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Hollis B. Cheney papers - 1972 McNamara Discussions

[1972]



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Hollis B. Cheney Papers - McNamara discussions / notebooks / memoranda - 1972

**McNamara Discussions/Notebooks/Memoranda**

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- memo to J.P. Hayes, P.D. Henderson and E. Stern

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re: Discussion with McNamara of Primary Exporters Study

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re: Policy Planning Agenda

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- memo to files

re: Discussion with McNamara on Policy Formulation and Review

F I L E S

November 29, 1972

Hollis B. Chenery

Discussion with McNamara on Policy Formulation  
and Review

For sometime McNamara has been urging the establishment of advisory panels to review the Bank's policy in different sectors or toward particular problems (e.g., employment, rural development, etc.). He has now broaden this idea to encompass an international group that would review sector policies for development agencies in general. The closest model seems to be the review of educational policy that was sponsored by Ford and Rockefeller at Bellagio last year which he thought was quite successful.

In his present thinking, there would be a small staff to organize a series of panels on 8 or 10 principal problems in development. Some of these would be on a sectoral basis, others would cover intermediate technology or employment. Their purpose would be to periodically collect and evaluate the best thinking in the field based on both research and operating experience. They would then issue informal policy papers aimed at both the aid community and policy makers in developing countries.

McNamara tried this idea on Dave Bell and I gather that they ended up discussing the possibility of a consortium of Ford, IBRD, Canadian Research, etc. who might support such a group.

This topic will be on the agenda at the next meeting that we have with McNamara on the Bank's approach to policy.

cc: Messrs. E. Stern, M. Haq, P.P. Kuczynski

## OFFICE MEMORANDUM

TO: Messrs. E. Stern, M. Haq,  
P.P. Kuczynski  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: Policy Planning Agenda

DATE: November 22, 1972

In the course of a general discussion at lunch today, I got McNamara's views on our current approach to Policy Planning. For the time being, he would like to have the division concentrate on a limited number of topics and do a good job on those rather than spreading itself broadly. He agreed to go over a proposed list of topics for the remainder of the fiscal year which I said we would send him by the end of next week.

As we had agreed with Knapp, I proposed that the first policy paper on IDA policies would be prepared in draft for management discussion by early January.

HBC Chenery: csm

Hollis B. Chenery

Discussion with McNamara of Primary Exporters Study

Hayes and I spent 15 minutes reviewing with McNamara the scope of the Board paper on primary exporters. McNamara agreed that there should be a fairly broad treatment of the problem including the following topics.

1. Diagnosis of the export limitation. There should be a clear non-technical exposition of our finding that it is slow growth rather than fluctuations in exports that is the heart of the problem. This section will conclude that the main remedies lie in the ultimate acceleration of exports rather than in short-term stabilization.
2. Trade agreements. McNamara would like to include a section on the scope and limitations of trade agreements and their implications for Bank investment. His own feeling is that the Bank should have in mind some idea of the optimum growth of production of primary commodities and should not contribute to excess production particularly of commodities requiring considerable investment which is difficult to reduce.
3. Framework for Bank action. We take as the basic assumption the allocation of a given amount of IDA funds. McNamara endorsed my summary statement that the general conclusion of the analysis should be to favor the countries suffering from the disability of poor export prospects but not to specifically relate the action only to exports. The framework is that of country programming rather than a specific reservation of funds for one aspect of development such as the SFM proposal. In other words, the Bank reacts to the problem in its overall allocation of soft funds rather than in any particular use of these funds.
4. Timing. McNamara did not indicate any interest in seeing a draft before he leaves for Africa. We therefore will plan to have the draft of the Board paper ready about the time of his return on November 20.

cc: Messrs. E. Stern, J.P. Hayes

HBChenery:esm



Mr. Robert S. McNamara

September 22, 1972

Hollis B. Chenery

Organization of the Development Policy Staff

The McKinsey draft report of September 19 on Strengthening the World Bank's Policy Formulation Functions contains general guidelines for the reorganization of the Central Economic Staff and for a division of functions with the Central Projects Staff in the area of Sector Policy. Although in the nature of the case these recommendations do not satisfy everyone, they are acceptable to me and the senior members of my staff as a basis for staffing and future operations. If you accept them in principle, Mr. Baum and I will need some further guidance from you as to their application in some areas.

To focus on these questions, I will comment briefly on the functions of the future Development Policy Staff (present Central Economic Staff) and suggest guidelines for the sector units affected by the reorganization. A proposed organization chart for the Development Policy Staff is attached.

FUNCTIONS OF THE DEVELOPMENT POLICY STAFF

The main functions of the Development Policy Staff can be described in relation to the Bank's basic systems for analyzing economic development and formulating of development policy:

- (1) Data collection and analysis
- (2) Development research
- (3) Country and sector analysis
- (4) Program formulation by country (CPP)  
and for the Bank as a whole
- (5) Development Policy formulation

The Development Policy Staff is responsible for the overall design and monitoring of these systems and for their proper interaction. In addition, a considerable portion of DP staff time is devoted to operating these systems. About half of our staff time is allocated to the first two functions, which provide basic information for the Bank as a whole. For the third and fourth systems, the country analysis and program formulation, we provide specialized talent and serve to assure that basic policy issues are considered both at the staff level and during the Presidential reviews of the CPP. We have established a division of labor with the regional departments

in this area that is only marginally affected by the McKinsey recommendations and the new operating procedures. The fifth system, development policy, is the weakest of the systems and McKinsey, quite appropriately, focuses on improvements in this area.

The bulk of our research is devoted to questions of sector policy. As shown in the attachment, we have specialized units doing policy research on the principal sectors of economic activity as well as groups concerned with rural and urban development, employment, population, international trade and domestic finance.

This research is designed to analyze the role of each sector in the development process, the interaction among sectors, and their contribution to employment creation and income distribution. Both the Development Research Center and the Economics Department have been organized to facilitate intersectoral research and to develop sectoral policies in the framework of an analysis of the economy as a whole. From this basis, we have provided the analytical framework for the series of Sector Program Papers, which we will develop further in the more specialized sector studies that are planned in the next round of papers.

THE MAJOR ISSUE: RELATIONS BETWEEN DEVELOPMENT POLICY  
AND CENTRAL PROJECTS STAFFS

By dividing policy issues into six categories, the McKinsey report has helped to focus on the problem of overlapping responsibilities. It lies in one category -- sector development policy.

Any organizational solution in this field has to reconcile several criteria:

- (i) the need for capacity in the Development Policy Staff for integrated economic analysis of development issues and country strategies;
- (ii) the need for capacity in Central Projects to provide technical support and comprehensive operational sector guidelines;
- (iii) the necessity to combine economic, institutional and technological analysis in formulating most of the broader sector development policies;
- (iv) the desirability of assigning primary responsibility for specific aspects of policy work to a designated unit.

The report recommends close collaboration between the two staffs in formulating development policies in all sectors.

Primary responsibility is assigned to the VP, Development Policy, in "new and emerging" sectors and in industry, urbanization, population and tourism, where Central Projects has continuing operational responsibility. Although not mentioned explicitly, the field of rural development should also be put in this category.

It is proposed that the VP, Projects Staff be responsible for the formulation of sector policy in the well-established sectors in which he has no operating responsibilities -- agriculture, education, transportation and public utilities". This proposal is an acceptable compromise so long as the need for continuing analytical work on these sectors in the Development Policy Staff is recognized.

#### RECOMMENDATIONS

This proposal is not a significant departure from recent practice. It leaves the sector specialists in the Economics Department with the following principal functions in these four sectors:

- . Analysis of the role of the sector in the total economy, and the establishment of an effective link between country and sector analysis in the determination of Bank lending programs and in country economic work.
- . Reviewing the effectiveness and interrelations of sector investment plans and policies in relation to objectives of growth, employment, income distribution and urban-rural balance.
- . Conducting research with special emphasis on the newer areas of concern in established sectors and on longer-term aspects of sector development policy.

Looking at the Development Policy Staff Units concerned with these four sectors, the picture is as follows:

- (a) In transport and public utilities, where the work is organized in a single division with beneficial results, only nine professional staff members are involved. In my view this is the minimum necessary to carry out the functions outlined.
- (b) In education, work is undertaken in close conjunction with policy review and research

in related fields of human resources, where it is proposed that the primary responsibility should rest with the Vice President, Development Policy. Only five professional positions are involved, a number actually below the necessary minimum.

- (c) In agriculture and rural development, the main emphasis has now been laid on problems of rural development, an area where, in my view, the primary responsibility for development policy formulation and research should rest with the Development Policy Staff.

In examining the possibilities for "selective re-deployment" of staff with both Central Projects and the Regional Departments, I conclude that it should be proposed only after the job descriptions in the units affected have been specified and individuals concerned have expressed their preferences in the light of their available options. The latter should be controlling save for exceptional cases. Our objective should be to assign the best staff available to agreed functions and not, as McKinsey suggests, look only at possible exchanges between the Central Project and Development Policy Staffs.

#### INTERNAL ORGANIZATION OF DEVELOPMENT POLICY

I generally accept the McKinsey recommendations on organization although some of the suggestions may have to be reviewed in more detail after the major issues have been resolved. I want to comment briefly on only three points:

##### Research

I agree with the management principles stated by McKinsey. We have been moving in this direction in the past year and expect further substantial improvements this year. The Research Committee, as McKinsey recognizes, is a suitable instrument through which the necessary inter-departmental views on priorities and projects can be obtained before I make recommendations to you on strategy and budget.

##### Income Distribution

I do not agree with the proposed shift of the income distribution division from the DRC to the

Economics Department at the present time. Work in the DRC is essential to define better the magnitude of the problem and its relation to other economic and social variables. This should not preclude attention to this problem in the Economics Department, to assess the impact of Bank operations and development strategies on income distribution and employment.

The Function of the Economic Program Department

The McKinsey report describes the function of EPD very briefly and partially. I presume this is because there were no major issues. In my view the function of the Economic Program Department as reorganized would be to consider the situation of the developing countries in relation to the evolution of world trade and capital flows, the implications of this for the work of the Bank and the policy issues on which the Bank should have a position. As part of these functions, the department, (which might be renamed Perspective Planning Department), would periodically review the capital requirements of the developing countries and the extent to which they are being met from other sources, and the implications for the appropriate scale and directions of Bank Group operations.

Attachment

cc: Messrs. M. Shoaib, W.C. Baum

# OFFICE MEMORANDUM

*Handwritten signature*

TO: Members of the President's Council  
Bank Department Heads

DATE: July 14, 1972

FROM: Anders Ljungh *AL*

JUL 14 1972

SUBJECT: Memos of Conversation from Meetings in the President's Office

No doubt you find it useful to make records of conversations with visitors from outside the Bank. It would be very much appreciated if this office could be furnished promptly with original and one carbon copy of memoranda of such conversations in which you or members of your staff participate with the President.

Mr. Robert S. McNamara

June 7, 1972

Hollis B. Chenery

Invitation to Visit the Economics Department

Some time ago you had a meeting with the staff of the Economic Program Department which was extremely useful. I would now like to invite you to meet with the Economics Department whenever your schedule will permit.

I would propose a session at which the discussion could be focused on a limited number of central issues concerning Bank policies and the role of the Economics Department in relation to them. This would embrace the Department's main areas of interest, both in the newer and the longer-established fields of lending, as well as its main functions within these areas. A discussion of perhaps an hour could be based on a set of five or six questions raised by senior staff members, including any topics of particular interest to you.

If you are able to accept this invitation, the meeting might include all of the professional staff or might be limited to the senior members in order to facilitate a more candid interchange of ideas. We can arrange it on either basis.

cc: Mr. P.D. Henderson

Messrs. E. Stern, J.P. Hayes,  
P.D. Henderson  
Mollis B. Chenery

May 23, 1972

Meeting of the President's Council, Monday, May 22

The following topics of general interest were discussed:

1. Bank Policy on Commodity Agreements. In connection with a survey of the results of the UNCTAD meeting, McNamara suggested that we ought to review our policy on commodity agreements. He questioned whether there should not be world planning for production of some food stuffs on lines analogous to domestic planning. Since this does not seem to be a productive area for Bank activity, I did not volunteer any specific proposals and suggest that we wait and see what UNCTAD actually came out with.

2. Research on Employment and Income Distribution. McNamara stated that he wanted to extend his discussion of income distribution at Santiago as one of the main themes of his address to the governors. I outlined my understanding of the status of present research both in the Bank and elsewhere and indicated the need for substantial empirical work and basic statistics. McNamara suggested that we explore the possibility of a joint approach with Canadian, Dutch, U.S., Swedish aid agencies to the support of the basic research in this area. Stern will take up this question with the divisions concerned.

3. Secretaries. I mentioned the preliminary impressions gained from discussing this question with our staff and the O and P Division namely that there was a continuing shortage of secretaries because of hiring at starting levels and that there were no agreed standards for the use of secretaries in relation to professionals. This view is generally endorsed by other speakers and McNamara asked Shoaib to look into the question of starting salaries and other reasons for the continued use of temporary personnel. It was agreed that the Bank had no intention of achieving any particular mix of nationalities and should hire wherever it could find efficient secretaries. There is apparently no bar to private initiative on our part in this area.

4. At a subsequent session with Aldewereld, Knapp and Adler on the follow-up of the evaluation reports, it was agreed that the recommendations of the Colombia report and the Power report would be qualified according to the department having responsibility for implementation. The idea of



a separate implementation division to monitor this process was generally rejected but some procedure will have to be recommended to McNamara.

5. Outline of Governor's Speech. Stern and I met with McNamara following the P.C. meeting and agreed on a revised outline of the governor's speech which will be circulated separately. The only substantive work remaining is concerned with income distribution for which we have to provide an outline by June 10 and a text by July 1. We will also plan to hold a seminar involving outside participants around the middle of June on this topic.

Messrs. E. Stern, P.D. Henderson,  
J.P. Hayes  
Hollis B. Chenery

May 8, 1972

President's Council Meeting, May 8

The following items of interest were discussed:

1. The Bellagio Meeting on Educational Planning.

McNamara said that the meeting which he attended last week had been quite useful and that he would like to have the papers and ideas more widely discussed in the Bank. I proposed that we organize a seminar for that purpose and we agreed that Messrs. Edwards of Ford and Todaro of Rockefeller would be the best people to invite for that purpose. I wish that Henderson and presumably Hawkins would take the responsibility for getting in touch with Edwards and Todaro and arranging such a seminar, in consultation with Ballantine. Sets of papers are available with Henderson, Haug and Ballantine.

Two papers in the Bellagio group (Anderson and Blaug) are critical of the Bank's philosophy or procedures in the education area. McNamara asked that the Economics Department evaluate these criticisms and prepare a note to him on that matter.

2. Urbanization. A future topics for the Ford/Rockefeller series of meetings of heads of aid agencies will be urbanization. The Bank will probably be asked to help in the preparatory phase.

3. Seminar on Limits to Growth. I reported that we were holding the seminar Thursday afternoon for a restricted group and there was considerable interest and request to participate. McNamara said that he would try to attend but he did not want to have a special seminar on his account.

4. The FY73 Budget. The final draft of the budget paper to the Board will circulate today and comments from the President's Council are due on Wednesday, May 10. I will consult with you on any questionable items.

Messrs. J.P. Hayes, P.D. Henderson,  
E. Stern  
Hollis B. Chenery

April 17, 1972

President's Council Meeting, April 17

The following items of interest were mentioned:

1. Burden Sharing. McNamara asked EPD and P&B to start work on a formula for burden sharing in connection with the Fourth IDA Replenishment. This arose because of the U.S. assertion that its share is too large and McNamara desires to have a basis for discussing the proportions from time to time. The French and German shares are also too small and some basis for realignment is needed.

2. The SDR Link. The speeches to UNCTAD by France, Japan and others seem to be much more favorable to the Link than previously. This is one area in which McNamara sees some favorable progress at UNCTAD. There are some suggestions, however, of having a link but not going through IDA which would have undesirable effects on the distribution of the benefits to the richer countries.

3. McNamara stated that he would personally decide the CES budget without mediation by P&B. This was a statement to Adler and the implications were not discussed.

4. I mentioned the study of the Bank's Economic Work Program which we are making and its implications for allocation of staff in 1973 and the budget of the department concerned. McNamara asked that the figures in the sector program papers be included and compared to the capacity which is now estimated since the SPP figures were supposed to have been based on available capacity. He also asked for a clarification of the concept of sector studies and differentiation from other sector work. I agreed with Adler and Chadenet that we should have a look at the draft as soon as it is ready.

(DICTATED BUT NOT READ)



# Record Removal Notice



<b>File Title</b> Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1972		<b>Barcode No.</b> 30235178		
<b>Document Date</b> March 27, 1972	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> From: Hollis Chenery To: Files				
<b>Subject / Title</b> Discussion with McNamara Saturday March 25th				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Ann May</td><td><b>Date</b> 13-Jan-17</td></tr></table>	<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17
<b>Withdrawn by</b> Ann May	<b>Date</b> 13-Jan-17			

Messrs. E. Stern, P.D. Henderson,  
J.P. Hayes  
Hollis B. Chenery

March 13, 1972

Discussion of Policy Papers with  
McNamara, Saturday, March 11

1. I reviewed with McNamara the range of policy papers scheduled to come to him and the Board in the next three months. This includes four sector program papers, general papers on employment and IDA allocation, and his speech to UNCTAD. McNamara said that if the schedule of Board discussions was feasible for the people preparing the papers, he would adjust his schedule to conduct reviews at whatever point I thought desirable. We agreed that in the future it would be better not to have a bunching of policy papers for the Board to compound the existing bunching of project approvals.
2. Country and Sector Reviews. McNamara repeated his earlier statement that he was not opposed to the plans for implementing the new system of economic reports but merely wanted to see the full schedule of country reports before approving changes. His main concern is that unless there is a firm schedule, the area departments will not perform. We then went on to discuss the inadequate staffing of some of the area departments and the need to improve the quality and quantity of the economic staff of the area departments to carry out a desired analytical schedule. I said that we would include recommendation to this effect in the conclusion of our review of the CPP and economic reporting system next month.
3. Research and Development. We discussed the possible ways of developing an R&D function in the Bank based on examples from McNamara's recent trip to West Africa. The problems are how to develop a more integrated approach to rural development and test out new approaches in a pilot setting. Stern and I will participate in the meeting that McNamara is having on March 13 to discuss his ideas further.
4. Conclusion on Scheduling. Henderson and Stern should get together and consolidate their memoranda of March 3 and 7 on the scheduling of reviews of policy papers through the Economic Committee, President's Review Group, and Board submission (which has to be three weeks before the Board discussions).

Please let me know if the schedule for any of these papers seems too tight since I think we can still make necessary adjustments.

## OFFICE MEMORANDUM

TO: Messrs. J.P. Hayes, P.D. Henderson,  
E. Stern  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: Meeting of President's Council, March 13

DATE: March 13, 1972

Items of Interest included the following:

1. Operations Evaluation. McNamara will have a meeting with Adler, me and others to discuss the work program of the Operations Evaluation Division. The main issue is whether to continue with the studies of the Colombia type and if so, for what countries. I would like Henderson's views particularly as soon as possible.
2. Annual Review of Financial Operation. After I had commented on the technical seminar of last week, McNamara asked that the proposal for next year's procedure be prepared by Adler and Hayes and be submitted to him by the middle of April. He expressed that we should take into account the comments made in this year's discussion.
3. IDA Allocation Paper. I reported that the paper was being rewritten to be submitted for Presidential Review and that it was intended entirely for internal use. I had also discussed the paper briefly with McNamara on March 11 and he is in full agreement that we need policy guidelines on this topic. Knapp stated for the record his well-known position that we should not be too mechanical and look for formulas but should allow a large area of discretion, but McNamara repeated the need for norms as a point of departure which is essentially our position. It was agreed that no Board paper need be prepared for the time being until after the Third Replenishment is completed.
4. Setting up Advisory Panels. McNamara would like to have us include in the policy paper agenda a short discussion paper on the desirability of establishing high level advisory panels in the main sectors (education, agriculture, etc.). Perhaps linked together with one overall advisory group on development policy. Stern and I should discuss this further to define the terms of reference.
5. Budget. Adler reported that the totals requested for next year's budget added up to a 23% increase in cost and a 16% increase in professional staff. McNamara mentioned the need for austerity and that he would have to cut these numbers roughly in half in the review process.

Messrs. J.P. Hayes,  
P.D. Henderson,  
E. Stern

- 2 -

March 13, 1972

6. UNIDO. Demuth was asked to explore with UNIDO the possibility of an arrangement similar to the one we have with FAO on project identification and sector studies.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 15, 1972

FROM: Hollis B. Chenery

SUBJECT: Organization and Functions of the Economic Committee

This memorandum summarizes the conclusions reached with you on the organization of the Economic Committee to carry out its functions, including the review of policy papers. It will provide a basis for operation of the Committee, until superseded by the results of the organization study now under way, and will be formalized in the Organization Bulletin for the Economic Committee.

Functions of the Economic Committee

The Economic Committee was established to review and coordinate the economic work of the Bank Group. Its functions have been extended over the past year or so and now include the following (with estimated meetings per year as indicated):

- (1) Review of Country Program Papers (40-50)
- (2) Review of Sector Program Papers (10-12)
- (3) Review of Development Policy Papers (10-12)
- (4) Review of Bank Research Program (2-3)
- (5) Discussion of economic reporting procedures (2-3)

There are twenty regular members of the committee representing the operating departments, P & B, the three economics departments and the E.D.I. However, to have the Committee function as an effective review body we follow the practice of varying attendance according to the topic under discussion. In addition to its members, attendance includes those who will subsequently present the program and policy papers to the President's review group as well as specialists from various departments selected on an ad hoc basis. We also welcome senior members of any department who are particularly interested in a given topic.

With the evolution of its functions, the Economic Committee has become the forum for discussion and review of all aspects of development policy. The bulk of the Committee's time is spent on technical discussions of country, sector and development policy papers, which are subsequently revised and then submitted to a Presidential review group.



Mr. Robert S. McNamara

February 15, 1972

The review of the Bank's research program is conducted by a special committee that advises me on research policy and the allocation of budgetary funds assigned for outside research. The program is discussed periodically with the Economic Committee as a whole.

In the area of loan policy, it is not possible to make a sharp distinction between topics suitable for review by the Economic Committee and those that should go to the Loan Committee. In this area, you have indicated that recommendations should be made to you by the steering group set up to select topics for general policy papers. A first report of this group will be made shortly.

#### Organization and Staff

The most important function performed by the Economic Committee is technical discussion and evaluation of papers that subsequently go to a Presidential review group for decision. It can best perform this function through regular meetings rather than by merely circulating papers for comment. The volume of work presently anticipated will require some 70 meetings of the Committee over the coming year although few individuals are likely to participate in more than half that number.

Given this work load, it is desirable to delegate the preparation of the agenda and organization of the review procedures to three Deputy Chairmen, thus formalizing the informal arrangements now in effect. Their areas of responsibility would be as follows:

<u>Ernest Stern:</u>	Review of General Policy and Research
<u>Philip Hayes:</u>	Review of Country Program Papers
<u>David Henderson:</u>	Review of Sector Program Papers and Sector Studies

These assignments correspond to their responsibilities in the Central Economic Staff. For the topics indicated, they will determine the desired attendance for each session and chair the Committee in my absence.

cc: President's Council  
Directors - Area, Projects, D.F.C.  
Economic Committee  
Division Chiefs - Central Economic Staff

Messrs. E. Stern. P.D. Henderson,  
J.P. Hayes  
Hollis B. Chenery

February 14, 1972

President's Council Meeting of February 14, 1972

The following topics of general interest were discussed:

1. Board Seminar on the Five-Year Program. I am requested to organize the seminar on the technical aspects of the Bank's projections for some date in March. Messrs. Hayes and Adler are requested to review the Board discussion and extract questions from the Board that should form a basis for our presentation and discussion.

2. Work Program for the Annual Review of the Long-Term Program. We should start now to develop a work program for the parts of the Bank involved in making the long-term projections of the Bank's activities. It is not yet decided whether the next review will take the form of another 5-year projection or merely an updating of the present one. (i.e. whether we will add another year or not). In any case, for internal purposes, we should plan to make projection through 1980 as we have.

3. Board Discussion of Country Economic Reports. McNamara will discuss with the Board members at two meetings this week the format for country discussions. His present idea is to hold a seminar-type discussion of the country economic reports with me in the Chair, although obviously this will not satisfy most of the directors.

4. Board Discussion of Bank Lending Program. As an alternative to the Board request for greater discussion of the country lending program, McNamara proposes a three-part package:

(a) Discussion of sector policies at the time of the review of the SPP and preparation of special policy papers when the Bank undertakes lending in a new sector (e.g. housing).

(b) Encouraging discussion of Bank's strategy in connection with the consideration of projects. While this has been announced to the Board, the Brazil discussion last week was probably the first time that it had been taken seriously.

(c) A new procedure in which the Board will have an opportunity to question the desirability of proceeding with the project after it has been appraised but before negotiations have been entered. This appears to be the time at which the

February 14, 1972

Bank is prepared to defend its preliminary judgment on the project but before we are so committed that a turn-down would be embarrassing.

5. Science and Technology. Hoffman reported on the UNDP activities in this field. McNamara indicated his desire to have Weiss' paper presented to him for discussion whenever it was available and particularly indicated his interest in the area of technological alternatives for the LDCs. (Stern please note).

6. Evaluation Reports. Willoughby's report on Power will be circulated for final discussion shortly and will go to the Board by March 15. The paper on Colombia will follow the same sequence shortly thereafter.

7. Contacts with the Treasury (U.S.) McNamara expressed his concern over Bank relations with the U.S. government and particularly the reports coming out of the Treasury. He asked me to maintain contact with Hennessy particularly in the area of the Bank's economic reports and development policies and to insure an exchange of views and information among people who have contact with the Treasury. (Adler, Stern, etc.) This represents a change from the past procedure in which P&B was expected to maintain liaison in all areas.

F I L E S

February 10, 1972

Discussion with McNamara, February 9, 1972 (Outside Seminars)

1. We discussed the desirability of having occasional seminars for the management and selected staff members with leading external experts on different aspects of development. McNamara said he found the last two seminars very stimulating and would like to schedule several this year.
2. I suggested that Stern be given this responsibility as part of his general function and McNamara agreed.

*cc - Stone/Hayes/H.S. - sum/Horsey*

Mr. Robert S. McNamara

February 8, 1972

Ernest Stern

U.S. Position on Five-Year Program

The U.S. position on the Bank Five-Year Lending Program has not yet been finalized but it appears it will consist of the following:

- a) Tuesday's meeting should be basically expository in nature to be followed by another meeting possibly in March.
- b) The conclusions arrived at in the paper are highly useful for planning purposes and for understanding the problems facing the developing countries. At subsequent meetings it might be useful to explore the projected performance of the developing countries particularly in regard to export promotion and private capital flows.
- c) The U.S. would like to see the Bank's statistical work so that it can form an opinion about the conclusions listed in the paper.
- d) It would be desirable to have some indication as to the sectoral breakdown of the planned lending program.
- e) There needs to be more explicit discussion of the staff implications.
- f) While no firm conclusions have been reached the U.S. believes that no more than 40%, instead of 50%, of the required capital should be raised in the U.S. market.
- g) While inconsistent with the preceding point I also understand the U.S. is prepared to consider assured access to U.S. capital markets if other countries are willing to do the same.
- h) In so far as the U.S. is concerned there would be no objections to using the figures presented in the paper as indicative planning figures.

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Messrs. J.P. Hayes, P.D. Henderson

January 11, 1972

Hollis B. Chenery

C O N F I D E N T I A L

Discussion with McNamara on Functions of the Central  
Economic Staff

I had the second installment of my discussion with McNamara on areas of responsibility of the CES yesterday. We went over all areas in which there had been some difficulties or uncertainty as to responsibility in the past year and reached agreement in principle on all of them. McNamara suggested that we now draft a specific list of topics on which responsibility needs to be clarified and translate this general understanding into specific form. I would therefore like to ask each of you to do a draft of outstanding questions relating to your department which we can then go over and consolidate.

I think the single most useful description of the functions of the CES is to be responsible for all aspects of economic analysis relating to development and development policy. In relation to the area departments, we have translated this general responsibility into a set of working procedures which seems satisfactory. The only clarification that I brought up in this connection is the preparation of the agenda for discussion in the President's Review of each country. McNamara suggested (without my urging) that this responsibility be transferred to Philip Hayes from P&B at some convenient time.

With respect to the Projects Departments and sector work, I think we have probably gone about as far in our meeting with McNamara and Chadenet yesterday in stating general principles. In terms of present staff, we cannot have a symmetrical relationship in each sector and even in the long run it does not seem very desirable to try to have the same degree of competence and corresponding responsibility in the divisions of the Economics Department. I think it is important, however, to reach agreement with Chadenet on the areas in which we do plan to take responsibility for the sector program papers and make sure that between Projects and Economics there is adequate staffing for economic analysis and general policy.

With regard to P&B, the responsibility of the Economic Program Department for analysis of the developing

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countries in all aspects was agreed in our first discussion with McNamara. The areas in need of clarification are the analysis of advanced countries. In particular, their capital markets and supply of public assistance. At the moment, McNamara's only reservation about assigning borderline questions or new topics to EPD instead of P&B is his lack of confidence in the "quick response" capability of EPD. In specifying the divisional responsibility more precisely, I think we need to also state the extent to which we have or will have such capability.

In relation to Denis Rickett, the main area is the work for the 4th IDA Replenishment. In this case, EPD should provide such staff assistance as he requests. Here again McNamara said that he thought the P&B record in on time performance was better than EPD had yet demonstrated, although no specifics were cited.

In relation to Demuth, McNamara could see no problems in the future because he did not expect to give Demuth assignments in the development policy area. His main assignments relating to us are concerned with Bank organization and will continue until a proper organizational unit is set up. McNamara agreed that we should seek closer relations with the EDI and suggested that at sometime in the future it will be logical for me to have the responsibility for it.

In general, he clearly regards the Economic Committee as an important means for reviewing development policy in all areas and on this ground insisted that it also review sector program papers. I think it is up to us to develop this instrument with appropriate modifications for each area.

I wish you would each consult with your division chiefs and give me a full list of topics on which we need some clarification at your convenience.

Hollis B. Chenery

Preparation and Review of Papers on Development Policy

Introduction

Over the past year we have discussed the need for a better system for preparing and reviewing papers on development policy. This memorandum summarizes my views of the present system and proposes extensions to cover all areas of development policy and related questions of Bank lending.

Bank papers on development policy can be grouped under three headings:

- (1) general studies of development strategy and lending policy;
- (2) studies with a country focus: economic reports, country program papers, etc.;
- (3) studies with a sector or functional focus: sector program papers, special topics (e.g., nutrition, industrial exports) for which we do not make loans directly.

Under each of these headings, some types of study have a direct and specific conclusion for Bank action, such as approving the lending program for a country or establishing guidelines for local cost financing. Other policy studies provide general guidelines for Bank activities or for the countries concerned and help to determine priorities in our analytical work. The proposed system of staff preparation and management review will cover both types.

At present we have a well developed system for the preparation and review of Country Program Papers and are in the process of working out a parallel system for Sector Program Papers. However, the discussion of issues raised by the CPPs and the SPPs tends to be country- or sector-specific and cannot consider in a systematic way questions affecting a number of countries or sectors. This memorandum focuses on these more general questions.

Objectives

The review of development policy has several objectives:

- (1) to guide the working levels of the Bank in the preparation of analyses and selection of projects;



- (2) to enlarge the scope for delegation of decisions to lower levels of management;
- (3) to ensure consistent standards in different areas;
- (4) to provide a mechanism for revising Bank priorities and procedures in the light of a continuing review of development performance in our borrowing countries.

When the Bank was smaller, it was feasible to operate with a minimum of formal policy guidance. With continuing expansion in the number of countries, sectors and projects, it becomes necessary to develop more explicit standards in order to assure the necessary minimum of uniformity in our treatment of similar situations in different countries and sectors. Policy review by management also has several other desirable effects in generalizing from experience and improving communication.

The existing system of country and sector reviews provides one mechanism for identifying topics that are in need of comparative analysis on a broader basis. Examples of such topics are listed in Annex A. A second type of question arises from broader studies that identify problems -- such as nutrition or income distribution -- which are not adequately addressed in the Bank's present approaches to lending. In this case the problem is not to make existing operations more effective but to consider the desirability of new approaches.

In all policy areas there is a need for better communication among different levels in the Bank. The identification of policy problems and suggestions for dealing with them are as likely to arise from the working levels as from top management. There is a widely held view that the present system does not sufficiently encourage the flow of ideas upward and that policy analysis is too heavily weighted toward problems perceived by top management. The proposed additions to the present system are designed to improve two-way communication as well as to cover the area of development policy more systematically.

Finally, these objectives should be sought with a minimum of formal bureaucracy. Although a larger number of people need to be brought into policy analysis, I believe that this can be done without greatly complicating existing procedures.

Procedures

The formulation of development policies for the Bank involves four distinct stages:

- (1) definition of the problem;
- (2) analysis of relevant aspects of the development process in given countries or sectors;
- (3) evaluation of policy alternatives for the Bank and other external agencies;
- (4) management review and approval.

For individual countries, the system for preparation of economic reports and subsequent review of program papers now covers these four stages in a fairly satisfactory manner. Improvements will come through better definition of priority problems for study at stage (1) and more thorough exploration of alternatives at stage (3).

The system of sector program reviews, now in its first year, follows a similar sequence. So far the first stage of defining the objectives and scope of the papers has proved to be the most difficult aspect. Chadenet and I are sending you a proposed revision in the existing procedure that provides for a clearer assignment of responsibilities for drafting and a somewhat broader staff review at stage 3.

Outside the area of country and sector policy, we have so far been following an ad hoc procedure. In the course of the past year three major studies with implications for the Bank's lending operations have been carried through the stage of management review. A number of others have been discussed in the Economic Committee or in three experimental management seminars. Numerous topics for policy studies have been identified and work on some of these is under way, as indicated in the Annex.

The time now seems ripe to establish a procedure that would cover the four stages of preparation and review of development policy papers in a more systematic way. I think this can be done most readily by adapting the Economic Committee to cover the first three stages, with such changes in attendance as may be indicated by the topic under review. A Policy Review Group should be established as a regular forum for management discussion and review at the last stage.

The following procedure is proposed:

(1) Choice of Development Policy Issues would be done by a steering group representing the main departments of the Bank. The list of suggested topics would be drawn up on the basis of CPP and SPP reviews, suggestions from the Bank staff, Board discussions, and management requests. Priorities would be assessed by the Steering Group and then discussed with you and Burke. Probably not more than 8-10 papers per year would be selected for management review; the remainder would be taken up in the Economic Committee and circulated for information.

(2) Analysis: Responsibility for preparing each paper would be assigned to a single person. In order to ensure fair representation of alternative views, an advisory group might be asked to work with the author and to supply needed information. (This system worked quite effectively in the revision of the economic reporting system that was drafted and negotiated by Ben King and the Economic Program Department last summer.)

(3) Staff Discussion and Review: The Economic Committee will carry out this function with such modification in attendance as may be indicated by the topic. This procedure is now working well for the review of Country Program Papers, where attendance is tailored to the country and topics under discussion.

(4) Management Review: The membership of the Policy Review Group would be up to you. I should think it might have a relatively small permanent core with rotating participation of Area, Projects, Economics and other departments depending on the topic.

#### Priorities

One reason for organizing better staff work on policy papers is to make better use of your time and that of other members of top management. A rough check of your schedule for the past year suggests the following order of magnitude for time spent on management review of the three types of development policy papers:

	<u>Number</u>	<u>Management Review (hours)</u>
CPP Reviews	50	30
SPP Reviews	10	15
Other Development Policy Papers*	6	25

\*Papers covered are listed in the Annex. Time spent on reading, drafting, etc. outside of meetings is obviously much greater.

Since I doubt that you want to devote much more time than you have in the past year to development policy reviews, we need to look at the system as a whole as well as at priorities among the three types of papers.

You have indicated that as we build up the analytical capabilities of the Bank staff, you would like to give increased emphasis to issues of general development policy. I suggest 8-10 papers as being within the analytical capability of the available staff in calendar 1972 and of sufficient importance to warrant your attention. Perhaps half of these would be of the type to directly affect the Bank lending operations (e.g. criteria for IDA allocation, local cost financing, evaluation of creditworthiness) and the other half would provide more general guidance (e.g. approaches to rural development, employment and income distribution considerations in lending strategy). For the second type, we might experiment with less formal discussions of the seminar type that we tried last summer.

The area in which some economy of your time seems possible is that of country review. If you would like to spend less time on country reviews, now that the system is well-established, we can put up some concrete proposals for your consideration in consultation with P&B and others concerned. For example, comparative discussions by area would seem to be a logical follow-up to any systematic consideration of the pattern of IDA and Bank lending.

Finally, in establishing priorities for policy review, it is necessary to take into account the long lead times involved in papers involving any significant amount of background work. Lead times range from 3-4 months in areas where background information is readily available to 1-2 years in fields where it is not. In the latter areas we are now planning the research activities of the Central Economic Staff in relation to the expected demand for development policy studies. Ernie Stern will be responsible for this coordinating function (along with Haq and King).

#### Conclusions

The next steps in putting this system into operation should be:

- (1) A review with you of the policy work of the two Economics Departments (scheduled for January 6).
- (2) Discussion with you and Burke of the Procedures proposed here.
- (3) Establishment of priority topics and submission to you for approval.

copies sent to: Messrs. Knapp, Demuth, Adler,  
Henderson/Stevenson, Hayes/Lerdau,  
Haq, King

ANNEX

An Illustrative List of Development Policy Papers

<u>Topic</u>	<u>Present Status</u>
<u>Completed during calendar year 1971</u>	
1. Program Lending	Prepared by Economics Dept. (1970). Discussed by Executive Directors in January 1971.
2. External Debt of Developing Countries	Prepared by P&B. Discussed by Executive Directors and submitted to Board of Governors in Sept. 1971.
3. IBRD Financial Operations FY74-78	Prepared by EPD and P&B. Circulated to Executive Directors in December.
4. Nutrition*	Management seminars held in May/June '71.
5. Employment*	" " " " " "
6. Industrialization*	" " " " " "
 <u>Tentatively proposed for calendar year 1972**</u>	
1. Poverty and Performance Criteria in IDA Allocation	Work proceeding in EPD (King).
2. Bank Group Lending for Small Countries and Small Projects	Some work already done by EPD.
3. Local Cost Financing	EPD (Holsen) preparing paper.
4. Employment Considerations in Bank Group Lending Policy	Economics Department preparing a paper for presentation to the Board in May 1972.
5. Possible World Bank Action on Nutritional Problems	Consultants' report (Chafkin) to be available in mid-January.

\*Background papers for President's Address to Governors.

\*\*Not yet screened by proposed steering group.

<u>Topic</u>	<u>Present Status</u>
6. Re-examination of Bank Group Project Appraisal Techniques	A Working Group under van der Tak (Economic Adviser, Projects), being organized to examine this subject.
7. Criteria for Creditworthiness	EPC (Lerdau) preparing a paper.
8. Private Foreign Investment	EPD (Hulley) preparing a paper.
9. Policies on Expropriation	Rickett Group studying.

Additional Possibilities

1. Country Performance Criteria: Measurement and Use in Bank
2. Bank Group Policy for Urban Development
3. Aspects of Rural Development
  - a. Role of the Bank Group in Helping Small Farmer
  - b. Village Electrification
  - c. Rural Water Supply
4. Possible Role of the Bank Group in Financing Health and Housing Programs
5. Labor/Capital Substitution Possibilities in Highway Construction
6. Bank Group Policy for Commodity Lending
7. Bank Promotion and Financing of Intermediate Technology
8. Developed Countries Markets for Manufactured Exports of LDCs
9. Bank Group Approach to Regional Imbalances in Country Development
10. Trade Offs in Bank Lending Policy: Quality vs. Quantity

H.B. Chenery  
January 6, 1972

POLICY WORK OF THE CENTRAL ECONOMIC STAFF

Agenda for Discussion

1. Relations among Research, Policy and Operational Support
2. Areas of Policy Analysis:
  - (a) Economics Department (Attachment 1)
    - (i) Industrialization
    - (ii) Agriculture and Rural Development
    - (iii) Urbanization
    - (iv) Population
    - (v) Education and Human Resources
    - (vi) Employment
    - (vii) Trade
    - (viii) Project Evaluation
  - (b) Economic Program Department (Attachment 2)
    - (i) Comparative Country Analysis
    - (ii) Overall Projections
    - (iii) Fiscal and Budgetary Policy, Savings Mobilization
    - (iv) International Finance
    - (v) Economic and Social Indicators
  - (c) Development Research Center
    - (i) Development Planning - national, regional, sectoral
    - (ii) Income Distribution
    - (iii) Project Evaluation - shadow pricing
3. Mechanisms for Policy Discussion and Review (Attachment 3)

(My memo of January 3.)

Attachments:

1. Policy Work of Economics Department
2. Policy Work of Economic Program Department
3. Forums for Policy Analysis and Review