 6 12 56 PM 1972

MEMORANDUM FOR THE RECORD

792/1/70

Meeting on Ideas Resulting from Mr. McNamara's Trip to West Africa

Present: Messrs. McNamara, Knapp, Chenery, Demuth, Aldewereld, Chadenet, Chauffournier, Stern, Ballantine, Evans

Mr. McNamara said that the trip had been most interesting and had given insights into the special problems of the Sub-Saharan countries.

River Blindness

Mr. McNamara mentioned the staggering health problems in Upper Volta and neighboring countries and their economic effects. River Blindness is causing mass flight from infested areas which cover the most fertile land in the country. A program of eradication would cost about \$25 million a year for a minimum of three years and could start in FY74. Some \$400,000 of start-up expenses would be needed earlier. All the figures were indicative. He proposed to set up an international consultative group to plan eradication and organize financial assistance. The group could consist of UNDP, WHO, the Bank, FED, France and possibly the Nordic countries, the U.K. and Germany.

Mr. Chauffournier mentioned that a draft report with more precise figures would be available in June.

It was agreed that Mr. Chauffournier would prepare a proposal for action by April 4 and that Mr. McNamara would contact Mr. Peterson and Dr. Candau to propose a meeting on the subject in London in connection with ACC/IACB.

Education

Mr. McNamara mentioned the educational television (ETV) pilot project in Niger and the threatening problems of migration, unemployment of graduates, and the poor adjustment of rural education to the needs of the country. He proposed that one man be assigned to the development of an educational sector plan for Niger.

Mr. Ballantine agreed to take Niger as a test case but questioned the viability of ETV and claimed that it would add \$25 per student per year to the already high cost of \$42. It was agreed that one man would work on the sector program, drawing from the expertise of others and considering several alternatives, including ETV. Messrs. Chauffournier and Ballantine would work out the details and Messrs. Chenery and Ballantine would discuss general problems of a Bank approach to rural education and ETV.

French-Speaking Telecommunications Man

Mr. McNamara mentioned that telecommunications and ETV projects in French-speaking countries cannot go forward until the Bank has a French-speaking telecommunications expert. Mr. Aldewereld suggested that the French ED could help find candidates. Mr. McNamara asked Messrs. Aldewereld, Chadenet and Chauffournier to resolve this.

Project Managers

Mr. McNamara said there is a lack of project managers in Upper Volta and other countries and asked whether EDI could provide an on-the-job training program. Mr. Demuth suggested using the Projects Department training officer. Messrs. Demuth, Chadenet and Chauffournier would find a solution.

Agriculture in Niger

In view of the penalties imposed on land-locked countries and the lack of experience and data in irrigated agriculture, Mr. McNamara suggested assigning one

President has seen

- 2 -

man to work on an agricultural sector program for Niger. He agreed with Mr. Chenery that the person would need to draw on the expertise of others.

AL  
March 14, 1972

792/1/69

MEMORANDUM FOR THE RECORD

Manpower Planning System, March 16, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Stern, Cope, Chadenet, JAdler, Tims, HAdler, Lejeune, Hansen, Hornstein, Bottelier

During the course of the Tanzanian CPP discussion, Mr. McNamara asked Mr. John Adler to assume full responsibility for the consistency of the work programs of Areas and Projects Departments internally and with the operations program prepared in each CPP. There should be an automatic signal to management when projects are in excess of Projects Department's capacity and this should also be evident in the operations program shown in each CPP. Rationing of projects should be done by Messrs. Knapp and Aldewereld.

During the same discussion Mr. McNamara requested that Messrs. John Adler and Stern convene a meeting with himself and Messrs. Knapp, Aldewereld and Chenery to discuss the recurring argument in the Bank that satisfactory returns on incremental investments justify them as Bank projects, and, secondly, the subject of net foreign exchange transfers.

AL  
March 16, 1972

President has seen



792/1/68

Supplementary Finance Meeting, February 28, 1972

Present: Messrs. McNamara, Chenery, Demuth, El Emary, Hayes

Mr. McNamara mentioned that last year he had promised to the Board a paper on the problem of short-falls in commodity export revenues to be presented before the Fourth IDA Replenishment. Mr. Chenery said that he had no project currently underway. Mr. Hayes said that such a paper could be a very ambitious undertaking. Mr. McNamara said that the Bank had not yet done anything serious on the subject and should analyze balance of payments shifts in order to be able to assist more quickly in cases of unexpected shortfall, such as when Ceylon lost much of its tea revenue. Mr. Chenery said he would not like to treat this as a separate development problem.

Mr. El Emary suggested that the study concentrate on countries with heavy dependence on exports of one or a few crops.

Mr. McNamara said that there was general agreement in the Bank that supplementary finance measures are not the solution but that the arguments for this position must be improved. A study should show that it is an over-all balance of payments problem and suggest how to deal with it. He mentioned Colombia's short-fall in coffee revenue as a case where Bank policy is inadequate.

Mr. Demuth suggested that agreements on sugar, coffee, etc., should be encouraged. Mr. Chenery said he preferred to study the problem in a country analysis context and held the view that commodity agreements are politically very difficult to reach and would be productive for only a couple of commodities.

Mr. Hayes said that compensation for short-falls in commodities export revenue is only one side of the larger problem of capital flows. Mr. Chenery agreed that supplementary financing would not change the Bank's long-term lending strategy but would affect the form of transfer in the short-term.

Mr. McNamara asked Mr. Hayes to prepare an outline for an analysis which would eventually lead to a Board paper. Second, in view of the fact that supplementary financing was likely to come up at UNCTAD III and the Bank would be expected to state its position, he asked Messrs. Demuth and El Emary to prepare a statement in time for the Conference. The outline would be approximately:

1. The problem is serious. Some countries do experience fluctuations in commodity export earnings, some of which are outside their control.
2. The Bank cannot contribute more by studying the problem since adequate studies have been made and most capital exporting nations have indicated that a supplementary financing scheme would not increase the funds available.
3. The Bank is prepared to make loans of a type and timing to alleviate short-falls.

Mr. McNamara stated that his objective was to get the Bank into the position of being able to allocate IDA funds rationally and relieve the pressure to participate in a supplementary financing scheme.

AL  
February 29, 1972  
President has seen

792/1/67

MEMORANDUM FOR RECORD

Meeting with Directors on Bank Procurement Procedures, February 24, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Baum, Isbister, Sen, Tornqvist, Lajous, Rinnooy Kan

Mr. McNamara said that the meeting would discuss procurement policy on the basis of the memo sent to him by the Directors. He said that the objectives of the Bank's procurement policy was three-fold:

1. The developed countries were interested in supplying through international competitive bidding.
2. The Bank wants efficient procurement.
3. The LDCs and the Bank aim at developing local administrative and productive capacity.

He said that the Indian Civil Works Procurement issue was under discussion and that he had given a note on the subject to the Indian Government during his trip. The result will be a paper to the Board on Civil Works Procurement.

Mr. McNamara said he would like to distinguish between the narrow issue of procurement guidelines and the broader one of procurement policy. The memo to the Board of December 9 was in response to an ExIm Bank campaign against the Bank and was not aimed at the broader issue of procurement policy.

Mr. Tornqvist said that the Procurement Guidelines are a means for countries to learn about Bank policy and that the Guidelines could be revised to give a fuller explanation of the Bank's objectives in procurement. This could be done either by marginal amendments or drastic revision but governments and other institutions involved should be consulted.

Mr. Lajous felt that there is too much emphasis on quantitative analysis in Bank work which influences procurement to the detriment of development objectives. Value judgments should be taken into explicit consideration. Mr. McNamara replied that value judgments as part of policy could only be effective if they could be stated concisely.

Mr. Isbister agreed with Mr. Tornqvist's idea of consulting governments. He felt that Bank procurement is efficient, with only a small margin of human error. He believed that the Board is responsible for ensuring that policy consistently expresses the Bank's objectives. He asked how Bank procurement policy actually contributes to development of local capability in government and industry. Asked by Mr. McNamara, Mr. Aldewereld replied that Bank procurement policy is designed to ensure maximum participation of local suppliers and Mr. Baum added that, during the last five years of contracts over \$3 million (a total of \$4 billion), local firms had won 52% and joint ventures 8%.

Mr. McNamara said that examples of actual policies were: (1) the 15% preference rule; (2) emphasis on the division of contracts into pieces of suitable size; (3) technical design of projects; (4) views of shadow rates in design and bidding, as proposed for India.

President has seen

Messrs. Isbister and Sen questioned the consistency of Bank procurement practice in different countries. For example, in Somalia a road contract for \$9 million had not been split, although the project added only 100 kilometers of road to 900 kilometers already built. Dr. Sen suggested that on lower levels the Bank staff is not as consistent as management in policy implementation.

Mr. McNamara asked Mr. Baum to make a study of whether a lower cost solution and more local labor participation could have been achieved in the Somalia case by splitting the contract. Mr. McNamara said that splitting of contracts depends on local capabilities. Dr. Sen offered to prove his case in writing.

Mr. Rinnooy Kan mentioned that application of policy is inconsistent in the degree to which deadlines for bidding are adhered to, and advocated standardization.

Mr. Aldewereld said that the objective is to have fair and equitable bidding and that the Bank was the first international organization to require ICB and that no "Dutch auction" is permitted.

Mr. Tornqvist asked whether Mr. McNamara would be willing to state in revised Guidelines the objective No. 3 above, including shadow pricing. Mr. McNamara said that the Bank cannot establish policy which it is not yet capable of applying.

It was agreed that there would be a Board discussion on the development of local capability through procurement policy and practice and that the discussion would take place in the context of the paper on Civil Works Procurement to be submitted to the Board within a few months.

AL  
February 25, 1972



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

OFFICE OF THE PRESIDENT

February 24, 1972

MEMORANDUM FOR RECORD

Andre Meyer called this morning to urge that we accept the offer of a French underwriting syndicate including Lazard Freres (which had engaged in extensive discussions with the World Bank in 1964, 1965, and 1966 regarding borrowing in France) to underwrite a \$200 million franc issue to be placed in the Euro-franc market. He stated the interest cost (before underwriting commissions) today would approximate 7%, which he considered a very favorable rate for a maturity of twelve to fifteen years. He was confident the French Government would approve such a transaction.

I explained to Andre that we could not consider any new large-scale borrowings prior to June 30, 1972 unless we revised our present liquidity policy -- consideration was being given to such a revision. I also told him that I was planning to meet Giscard d'Estaing in Paris next week and had intended to discuss the subject of borrowing in French francs with him.

I promised to call Andre upon my return from Africa in two or three weeks.

Robert S. McNamara

cc: Mr. Aldewereld  
Mr. Rotberg

792/1/66

Meeting on UNCTAD III, February 22, 1972

Present: Messrs. McNamara, Demuth, El Emary, Clark, Hayes

Mr. McNamara said that he wanted to review the purpose and likely outcome of UNCTAD III and the Bank's role in it.

Mr. Demuth reviewed UNCTAD's history and said that UNCTAD I and II had been disappointing; agendas had been too long and most accomplishments had been made before the meetings. The same would probably be true this time. A major issue at UNCTAD III would be the improvement of conditions for the 25 least developed countries. Many believed that the Santiago meeting would be the "non-event of the year." However, statements made in the first days of the meeting would get very wide press coverage.

Mr. McNamara asked who will attend UNCTAD III. Mr. Hayes believed that of some 170 members 80-100 would be represented by ministers and the participants would be specialized in trade rather than in finance as at the Bank's Annual Meetings.

Mr. Hayes argued that the Bank should be represented and Mr. McNamara ought to go because the Bank is considered the LDC's institution. The Bank could otherwise be seen as associating itself with the U.S., which will play down UNCTAD III.

Mr. Demuth said the speeches made by Bank Presidents at the last two meetings have made great impact and that UNCTAD III will be an emotional rather than intellectual meeting, requiring an emotional speech.

Mr. Clark stressed that the speech must appeal to both Part I and Part II countries.

Mr. El Emary suggested that the speech should stress trade inequities and suggest concessions by Part I countries. Mr. Hayes suggested that those arguments be used which appeal to both Part I and Part II countries.

Mr. McNamara concluded that for the time being he was convinced he should go.

AL  
February 25, 1972

President has seen

792/1/65

## OFFICE MEMORANDUM

TO: Files

DATE: February 9, 1972

FROM: Michael L. Hoffman *MLH*

SUBJECT: Integrated Program for Cotton Research and Development

2/9/72

Mr. McNamara met this morning with Mr. Adame, Chairman, and Mr. Read Dunn, Jr., Executive Director of the International Institute for Cotton. Mr. Adame was introduced by Mr. Lajous.

Mr. Adame outlined the nature and principal functions of the Institute. He said these were: (a) marketing research, (b) promotion, and (c) research on textile technology. Mr. Adame stressed the labor intensive character of both cotton growing and cotton manufacture. He indicated that IIC is an intergovernmental agency which receives \$4-5 million per year from a \$1.00 per bale levy on exports from producing countries to Western Europe and Japan. Its membership includes the U.S. and the principal LDC cotton producers although Egypt and the Sudan are in default on their dues. Mr. Adame said that IIC would like to be considered as an institute eligible for support from the Consultative Group on International Agricultural Research. In this connection he stressed that 45% by weight of cotton is food, directly or via animals.

Mr. Dunn elaborated on the various technological problems facing the industry and the need for expanded research. He emphasized particularly the shift of the manufacturing part of the industry to LDCs and the need for improving the wearing and handling qualities of cotton so that it could resist further substitution by synthetics both in developed and developing countries. He also referred to the pending UNDP mission and the possibility of eventual UNDP support.

Mr. McNamara said that he did not want to hold out any hope of early Bank involvement in this very important and very challenging industry's set of biological and technological problems. He referred to the fact that it had taken the Bank two years to get to the point of being prepared to support the regional agricultural institutes and these were going concerns with a demonstrated high productivity. He said we would certainly support the UNDP's involvement in the problems of the industry and that he would think about what else we might do eventually. He told Mr. Dunn to keep in touch with me and Mr. Demuth as a point of contact with the Bank.

After the visitors left, Mr. McNamara told me that he thought Ernest Stern and I ought to go up to UNDP and talk about all this some day.

MLHoffman/pnn

cc: Messrs. Demuth, Stevenson, Graves, Evans, Fransen, Singh, Varon, Stern, Weiss

President has seen

422  
OFFICE MEMORANDUM

Re 7-4142

TO: Mr. Robert S. McNamara  
THROUGH: Mr. Hollis B. Chenery *HBC*  
FROM: Mr. P. D. Henderson *P.D.H.*  
O. T. W. Price *OP.*

DATE: February 8, 1972

SUBJECT: Integrated Program for Cotton Research and Development - Brief Note for visit by Mr. Reed Dunn, Executive Director of International Institute for Cotton to the President on Wednesday, February 9

1. Attached is a brief note prepared by Mr. Enzo Grilli of our Division on the proposal for a cotton research program in which Mr. Reed Dunn of the International Institute for Cotton has played an active role.
2. Also attached is a statement and memo circulated by Mr. Lajous.

Attachments

cc: Messrs. Stevenson, Graves, Evans, Fransen, Singh and Varon

*President has seen*

## INTEGRATED PROGRAM FOR COTTON RESEARCH AND DEVELOPMENT

1. The UNDP has recently appointed a three-man mission to study the feasibility of an International Cotton Research and Development Program. The original impulse behind the project was a five-year research proposal sponsored by the International Institute for Cotton - IIC. This proposal was at various stages examined and discussed by all the concerned international organizations (UNDP, UNCTAD, FAO, UNIDO, IBRD). The UNDP's recent decision is the result of various bilateral and inter-agency discussions on the necessity for an integrated research and development program on cotton as a problem commodity and the feasibility of such an approach to solve some of the problems that cotton is facing. The purpose of the three-man mission is to suggest the terms of reference for a research program on cotton which would include:

- (a) Genetic research related to cotton production;
- (b) Industrial end-uses and industrial research; and
- (c) Trade and export promotion.

The most significant amendment to the original IIC proposal is the specific inclusion of genetic research to improve the yields and properties of cotton as a distinctive part of the overall research and development program.

2. The problems to be researched into are common to all cotton producing countries. These constitute the core of the proposal and shape the framework within which the mission will have to operate.

3. Cotton is produced in more than 70 countries. All these, except the United States and the Soviet Union, are commonly classed as developing countries. During the past ten years the share of developing, non-socialist countries in world (raw) cotton production has increased from 40 to 48 percent. The U.S. share, on the contrary, declined from 30 to 20 percent over the same period, while centrally planned countries (mainly the USSR and Mainland China) only marginally improved their position.

4. Industrialized countries, as a group, are net importers of cotton and account for 33 percent of total world mill consumption of raw cotton. Centrally planned countries (including Mainland China) consume another 35 percent of the total. The remaining 32 percent is accounted for by developing, non-socialist countries whose share of world cotton consumption has increased from 20 to 32 percent during the past ten years as a result of greater domestic consumption and exports of textile goods.

5. Production and processing of cotton are both labor intensive and involve large numbers of people. Although reliable employment statistics are available for only a limited number of countries, it is estimated that the total number of people employed in the production and processing of cotton may be well over 65 million in developing, non-socialist countries alone.



6. Exports of cotton and cotton products are an important source of foreign exchange for a large number of developing countries. Their exports of raw cotton are currently valued at roughly 1.4 billion dollars. The exports of seed, oil and meal raise this total to about 1.6 billion dollars. Exports of cotton textiles and clothing add another one billion dollars to the export earnings of developing countries. <sup>1/</sup> Cotton and cotton textiles vie with copper as the second largest source of foreign exchange to the developing countries, exceeded only by petroleum. Table 1 gives an indication of the share of cotton and cotton products in total export earnings of the principal exporting countries for the 1966-69 period.

7. The use of cotton in the textile markets of the world is seriously threatened by synthetic substitutes. As total demand for major textile fibers <sup>2/</sup> increased at an average annual rate of 3.3 percent during the past decade, cotton demand grew at only 1.2 percent per annum over the same period. Since 1966-67, moreover, the annual rate of growth of cotton consumption has further declined, bringing the average annual rate of growth for the past four seasons down to 0.8 percent. World consumption of man-made fibers (on a cotton equivalent basis <sup>3/</sup>), on the other hand, registered an average annual increase of almost 11 percent between 1960 and 1970. Within this group, non-cellulosic (synthetic) fibers went up by an average of over 21 percent per year.

8. The different growth rates for the various fibers have had a big impact on the market shares accounted for by the individual fibers. While the market share of non-cellulosic, man-made fibers rose from 7.5 in 1960 to over 32 percent in 1970, cotton's share of the world fiber market fell from nearly 66 to 46 percent over the same period. World demand projections of textile fibers for the next decade indicate that this trend is likely to continue. As total world demand for textile fibers is projected to grow at a rate of 3.5 percent a year over the next ten years, world demand for cotton is forecast to increase at 1-1.6 percent per annum over the same period. Cotton's share of the world fiber market would fall to 35-38 percent by 1980 unless some measures are taken to improve the competitive position of cotton.

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<sup>1/</sup> In terms of value, around 60 percent of total exports of cotton textiles and clothing comes from cotton producing countries, the remainder being accounted for by other developing countries such as Hong Kong and South Korea, which import raw cotton and export manufactures.

<sup>2/</sup> Cotton, wool, flax, silk, man-made fibers.

<sup>3/</sup> Owing to differences in specific gravity and processing waste, a pound of man-made fiber displaces more than one pound of cotton. Consumption of man-made fibers, therefore, is here considered in terms of cotton equivalents.

9. Competition between cotton and man-made fibers involves many factors. Changing price parities and relative quality performance, however, appear to be the most relevant. Prices of man-made fibers (especially polyester fibers) have been declining rapidly over the past decade, thereby turning the parity in favor of the man-made fibers. Recent high cotton prices, moreover, are likely to accelerate the trend in substitution of cotton with non-cellulosic fibers. Although further sharp declines in the prices of the most important non-cellulosic fibers do not appear very likely, the possibility of increased competition from these fibers is quite strong, given the technical advantages that man-made fibers have in new high-speed knitting machines.

10. The superior manufacturing performance of man-made fibers brings out the second crucial element in inter-fiber competition, that is, quality, or product performance. The major single market outlet for cotton in industrialized countries is apparel, which accounts for roughly 50 percent of total cotton consumption. Cotton's share has fallen drastically in apparel, mainly because cotton lacks the "easy-care" properties characteristic of synthetic fibers (alone or blended with cotton). It is, moreover, in this field that the most rapid improvements in processing technology have taken place. High-speed knitting machines require strong and uniform yarns to minimize the risks of breaks and stoppages of the knitting process.

11. Improvements in the characteristics of the cotton end-products (easy care, wrinkle resistance, durable press, luster, durability and color fastness) as well as in its manufacturing performance (strength, uniformity and toughness of the yarn) are both necessary to improve the position of cotton vis-a-vis the man-made fibers which currently have higher manufacturing and product performance (at least in some crucial areas, viz, apparel).

12. Direct price competition between cotton and man-made fibers is also crucial, given the relationship between the mill-delivered price parity for cotton and some of the most widely used man-made fibers (rayon and polyesters) and the consumption levels of these fibers in developed countries (e.g., the United States).

13. A well-balanced research and development program should therefore be oriented towards both production and end-use research. Genetic research could both increase productivity of cotton (via high-yield and/or disease-resistant varieties) and lead to quality improvement of the fiber via induced changes in its structure. Utilization research, on the other hand, seems to be more immediately necessary to prevent (or to slow down) a further deterioration of the position of cotton vis-a-vis synthetic fibers in the apparel market where the manufacturing and product performance of the competing fibers are superior to those of cotton. End-use research, moreover, could be instrumental in directing some of the genetic research (e.g., by indicating the structural characteristic that the cotton fiber needs in

order to optimize the effect of chemical treatments necessary to improve the processing and end-product characteristics of cotton).

14. The benefits to developing countries from such an integrated research program are difficult to predict with precision, but research developments which succeed in stopping any further erosion in the cotton market share by 1980 would be worth an additional 125 million dollars per annum of raw cotton exports. Further benefits estimated at 70-80 million dollars would accrue to developing countries from exports of cotton manufactured products.

Trade Policies and Export Projections Division  
Economics Department  
February 8, 1972

**Table 1: SHARE OF COTTON AND COTTON PRODUCTS,  
IN TOTAL EXPORT EARNINGS, OF THE PRINCIPAL  
COTTON EXPORTING COUNTRIES, 1967-69 AVERAGE**

(percentage)

Country	Cotton	Cotton & Cotton Products	Country	Cotton	Cotton & Cotton Products
Chad	83.3	83.3	Brazil	7.1	7.4
Sudan	57.7	n.a.	Peru	7.1	n.a.
UAR	45.4	62.2	Greece	7.0	10.4
Syria	41.0	42.8	Niger	4.9	5.1
Nicaragua	36.1	n.a.	Paraguay	4.7	n.a.
Mali	26.4	n.a.	Cameroon	4.4	n.a.
Turkey	24.8	n.a.	Malawi	4.2	n.a.
Gen. African Rep.	23.8	n.a.	USSR	3.5	n.a.
Upp Volta	21.4	21.9	Togo	3.1	5.1
Uganda	21.3	n.a.	Angola	2.5	n.a.
Mozambique	17.5	18.1	Honduras	2.5	n.a.
Guatemala	16.1 <sup>1/</sup>	17.9 <sup>1/</sup>	Iran	1.9 <sup>2/</sup>	n.a.
Tanzania	16.1	n.a.	Nigeria	1.8	n.a.
Mexico	13.3	14.1	Morocco	1.4	n.a.
Pakistan	11.5	24.8	India	1.4	9.1
Dahomey	10.9	12.5	United States	1.2	1.5
Afghanistan	9.0	n.a.	Kenya	1.0	n.a.
El Salvador	8.2	13.2	Burma	1.0	n.a.

<sup>1/</sup> 1967-68 average.

n.a. = not available.

<sup>2/</sup> 1967 only.

Source: UN, Yearbook of International Trade Statistics, 1969.

792/1/64

Meeting on IBRD Financial Operations FY74-78, February 4, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Chenery, Demuth, Rickett, Adler, Hayes

The current plan was to discuss the paper at a regular Board meeting on February 8, to be continued in the afternoon and on February 10 if necessary.

Mr. McNamara said that, as an opening statement, he planned to say that the Bank's increasingly complex operations in project preparation, the high level of lending and expansion of recruitment which all require lead time makes it necessary to have a set of parameters within which the day-to-day operations are conducted. Then Mr. Chenery would continue to explain the methodology paper, possibly addressing some of the apprehensions on the part of Directors.

Mr. Aldewereld suggested that the discussion should be brief and not defensive.

It was agreed that the near-term borrowing program would not be discussed but that a paper on that subject should be prepared as soon as possible.

The order of speakers should preferably be arranged so that a few favorably inclined Directors would speak first, possibly Messrs. Vienot (who had requested to speak first) and Stedtfeld or Mr. Hattori. Sir Denis would contact Messrs. Stedtfeld and Hattori.

Mr. McNamara felt that he and others should be well-prepared to answer questions on major issues likely to be raised by the Directors:

1. Action on the Paper

Although some Directors were inclined to "take notice" of the paper, it would be much more preferable to have the records say that "there was a consensus that the document serves as a suitable basis for planning."

2. Linkage to Gap Analysis and Mechanistic Approach

Mr. Chenery should be prepared to answer on this point.

3. Staffing Requirements

Lending is projected to increase at an annual rate of 8%, while staff would increase at about 6%. Mr. Adler would prepare exact figures and comparative data for the period FY69-FY73, to show evidence that recruitment will not be a limiting factor even with variations in lending volume or sectoral composition.

4. Rate of Growth of Bank Lending

5. Implications for the Second Development Decade Targets

Answers should be ready but discussion not initiated.

6. Assumptions about IDA

There should be supporting evidence that staffing requirements are insensitive to changes in assumptions about IDA. Mr. Adler should provide

President has seen

figures supporting his statement that the Fourth IDA Replenishment would give approximately 16% annual cumulative growth in IDA funds in current terms or about 13% in real terms.

7. Problems in Financing the Amounts Projected

8. Increasing Risk of Defaults

Mr. McNamara said that his main argument would be that an over-all increase in financial flows from developed to developing countries would decrease risks of default.

9. Quality of Lending

Mr. Aldewereld should be ready to answer on this point.

10. Difficulties to Find the Projects Required

Mr. McNamara said that one argument would be that a major Bank objective is capital transfer.

11. Sectoral Distribution of Lending

The subject should be avoided.

12. Regional Breakdown of Lending

There will be increased emphasis on lending to poorer countries.

13. Capital Structure

It may be desirable to increase the paid-in capital towards the end of the planning period.

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February 7, 1972

Statement by Mr. Adrián Lajous during consideration of grants to various international agricultural research centers (R72-7) at Board Meeting of February 1, 1972

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Mr. McNamara has agreed to meet with the President of the International Institute for Cotton next week and I believe that the possibility of a contribution by the Bank to research in the field of cotton should be dealt with by Management and its advisors at this stage and not by the Board of Directors. Nevertheless and since we are now discussing the Bank's support for agricultural research or, as I would prefer to put it, research for the benefit of agriculture, I feel it is an appropriate moment to do a little lobbying for cotton growers, in the interests of whom I spent a few years.

Exports of cotton and its products; i.e., cotton seed products and cotton textiles, constitute one of the most important sources of employment, income and foreign exchange for developing countries. (I must confess that I was not aware until recently that taken together seen cotton and its products are the largest single source of foreign exchange of developing countries as a whole.) The relative importance of cotton to them is increasing as the production of cotton and manufacture of cotton textiles shifts to the developing countries.

The governments of some of the principal cotton producing countries founded the International Institute for Cotton to promote the use of this fiber. It has been fighting a rear guard action against the constant encroachment on its market by man-made fibers. Cotton's share of the world fiber market has declined from 72% of the total in 1950 to 54% in 1970 and, according to a recent FAO projection, may slip below 40% by 1980, if current trends are not arrested. The success of these competing fibers has been due in great part to their strength, wrinkle resistance and durability. The demand for easy care garments is increasing and it is certain that the displacement of cotton will continue unless its strength and wrinkle resistance can be improved. An important degree of resistance to wrinkling has been added to cotton by the application of resins but this has been at the cost of further weakening the fiber.

Independently of its promotional activities, the International Institute for Cotton is now spending about a million dollars a year on research. Preliminary results indicate that both fiber strength and resistance to wrinkling are related to the alignment of the molecules in cotton fibers. This research has further indicated that the fibers of some primitive short staple cottons have great fiber strength and resistance to wrinkling due to more appropriate molecular alignment. It is felt that an adequate program of genetic research could lead to the production of new strains of middle and long staple cotton with

increased strength and great wrinkle resistance without loss of absorbency, softness and other positive characteristics.

However, before genetic research can be meaningfully undertaken, it will be necessary to determine the cotton properties desired in view of garment use and care and of the new requirements created by the ultra-high speed machinery that is being introduced in the industry. These requirements must be studied and translated into objectives for the cotton breeders. Thus, utilization research must precede and set the standards for the later stage of genetic and agronomic work.

Another result of preliminary experiments has been the use of adhesives to form modified cotton into yarns at ten times the normal speeds. Machines have also been developed to increase cotton knitting speeds to nylon knitting rates. Utilization research should include the developing of new processes and machinery which will make cotton more competitive with artificial and synthetic fibers.

The textile industry does not carry on any meaningful research either for cotton or for man-made fibers. The producers of man-made fibers do carry on extensive utilization oriented research and this places cotton at a growing disadvantage. Almost all research carried out in cotton so far has been for agricultural purposes with goals such as increasing crop yields or facilitating harvesting. There has been very little utilization research and practically none to develop strains with characteristics better suited to the industrial process and to end use.

It is felt that utilization research could reverse or at least arrest the present trend towards man-made fibers. The importance of such an achievement to the developing cotton producing countries is obvious.

UNDP is considering a feasibility study in order to decide whether it is worthwhile investing in utilization and genetic research conducive to creating cotton strains that are "designed" for textile and end use purposes. It would be most useful to the cotton producing countries if the World Bank were to cooperate with UNDP in the feasibility study now and in a utilization research program later.

As I said at the beginning of my statement, I recognize that this matter is far from ready to be dealt with by the Board. I have brought it up because I consider it germane to the subject matter under discussion and because I seek the sympathetic consideration of the Board and Management to an eventual contribution towards this research. It is my hope that Management will ask the Technical Advisory Committee to study the matter and to hear out the International Institute for Cotton.



Memorandum on the  
Problem and Opportunities  
for Cotton Research and Development

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Statement for the World Bank  
by International Institute for Cotton  
January 11, 1972

The Problem

Exports of cotton and its products (cotton seed products and cotton textiles) constitute the largest single source of foreign exchange to the developing countries. Production of these products also constitutes one of the largest sources of employment and income to the people of those countries. The relative importance of cotton is increasing as the production of cotton and manufacture of cotton textiles shifts to the developing countries.

The welfare of the developing countries, however, is threatened as the demand for cotton diminishes in the face of competition from synthetic substitutes.

Cotton's share of the world fiber market declined from 72% of the total in 1950 to 54% in 1970 and according to a recent FAO projection, may slip below 40% by 1980 if current trends are not arrested.

Cotton textile production is moving rapidly to developing countries. By 1980 FAO has estimated three fourths of the cotton will be manufactured outside the traditional textile centers of the United States, Western Europe and Japan. A growing percentage of the cotton textile production in these countries is designed for export. Diminishing demand for cotton products internationally will affect not only the demand for raw cotton but also for cotton textiles from the developing countries.

Reasons for the declining demand are primarily the advantages the synthetic fibers offer to the consumer in terms of easy-care, strength and durability, and advantages the greater uniformity of the synthetic

fibers offer to the manufacturer in processing, especially on the new high speed machinery. The quality advantages are, of course, emphasized in heavy advertising campaigns.

### The Plan

The IIC in its preliminary research with single fibers in the laboratory has found that cotton can be chemically modified to double the strength and treble the toughness, which puts it in the range of the principal synthetic fibers. It has been found that most of the improvements can be retained after treatments for easy care.

Furthermore, it has been found that fibers can be chemically modified to greatly improve their processing performance. In laboratory experiments, modified cotton has been formed into yarns by revolutionary processes using adhesives at speeds 10 times the normal speeds. In other preliminary experiments, modified cotton fibers have been processed on new knitting machines at 1000 courses per minute, which is about 5 times the normal speed for knitting cotton and approximately the speed for knitting nylon.

These preliminary experiments suggest that cotton can be made much more competitive with synthetics in manufacturing performance and in product performance.

To achieve this, it will be necessary first, to develop viable commercial processes and in some cases special machinery to utilize this new technology. It will be necessary to develop products which are best suited to these processes. It will be necessary to make this new technology available to those who must apply it to produce textiles which will enable cotton to compete with the synthetics.

Research will also have to be done on the raw cotton. It has been found that the response of different cottons to these chemical treatments varies over 200%. It has also been found that some cottons perform much better than others in the new machines. It will be

necessary to determine the cotton properties that are required by these new machines and the new processes. It will be necessary to evaluate existing cottons and to provide specifications, evaluation, techniques and measuring instruments to the cotton breeders so they can produce the cottons that are best suited.

The plan is to create an international cotton research and training center to organize, guide and coordinate cotton utilization research, education and technical assistance. The center would work closely with the established research organizations, both public and private, with trade and industry. It would cooperate with national and regional research, demonstration and training centers.

The international center would necessarily conduct some essential research and product development work directly, but would primarily utilize existing facilities through contracts and cooperative agreements.

#### COST

The IIC has estimated that it will be possible in 5 years to bring to the market a series of chemically modified cotton products, competitive with synthetics; and to indicate the cotton properties most desirable for these processes and the new machinery.

The cost of this program has been estimated at \$ 25 million (an average of \$ 5 million per year).

The IIC has already begun this program through the contribution of its members. It is now spending approximately one million dollars annually on research. As the IIC membership expands, it is likely more can be provided, but it is unlikely the producers can provide the total required. The grower contributions must be used largely for advertising and promotion expenses that are necessary to any market development program. No one else is likely to pay these promotion costs.

Why -  
LDC  
DC

The UNDP has indicated it will consider financing some work to this end. The part it finances will depend on the outcome of the study soon to be made. It is unlikely the UNDP will be able to finance a large part. Moreover, the UNDP is more interested in the transfer of technology than in the creation of technology which is primary.

Other agencies and organizations have expressed interest and could likely be persuaded to cooperate, if the auspices are strong enough.

#### REQUEST TO THE BANK

What is needed first is a broad feasibility study by independent experts under auspices that will be recognized and respected internationally.

UNDP proposes to make such a study and according to our information has asked the World Bank to cooperate. The cooperation of the Bank would greatly enhance the prestige of the study and would assure it receiving serious consideration internationally.

After the study is made, it will be necessary to have the cooperation of a number of organizations to provide sufficient financing for the project. An established framework for cooperation such as a consortium would make such international action much more effective and efficient.

The World Bank has demonstrated the value of such cooperation in the International Consultative Group for International Agricultural Research. The creation of the Group also demonstrates the effectiveness of the Bank's leadership. The leadership of the Bank in expanding the program of the Consultative Group to include utilization research for non-food crops, would be of great assistance.

The promise of financial assistance by the World Bank was undoubtedly very influential in implementing the work of the Consultative Group and in obtaining financial cooperation from others. Indication by the Bank that it is willing to consider financial cooperation with a similar group for utilization research on non-food crops would enhance the possibilities of cooperation and facilitate implementation of the project.

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Mr. Rodríguez Adame is an agronomical engineer and an economist. He was for many years professor at the School of Economics of the University of Mexico. His course was called "Economic Problems of Mexico".

He has held the following positions, among others: Head of the Banco Nacional de Crédito Ejidal, a governmental bank that lends to the cooperative or communal farmers; Head of the Mexican equivalent of the Commodity Credit Corporation; Head of the Office of Price Controls; Congressman; Senator; Secretary of Agriculture; Chairman of the Board of Governors of the Interamerican Cotton Federation (at that time I was the Executive Head of that organization); Ambassador to Japan.

He is now a consultant on agricultural matters to the Interamerican Development Bank and has just undertaken the task of periodically visiting and overseeing the IDB's participation in the agricultural development of Venezuela.

He has been President of the IIC since its foundation. This is an intergovernmental institution limited to the cotton producing countries. Its present members are: Brazil, Greece, India, Mexico, Spain, Tanzania, Uganda and the United States. Egypt and Sudan dropped out as a result of the 1967 war. Its main purpose is to promote the use of cotton but its charter permits it to engage in research and it has begun to spend a fairly important share of its income (about a million dollars a year) in research.

The developed countries cannot be members and they cannot officially cooperate so as not to discriminate against their producers of synthetic fibers. However, with the full sympathy of the governments of the major industrial countries, the cotton industrial and trade associations cooperate in the promotional program contributing sometimes 3 or 4 dollars for each dollar put up by IIC for promotion.

# I.I.C. CHART FOR RESEARCH AND DEVELOPMENT

## COTTON TEXTILE RESEARCH

- INSTITUTES
- UNIVERSITIES
- MACHINERY MFGS
- CHEMICAL PRODUCERS
- FINISHING INDUSTRY
- TEXTILE MANUFACTURERS
- .....
- ..... Etc.

## ECONOMIC AND MARKET RESEARCH



## RAW COTTON RESEARCH

- COTTON RESEARCH STATIONS
  - GREECE
  - UGANDA
  - U. A. R.
  - .....
  - .....
  - MEXICO
  - BRAZIL
  - PERU
  - .....
  - .....
- INTERNATIONAL COTTON RESEARCH
  - I. R. C. T.
  - C. R. C.
  - ..... Etc

## NATIONAL RESEARCH DEMONSTRATION AND TRAINING CENTERS

INDIA, PAKISTAN, U.A.R., TURKEY, BRAZIL, PERU, MEXICO, ....., ....., Etc

792/1/63

MEMORANDUM FOR THE RECORD

Meeting on a Management Information System, January 17, 1972

Present: Messrs. McNamara, Chenery, Blaxall, Muller

Mr. McNamara mentioned that Mr. Isbister had sent him a memo requesting that the Directors needed better data on the Bank's activities. He asked that Mr. Blaxall talk with Mr. Isbister in order to develop something to suit their needs and keep Mr. McNamara informed.

The meeting then turned to discussion of the information system in the Bank. It was agreed that all staff should have access to any information which they would reasonably request and need but that there would be no automatic distribution which would only cause an administrative burden and increase the risk of abuse.

Mr. Chenery felt that a major flaw in the present system is that it is designed for the President and does not necessarily suit the needs of others and that various systems existing in the Bank do not have a common data base. He advocated computer processing on a lower level of a "pyramidal information system" and anticipated that a workable computerized system could be developed within two years.

Mr. McNamara said he was not sure that he agreed with a computerized approach, because it did not necessarily save much work and mostly because a computerized system may prove very rigid. Above all he felt that consistency and appropriateness of information may suffer. He then outlined two courses of action: either to make marginal changes to the present system or to start with a more basic investigation of the Bank's data needs to build up a new system.

It was agreed that Messrs. Chenery, Blaxall and Muller would form a group to devise a "pyramidal system" where there would be only one data base and the basic data would be successfully condensed into a series of consistent documents. The possibilities of computer application would also be explored. Mr. McNamara asked that Mr. Blaxall separately look at the consistency between the FY74-78 financial paper and the documents normally produced by P&B.

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February 10, 1972

President has seen



792/1/62

Meeting on Mr. McNamara's UNCTAD Statement, January 12, 1972

Present: Messrs. McNamara, Chenery, Demuth, Clark, Hayes, Maddux, Swaminathan

Mr. McNamara said that he liked the new outline, especially its early emphasis on income distribution.

In order to bring out the effect of lower anticipated levels of ODA, Mr. McNamara would like to have a table showing the effect of a reduction from 0.7% to 0.35% of GNP on each developing country, in order to see which countries would suffer.

In order to develop a strategy for trade measures, an analysis should be made of the export potential of each developing country and its prospective markets on the one hand, and, on the other hand, the import needs of developed countries and the possible sources, including a comparison of trade in the '60s and the '70s and the flows necessary to achieve objectives in the future. It was expected that most of the work on this could be accomplished within two-three weeks, if, in addition to Bank staff, Mr. Frank were asked to work on it. Brief visits to GATT and other agencies could be useful.

Mr. Clark asked how the conclusions of this analysis could be expressed in the speech. Mr. McNamara said that it might best be put in a statistical annex which could be prepared as part of the analysis.

Mr. Chenery mentioned the need to develop new measures of development progress other than GNP, such as the income and wealth of the lower 20% to 40% of the population. Mr. McNamara mentioned that there is a considerable difference between the UN definition of <sup>less developed</sup> ~~poor~~ countries and the one used in the Bank. The UN definition is of political origin and does not include such countries as India and Indonesia.

Mr. McNamara said that, in view of the difficulties encountered by 3IDA, 4IDA perhaps should not be mentioned in the speech.

Mr. Clark felt there was not enough emphasis on Bank policy and action and that Mr. McNamara's speech should be an attempt to prevent a confrontation in UNCTAD III. Mr. McNamara said that his ambition was to state essential facts rather than try to prevent a war in UNCTAD.

Mr. Demuth felt that some mention should be made of other aid agencies.

It was agreed that:

1. Mr. Chenery would be responsible for the technical work.
2. Messrs. Maddux and Swaminathan would cooperate on the writing of the speech itself which should be somewhat shorter than the last Annual Meeting speech.
3. There could possibly be interim discussions with Mr. McNamara on the results of technical work on income distribution and trade flows.
4. A well-advanced draft should be in Mr. McNamara's hands no later than February 24.

AL

January 13, 1972

President has seen

792/1/61

Meeting on Mr. McNamara's UNCTAD Statement, January 7, 1972

Present: Messrs. McNamara, Chenery, Demuth, Clark, Hayes, Maddux, Swaminathan

The meeting was called to discuss ideas about the contents of Mr. McNamara's statement to UNCTAD. Mr. McNamara asked Mr. Demuth whether there existed an Agenda for UNCTAD III. Mr. Demuth said that the Agenda essentially contained the points raised in the Lima Declaration of the Group of 77. Mr. McNamara felt that he did not want to talk about or respond to the Lima Declaration since it was too general, and contained all the old issues.

Mr. McNamara felt that the problem of supplementary financing must be thought through. His initial opinion was that:

- (a) The scheme is not likely to increase the total amount of ODA available.
- (b) Consequently it is just another way of distributing ODA.
- (c) This distribution can be done without the rigidity of the supplementary financing scheme.

He stressed that this must be analyzed thoroughly before the UNCTAD III meeting.

Mr. McNamara then explained a preliminary outline and asked for reactions.

Mr. Chenery suggested that, rather than stressing the increasing gap between developed and developing countries, the emphasis in the description of conditions of the developing countries should be on income distribution and the conditions of the poorest population groups.

Mr. Hayes felt that it should be stressed that the efforts are insufficient on the part of both the developed and the developing countries.

Mr. Demuth felt that the outline hinted at too gloomy a picture and suggested that some positive sides of the development over the next 10 years be included. Mr. McNamara said that the impression was intentionally gloomy and that he wanted to concentrate the statement on the job to be done, and that he would like to include a table showing the poor outlook for ODA.

Mr. Chenery said perhaps the speech could stress that, although considerable economic growth has taken place, the conditions of the poorest one-third of the population in many countries have not improved. Mr. McNamara agreed fully and asked that Mr. Maddux be sure to include this. He said that in the initial version at least specific examples should be mentioned, such as Brazil, where neither the urban nor the agricultural poor have benefitted from the economic growth over the last decade, as was evident from Professor Fishlow's findings. Mr. Chenery mentioned that Raul Prebisch had written on the subject and suggested that material could be quoted.

Mr. Hayes said he would like to include his favorite argument that what is needed is only a small increment of the expected growth in GDP of the developed nations (from 2,000 billion to 3,000 billion) during this decade.

It was agreed that a new meeting would take place on Wednesday, January 12, at 4:00 p.m. Mr. Chenery would be responsible for collecting the views of the participants and producing a revised outline for the statement.

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January 10, 1972

792/7/60

Meeting on Interest Rate Policy in Morocco, January 6, 1972

Present: Messrs. McNamara, Knapp, Chenery, Adler, Benjenk, Chadenet, Cope, Hartwich, Baum, Diamond, Hayes, Asfour, Lachman

Mr. Benjenk said that a Fund mission had just returned but that it would take one-two months for it to produce a report of good quality. He said the Government had shown evidence of making headway by setting up a commission for economic incentives and hoped that it could be persuaded to include interest rates in the commission's terms of reference.

Mr. Benjenk felt that the interest rate policy is a question of economic performance, effecting savings and investment. It is a sensitive question and he felt that the Bank must take a firm stand only if the question is considered sufficiently important and if we know we are right.

Mr. Benjenk said that the problem is important but that Morocco had under-allocated rather than misallocated its investments in the past. He mentioned the land reform issue where the Bank had been successful in a confrontation by taking a strong stand. However, he felt that the Bank needs to be more sure before taking a position in this case. He felt that the Moroccans can be convinced to change its policy only if it believes it is in the country's over-all interest and not through the tying of conditions to individual loans.

Mr. Benjenk saw evidence that the past policy in Morocco had been wrong but he felt that the Bank should concentrate its effort on long-term source and distributive problems and relegate the interest rates issue to a secondary level. He felt that the Bank could not go back on its position, but, since the Government is working on new policy, an attempt should be made to strike a deal on a selective interest policy for the time being.

Mr. McNamara asked what decisions must be necessarily taken today. It was agreed that neither the BNDE nor the hotel projects need be acted upon immediately.

On the remaining question, an agricultural loan, Mr. Knapp felt that the Bank should insist on a higher interest rate in order to:

1. improve resource allocations;
2. contribute to equitable income distribution on differentiating income rates between peasants and larger-scale farmers;
3. not to subsidize a capital-intensive project; and
4. achieve the Bank's objective on a project-by-project basis.

Mr. Chenery felt that the long-term policy implications should weigh heavily on the Bank's considerations. The Bank's position in advocating higher interest rates would be strengthened by inflation which lowers real interest rates.

Mr. McNamara said that strategy is the choice of the channel of pressure and that he would let the agricultural loan go ahead on a selective interest basis, excepting an imperfect over-all interest policy if progress can be made in other areas in Morocco.

President has seen

It was agreed that the agriculture project would be cancelled unless, by February 1, Morocco had submitted a proposal for a selective interest policy which could be judged as a feasible basis for negotiation and that an invitation to negotiate should state that certain limitations within which the negotiated solution must fall.

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January 11, 1972