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Form No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

Date

June 17, 1970

ROUTING SLIP

NAME

ROOM NO.

Mr. McNamara

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

Attached, as you requested,
is a draft of a memorandum to the
Board concerning discussion of
Pearson Commission recommendations.

① Note the changes I
proposed
② Please distribute
to the P. C. for

From

Richard H. Demuth

discussion Monday 6/24. R. Demuth

711/5/37

DRAFT
June 17, 1970

For consideration
on June 30

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendations

I have submitted to the Executive Directors, to date, memoranda analyzing 28 of the 33 recommendations of the Pearson Commission pertaining to the work of the World Bank Group which are listed in my memorandum dated October 10, 1969 (SecM69-472). I expect to submit to the Directors memoranda dealing with several of the remaining recommendations within the next few weeks. As we approach the end of this first stage of consideration of the Commission's work, insofar as it relates to our activities, we need to give thought to the steps we should take next.

The process of analyzing the proposals made by the Commission and considering their implications for the World Bank Group has been a useful exercise for the management and staff. In some instances, the new course of action, change in approach, or shift in methods which the Commission proposed has already become established Bank/Group policy -- for example, greater IFC activity in project identification and investment promotion and reorientation of IFC policy to emphasize the developmental effect of IFC investments. In other instances, the Commission in effect urged the World Bank Group to intensify or to broaden the scope of efforts already under way -- for example, by establishing new multilateral aid coordination groupings, and by extending the practice of joint

financing. Still other Commission recommendations pointed to the desirability of the World Bank Group's proceeding further in directions toward which we have thus far taken only first steps -- for example by providing ourselves with an improved basis for making investment decisions on commodity-producing projects and by supporting international research in areas of concern to the Bank. Finally, with respect to a few recommendations, for example those dealing with organizational changes in IDA and buffer stock financing, analysis indicated that it was not desirable, or not necessary, at the present time to go in the directions pointed to by the Commission.

In preparing the memoranda I have had in mind that the recommendations do not call for any immediate decisions on the part of the Bank Group. The Commission identified objectives for governments and development assistance agencies, and proposed ways of achieving those objectives. The Executive Directors have often indicated a preference for considering Bank Group policy in the context of concrete cases rather than in the abstract. Accordingly, in analyzing those recommendations whose implementation would require something more than the intensification of activity in which we are already engaged, I have tried to indicate broadly the directions in which I believe the Bank Group should proceed. I would expect that decisions, *on specific actions, requiring Board approval* would be taken when an occasion for proceeding in the indicated direction arises. For example, while no decision need be taken on the memorandum analyzing the Commission's

recommendation with respect to Bank Group support for research, the approach proposed in that memorandum is reflected in my memoranda of March 31 (SecM70-141) and May 27 (SecM70-247) proposing Bank support for international agricultural research institutes, on which a decision by the Executive Directors will shortly be required.

At the same time, I ~~think it likely that~~ the Directors ^{may} will wish to discuss ~~at least~~ some of the more significant of the Commission's recommendations, and to express their ^{general} views with respect to the approach taken in the analytical memoranda dealing with those recommendations. If that should be the Executive Directors' wish, such discussions could begin early in July, with the Executive Directors presumably sitting as a Committee of the Whole.

I propose that we consider our further procedure in this matter at the Board Meeting on June 30. Specifically, we should then ascertain whether the consensus of the Directors favors discussion of the memoranda in the Committee of the Whole and whether they agree with my suggestion that the purpose of any such discussions should be an exchange of views on the issues contained in the memoranda rather than an attempt to reach precise decisions on those issues. I also propose that, at the June 30 meeting or on some other early occasion, we should consider how the Board of Governors should be informed of the analyses made of the Commission's proposals and of the sense of the Directors' discussions concerning those proposals.

Robert S. McNamara

R.S.

The $\int_0^1 \frac{1}{x} dx$ is $\ln 1 - \ln 0$
No, $\int_0^1 \frac{1}{x} dx$ is $\ln 1 - \ln 0$

$\frac{1}{x} \sim x^{-1}$

7/11/5/36
Rnew

~~DRAFT~~
June 22, 1970.

For consideration on
June 30

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendations

I have submitted to the Executive Directors, to date, memoranda analyzing 28 of the 33 recommendations of the Pearson Commission pertaining to the work of the World Bank Group which are listed in my memorandum dated October 10, 1969 (SecM69-472). I expect to submit ~~to the Directors~~ memoranda dealing with several of the remaining recommendations within the next few weeks.

The process of analyzing the proposals made by the Commission and considering their implications for the World Bank Group has been a ^{most} useful exercise for the management and staff. In some instances, the new course of action, change in approach, or shift in methods which the Commission proposed has already become established Bank Group policy -- for example, greater IFC activity in project identification and investment promotion and reorientation of IFC policy to emphasize the developmental effect of IFC investments. In other instances, the Commission in effect urged the World Bank Group to intensify or to broaden the scope of efforts already under way -- for example, by establishing new multilateral aid-coordination groupings, and by extending the practice of joint financing. Still other Commission recommendations pointed to

the desirability of the World Bank Group's proceeding further in directions toward which we have thus far taken only first steps -- for example by providing ourselves with an improved basis for making investment decisions on commodity-producing projects and by supporting international research in areas of concern to the Bank. Finally, with respect to ^{very} a few recommendations, for example those dealing with organizational changes in IDA and buffer stock financing, analysis indicated that it was not desirable, or not necessary, at the present time to go in the directions pointed to by the Commission.

~~In preparing the memoranda I have had in mind that the recommendations do not ^{require} call for any immediate ^{formal action by} decisions on the part of the Bank Board.~~
 Group. The Commission identified objectives for governments and development assistance agencies, and proposed ways of achieving those objectives. ~~The Executive Directors have often indicated a preference for considering Bank Group policy in the context of concrete cases rather than in the abstract.~~ Accordingly, ~~I~~ In analyzing those recommendations whose implementation would require something more than the intensification of activity in which we are already engaged, I have tried to indicate broadly the directions in which I believe the Bank Group should proceed. I would expect that decisions on specific actions, requiring Board approval, would be taken when an occasion for proceeding in the indicated direction arises. For example, while no decision need be taken on the memorandum analyzing the Commission's recommendation with

respect to Bank Group support for research, the approach proposed in that memorandum is reflected in my memoranda of March 31 (SecM70-141) and May 27 (SecM70-247) proposing Bank support for international agricultural research institutes, on which a decision by the Executive Directors will shortly be required.

At the same time, the Directors may wish to discuss some of the more significant of the Commission's recommendations, and to express their general views with respect to the approach taken in the analytical memoranda dealing with those recommendations. If that should be the Executive Directors' wish, such discussions could begin early in July, with the Executive Directors presumably sitting as a Committee of the Whole.

I propose that we consider our further procedure in this matter at the Board Meeting on June 30.


Robert S. McNamara

7/11/5/35

DRAFT
June 19, 1970

7/9
OK
modified
[Signature]

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 23 Concerning Research in the Field of Human Reproduction and Fertility Control

Recommendation

"The World Bank, in consultation with the WHO, should launch immediately a wide ranging international program for the direction, coordination, and financing of research in the field of human reproduction and fertility control".^{1/}

Background

This recommendation appears in the portion of the report concerned with population policy, aid to education, and assistance to research. The report comments that many potentially interesting methods of fertility control center on relatively unexplored aspects of the reproduction process, and that while there is no shortage of suggestions and hypotheses, funds for research in reproductive biology are lacking, as are facilities for the coordination of such research and systematic contact among the researchers in this field. This leads the Commission to the conclusion that "an international program of research in human reproduction, enlisting existing institutions and laboratories in high priority work on fertility control might accelerate progress in this field by years or decades".^{2/} The Commission adds that such research can absorb "fairly sizable funds".

Comment

In my address to the Boards of Governors in 1968, I proposed that the Bank should join with others in programs of research to determine

^{1/} Report, page 207.

^{2/} Report, page 199.

the most effective methods of family planning and of national administration of population control programs. The Commission's recommendation goes ^{generally} ~~somewhat~~ further. While it does not call for the Bank itself to administer an international research program, it does propose that the Bank, in consultation with WHO, take the initiative in a cooperative endeavor to devise machinery and to find the financing needed for a new program involving support for and coordination of intensified international research efforts.

Since the proposal relates to a field in which the World Health Organization (WHO) ^{has major responsibilities} ~~is the competent specialized agency~~, last December I invited the views of Dr. Marcolino Candau, Director General of WHO ^{on} ~~as~~ ^{the Commission's recommendation} ~~to the need for the kind of new program envisaged by the Commission~~. I asked for his advice on a number of questions raised by the ^{proposal} ~~recommendation~~: what general order of magnitude of funds could usefully be employed for research in reproduction biology and fertility control, additional to the amounts already being employed for that purpose; what specific areas of ^{biological and social sciences} ~~research~~ particularly need to be strengthened by the action of international agencies; ^{it} ~~whether~~ it would be desirable to have a substantial international fund to support population research and, if so, ~~whether~~ ^{should} a new fund ~~should~~ be created; if international support is needed, ~~whether~~ ^{at} it should be directed to strengthening existing research activities or to establishing new ones; ^{and whether is} ~~and whether~~ international machinery ~~is~~ needed to gather and make available data concerning the subjects, methods and findings of individual research projects?

Dr. Candau replied in January that ^{many of the} questions ~~such as those~~ I had raised ^{would} ~~were to~~ be discussed at a meeting to be held under WHO auspices, on the promotion of research in the biomedical aspects of reproduction, including fertility regulation, to be attended by experts in this field drawn from governmental bodies and foundations. While saying that a more comprehensive outline of WHO's views, as well as the views of others involved in the field, would be sent to me after that meeting, he gave me a preliminary response to my questions. He said that there was urgent need to improve coordination and intensify international research efforts in the field of human reproduction. He added that it was apparent that the gradual increase in funds being devoted to such research falls short of the available research potential, and that substantial increases over the current level of expenditures are required. In his view, the action of international organizations could strengthen research in several areas and, while there is need to strengthen existing research activities and institutions, there is also room for additional international research and training centers to support national institutions.

The meeting called by Dr. Candau (which was attended by a Bank observer) ^{Although} was held in the middle of June. / the official report of that meeting is not yet available, ^{the Bank's observer reported that the discussion covered} / ~~the conference considered~~ the areas of research requiring further support, the need for inter-agency coordination, and possibilities for increasing the funds available for research. There was general agreement that present levels of assistance were insufficient, that many agencies suffered from constraint on the funds at their disposal and that there was a clear need for increased and better exchange of information among agencies active in the field.

July 8, 1970

and in other aspects of Population Planning.

- 4 -

In early April, a conference on population was held in Bellagio, which Dr. Candau and I attended together with the heads of other international agencies and representatives of governments and private foundations concerned with the promotion of research in human reproduction.^{1/} The conference considered possible areas of research, the research availabilities and requirements, and the manpower and financial needs for new research. It concluded that a study of the desirability of creating a new international research institute, concerned with both biomedical and social science research, should be undertaken. The Rockefeller Foundation has assumed responsibility for making the study. An "Executive Committee," headed by the Director of the United Nations Fund for Population Activities, and composed of representatives of the Ford and Rockefeller Foundations, the Population Council, USAID and the Swedish International Development Agency, was set up to guide the study.^{2/}

I am informed that the "Executive Committee" has decided to consider the institute proposal ^{for a new international research institute, now} being studied by the Rockefeller Foundation, as only one of a number of possible approaches to the promotion of a greater international research effort in the field of human reproduction. The other possible approaches include the expansion of existing

1/ Four papers distributed at the Bellagio Conference were circulated to the Executive Directors for information, under Document SSM/A/70-10, dated April 16, 1970. ~~One of these papers deals with the status of research in reproductive biology and contraceptive technology, and with future needs for such research.~~

2/ The Chairman of the Committee has indicated that he would welcome the Bank's association in the work of the Committee.

Committee

July 8, 1970

- 5 -

centers and the establishment of new institutions of a character different from that being considered by the Rockefeller Foundation. In addition to institutional questions, the Committee is expected to identify priority areas of research which need to be supported by international action. The "Executive Committee" proposes to submit to the next meeting of the participants in the Bellagio group, now scheduled for December 1970, an appraisal of the various alternatives.

There appears to be general agreement among those concerned with the problem that there is need for a significantly increased and better coordinated research effort in the field. But it is not yet clear what the nature of that effort should be, how it can most effectively be organized, or what its scale should be. ~~I am not ready, therefore, to put before the Executive Directors a specific proposal to implement the Commission's recommendation.~~ ^{believe, therefore, we should} I ~~intend to~~ continue consultations with WHO and the other concerned international agencies, and ~~to~~ await results of the next meeting of the Bellagio group. If there should emerge from that meeting one or more specific proposals which the Bank could appropriately join in supporting, I shall submit a recommendation to the Directors. In any event, I shall keep the matter under review and report to the Executive Directors on developments.

~~Robert S. McNamara~~

that

For consideration on
June 30

7/11/5/38

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Discussion of Pearson Commission Recommendations

I have submitted to the Executive Directors, to date, memoranda analyzing ²⁸ ~~25~~ of the 33 recommendations of the Pearson Commission pertaining to the work of the Bank Group which are listed in my memorandum dated October 10, 1969 (SecM69-472). Memoranda analyzing the remaining ^{five} eight recommendations ^{1/} will be distributed to the Executive Directors ^{within the next few weeks} before the end of June. We should therefore now think about procedure for Board consideration of the recommendations.

Of the ²⁸ ~~33~~ recommendations ^{analyzed to date,} there are ¹² ~~12~~ which I believe require or deserve discussion by the Executive Directors or which an Executive Director has indicated that he wishes to have discussed:

No. 1 - Commodity Studies (R70-69)

~~No. 2 - Supplementary Finance~~

No. 3 - Buffer Stock Financing (R70-69)

No. 12 - Aid Coordination (R70-16)

No. 16 - Joint Financing (R69-232)

~~No. 17 - Local Expenditure Financing~~

~~No. 18 - Program Lending~~

No. 22 - Technical Assistance Corps (SecM70-92)

[disregard in Education
refers to dis- by 6/16]
[disregard in Education works]

Nos. 24/27 - Support of Research (SecM70-92)²⁾

No. 28 - Country Economic Reports (R70-16)

No. 32 - IDA Allocation Criteria

1/ Recommendations No. 2, Supplementary Financing; ~~No. 6, Investment Insurance;~~
~~No. 13, Plans for Reaching Official Aid Target;~~ No. 17, Local Cost Financing;
No. 18, Program Aid; No. 23, Research on Human Reproduction; ~~No. 32, IDA~~
~~Allocation Criteria;~~ and No. 33, Evaluation Machinery.

²⁾ [see note on next page]

These recommendations could conveniently be grouped for discussion purposes as follows:

- A: No. 12 - Aid Coordination
- No. 28 - Country Economic Reports
- B: Nos. 24/27 - Support of Research ^{1/}
- No. 22 - Technical Assistance Corps
- C: No. 1 - Commodity Studies
- No. 2 - Supplementary Finance
- No. 3 - Buffer Stock Financing
- D: No. 17 - Local Expenditure Financing
- No. 18 - Program Lending
- E: No. 16 - Joint Financing
- No. 32 - IDA Allocation Criteria

Since at least ^{three or four} ~~five~~ Board sessions are implied by the foregoing list, it will be necessary to make a start on the discussions soon, if ~~the Executive Directors are to~~ ^{a list has submitted} report to the Boards of Governors ^{with} at this year's Annual Meeting, ~~on at least the more important, and preferably on all, of the 33 recommendations.~~

Accordingly, I propose that a special series of meetings of the Executive Directors, sitting as a Committee of the Whole, be scheduled on ^{Tuesday} ~~Thursday~~ mornings, beginning early in July, for the purpose of discussing the recommendations listed above and any others which the Executive Directors may wish to have added to the list.

[Handwritten signature]

[Handwritten note: Update on final copy]

~~This would be an appropriate occasion to consider also my memoranda concerning Bank Group support for agricultural research institutes, dated March 31, 1970 (SecM70-141) and May 27, 1970 (SecM70-247) could be discussed in association with these papers.~~

This proposal will be scheduled for consideration on Tuesday, June 30, at which time I shall also invite any ~~general~~ statements which the Executive Directors may wish to make concerning ~~their reactions to the entire series of analytical memoranda submitted to them,~~ the procedures which should be followed in considering the memoranda, ~~etc.~~ ⁹ If any Executive Director wishes to have the Board discuss recommendations additional to those listed above, it would be appreciated if he would so inform the Secretary prior to June 30. This will enable us to distribute for consideration at the June 30 meeting, if necessary, a revision of the grouping of recommendations suggested above.

As for the report by the Executive Directors to the Boards of Governors, any decision respecting the kind of report to be submitted will depend in part on the Directors' reaction to the procedure I have proposed and, if my proposal is accepted, on progress made in discussing the recommendations by the time of the Board recess in August. However, if any Executive Director has any proposals to make concerning the report, he might appropriately do so at the June 30 meeting.

Robert S. McNamara

ROUTING SLIP	Date July 5, 1970
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NAME	ROOM NO.
Mr. McNamara	
<i>President has seen</i>	

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

REMARKS

Attached is a revision of the draft memorandum on Pearson Commission Recommendation No. 33, concerning creation of evaluation machinery, which I sent to you on June 18. No change has been made in the first two pages. Pages 3 and 4 are new; they reflect my understanding of what occurred at the Heidelberg conference.

From

Richard H. Demuth

711/5/34

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 33 Concerning Creation
of Evaluation Machinery

Recommendation

"The President of the World Bank should invite heads of appropriate organs of the U.N., pertinent multilateral agencies, and the regional development banks and coordinating bodies, to a conference to be held in 1970 to discuss the creation of improved machinery for coordination capable of relating aid and development policies to other relevant areas of foreign economic policy, moving toward standardized assessments of development performance, making clear, regular and reasonably authoritative estimates of aid requirements, and providing balanced and impartial reviews of donor aid policies and programs. Representatives of at least the major bilateral donors and appropriate representatives of developing countries should also participate in the conference."1/

Background

The Commission refers to the many agencies, worldwide, regional and national, which have been created to discharge development assistance responsibilities, and says that their existence constitutes "an undisputed achievement of the last decades and one of the strongest assets in the reach for the future".^{2/} However, the report adds, the existing structure of development assistance has four basic shortcomings: (a) it lacks a process for joint and authoritative monitoring and review of what is being done, including in particular a virtual absence of facilities for monitoring by recipients of aid commitments; (b) the multiplicity of agencies and their lack of coordination leads to much unnecessary duplication of effort; (c) there is, for the most part, a failure to relate development assistance

1/ Report, page 230.

2/ Report, page 227.

policies to policies concerned with trade and monetary problems; and
(d) the system does not project sufficient unity of purpose to make it
a rallying point for public support in the industrialized countries.
The Commission concludes, accordingly, that improved coordination machinery
is urgently needed. It did not itself put forward any suggestions as
to the kind of machinery which might be created for this purpose.

Comment

fully
I agree with the Commission that there is ~~room~~ ^{coordination} and need for improved
aid review and appraisal machinery. However, within the U.N. system, of
which the Bank, as a specialized agency, is a part, the ^{2^d} function^s of ~~coor-~~
~~ordination~~ ^{at the request of} has been assigned by the United Nations Charter to the Economic
and Social Council (ECOSOC). On several occasions since the publication
of the Pearson Commission report, I have taken the position, which I
believe to be correct, that I could appropriately take the action under
this particular recommendation only after consultation with, and preferably
in cooperation with, the Secretary General of the United Nations.

A second consideration is that any new machinery of the kind to which
the recommendation is addressed should be designed to serve the purposes
of reviewing and evaluating progress toward whatever goals may be agreed
upon for the Second Development Decade (DD II). The General Assembly of
the United Nations, taking account of ECOSOC's coordinating function,
enlarged the Economic Committee of ECOSOC to become the Preparatory Com-
mittee for DD II, and instructed it (a) to prepare a draft of an inter-
national development strategy for the 1970s, together with policy measures
at the national, regional and international levels which would achieve the

desired objectives; and (b) to make suggestions on an evaluation and implementation mechanism for DD II. The Preparatory Committee, which had before it the views of governments, specialized agencies and various U.N. and UNCTAD bodies, recently submitted its report to the General Assembly, through ECOSOC. It makes proposals with respect to review and appraisal, at the national, regional and international levels, of progress toward the objectives of DD II. At the national level, the report proposes that each developing country should establish or strengthen existing evaluation machinery. For appraisals at the regional level, the report contemplates that principal responsibility will be assumed by the regional economic missions of the U.N. and the U.N. Economic and Social Office in Beirut, in cooperation with regional development banks and subregional groupings, assisted by other organizations of the U.N. system. UNCTAD, UNIDO and the specialized agencies would continue to review progress in their respective areas of concern. An over-all appraisal would be made biennially by the General Assembly, through ECOSOC, on the basis of the foregoing reviews and of comments and recommendations by the Committee for Development Planning (the so-called "Tinbergen Committee"). The Secretary General of the United Nations would prepare and submit appropriate documentation and reports, to assist in the over-all review.

The Bank's new system of regular comprehensive economic reports should assist each of the review authorities.

Machinery for review and appraisal has also been considered outside the United Nations, at two important ad hoc meetings, ~~in~~ ^{attended} both of which I ~~participated~~. One was organized by the Government of Canada, which met in Montebello in February 1970 under the chairmanship of the Foreign Minister of Canada;

the second, for which the Chairman of the Development Assistance Committee of the OECD served as chairman, was organized by the Federal Republic of Germany and was held in Heidelberg in June 1970. Participants in both meetings included ~~the~~ heads of national aid agencies and of international development assistance organizations. ^{It was} The consensus of the participants ~~in the meetings~~ ~~was~~ that review and appraisal should be implemented with a minimum of new machinery, and that it was neither desirable nor feasible to reopen the decision of the Preparatory Committee that review and appraisal at the global level should take place within the U.N. framework. It was also the consensus that the international agencies should support the U.N.-centered global review and appraisal machinery by putting at its disposal not only information available to them but also their judgment and expertise.

The report of the Preparatory Committee is to be considered by ECOSOC and then by the General Assembly. In the circumstances, ^{it would be inappropriate,} ~~I do not see that~~ ^{for} ~~any useful purpose would be served by having~~ ^{at this time,} the Bank sponsor still another conference on the subject, ~~as the Commission has proposed.~~ I intend, however, to follow closely the discussion of review and appraisal machinery being carried on within the U.N. and elsewhere, and I shall advise the Executive Directors of any important developments.

Robert S. McNamara

7/11/5/33

DRAFT
June 8, 1970

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 6 Concerning Multilateral
Investment Insurance

*4/12
Approved
for distribution
to the Board.
M. W.*

Recommendation

"... at the international level, talks leading to the establishment of a multilateral investment insurance scheme should be pursued vigorously ...".^{1/}

Background

This recommendation appears in the context of the Commission's consideration of ways to stimulate the flow of private foreign investment into the developing countries. The Commission comments that a multilateral investment insurance scheme "could be very helpful in mitigating the impact of an uncertain investment climate".^{2/} While acknowledging the value of existing bilateral investment insurance programs, the Commission ascribes several advantages to "a soundly-based multilateral system", saying that it could (a) permit insurance of investments made by investors from countries which do not have a national insurance scheme; (b) enable investments in multinational projects to be insured; (c) permit reinsurance of large risks by small bilateral programs; and (d) involve both capital-exporting and capital-importing countries in the insurance risks.

Comment

The Bank first began to concern itself with multilateral investment insurance in 1961 when it was requested by the Development Assistance Group (now the

^{1/} Report, page 109.

^{2/} Ibid.

Development Assistance Committee) of the OECD to undertake a study of possible multilateral investment insurance systems. A report was prepared by the staff of the Bank and published in 1962. The report was designed to identify and focus attention on the principal issues inherent in the concept of a multilateral investment insurance scheme, which governments would find it relevant to take into account in deciding whether to create such a scheme. The report did not put forward a specific proposal for such a scheme and, although the indicated objective -- the encouragement of private investment flows into the developing countries -- is also an objective of the Bank, the staff report did not take a position concerning the general desirability or feasibility of establishing a multilateral scheme.

Following receipt of the Bank Staff report, meetings of experts convened by the Secretary-General of the OECD, and preparation of a report by the OECD Secretariat, the Council of the OECD in 1965 approved transmittal to the Bank of a report setting forth the principal features of a multilateral investment insurance scheme "which would be likely to receive the widest measure of support among the Organisation's Members", noting that most members of the OECD had expressed the hope that such a scheme would be established under the auspices of the Bank. In the interval, UNCTAD I had asked the Bank to expedite its studies on investment insurance, in consultation with governments in both developing and developed countries, and to submit the results of its studies and consultations to the United Nations by September 1965.^{1/} The OECD, in transmitting its report to the Bank, expressed the hope that it would assist the Bank in carrying out the UNCTAD mandate.

^{1/} Reports on the status of the Bank's study have been submitted to the Secretary General of the United Nations from time to time, beginning in September 1965, and UNCTAD has also been kept informed.

In the latter part of 1965, the Executive Directors of the Bank, sitting as the Committee of the Whole and taking the OECD report as a point of departure, began their consideration of the feasibility of establishing a multilateral investment insurance scheme. Following discussions of the principal issues involved, the staff prepared, for further discussion, a draft of proposed Articles of Agreement for an international investment insurance agency (R66-156, dated November 30, 1966). Following review by governments, the draft was discussed at 27 meetings of the Committee of the Whole held between May 1967 and July 1968. In the light of these discussions a second draft of Articles was prepared by the staff (R68-156, dated August 19, 1968). Governments were asked to review the second draft and to state whether they were prepared in principle to participate in an international investment insurance scheme, assuming appropriate account was taken of their views on particular provisions of the second draft of Articles. It was initially contemplated that a canvass of governments' positions would be taken in the latter part of 1968, but because a number of governments were not able by that time to formulate their views, resumption of discussions was postponed, from time to time, until mid-March of 1970.

Under the scheme outlined in the OECD report, loss-sharing by "host countries", i.e., countries in which insured investments were made, would not have been required; all members, however, would share in administrative expenses. In the ~~Executive Directors'~~ discussion of the principal issues, ^{by the Committee of the Whole} preceding preparation of the first draft of Articles of Agreement by the Bank staff, the consensus was to retain the OECD concept of no mandatory loss-sharing by host countries. The first draft of Articles reflected that view. Statements made by Directors representing developing countries during discussions in the Committee of the Whole on the first draft of Articles indicated that few developing countries would be willing to participate in the scheme if participation entailed

any financial obligation. Accordingly, the second draft of Articles, like the first, was prepared on the assumption that host countries would not contribute to the financial requirements of the scheme: that is, that they would not make advances for working capital, contribute to administrative expenses, or share in risks.

At the resumed meetings of the Committee of the Whole in March 1970, a number of Directors representing developed countries said that they considered it important that provision be made for some participation by developing countries in meeting the financial requirements of the scheme. At least one such country made its participation contingent upon such a provision. The reasons advanced were the following: (a) as a matter of principle, all members of a multilateral organization should share liabilities as well as benefits; (b) both developed and developing countries had a common interest in encouraging private foreign investment, and this community of interest should be reflected in the arrangements for meeting financial obligations under the scheme; (c) the right to representation on the directorate of the proposed investment insurance agency should carry with it some financial responsibility; and (d) a sharing of risks on the part of developing countries might minimize the likelihood of action on their part giving rise to claims under the potentially most costly insurable risk (the expropriation or confiscation risk), and might help to improve the climate for foreign investment.

In view of the critical importance of this issue for the feasibility of establishing a multilateral scheme, the Committee of the Whole decided to focus upon it before resuming Article-by-Article consideration of the second draft of Articles of Agreement. Each of the developing countries was asked to consider whether it would be prepared, in principle, to take part in a multilateral investment insurance scheme if membership entailed financial participation in working capital, administrative expenses and risks, or any combination of these; each of the developed

countries interested in principle in taking part in the scheme was asked to state whether its interest was conditional upon provision for financial participation by the developing countries.

This inquiry is presently under way. It is not yet evident whether, when, or how the issue will be resolved. The feasibility and desirability of vigorously proceeding with discussions of a scheme, as the Commission has recommended, are likely to depend on the outcome.

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