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Hollis B. Chenery papers - McNamara Discussions 1973 (July-Aug.)



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Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1973 (Jul - August)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

August 31, 1973

To: Mr. Robert S. McNamara

From: Hollis B. Chenery

Attached is the paper I am
presenting at a conference of economic
practitioners from developing countries.
I think you may be interested in the
general approach, if not in some of the
detailed analyses.

(dictated,
but not read)

McAD - 61 folder

21 137

Mr. S. Singh, EPDCE

August 21, 1973

Ernest Stern, Senior Adviser, VPD

Paper on Petroleum Prices

When I was in Mr. McNamara's office last week on another matter, he praised the paper on petroleum prices highly. He said that this was exactly the type of information he needed and that he had already been able to use it on several occasions.

cc: Mr. Tims

bcc: Mr. Chenery ✓

EStern/lm

DECLASSIFIED

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WBG ARCHIVES

August 21, 1973

Mr. Robert S. McNamara, President

Ernest Stern, Senior Adviser, VPD

CONFIDENTIAL

The Enke Report

1. As you know, last week the CIEP met at the senior staff level for the first discussion of the Enke report. The discussion led to no particular conclusions, and no time was set for the possible meeting of principals on the report.
2. Somewhat to everyone's surprise the meeting started by some very laudatory comments by the Chairman, Deane Hinton, about the report, but it became soon evident that the deficiencies of the report are well understood, and its purpose now is to provide the CIEP with a vehicle for establishing control more firmly over economic policy toward developing countries. This has, of course, been in the CIEP mandate from the outset, but until now the Executive Directors, first Pete Peterson and then Pete Flanigan, were not sufficiently interested in the subject to devote the time and attention necessary to establish their position. Moreover, the CIEP has had a difficult enough time exercising its authority in other areas. Since the new aid legislation contains a specific provision for a coordinating mechanism under the control of the AID Administrator, it is not too surprising that CIEP thought it time to bestir itself.
3. In the course of the meeting assignments were given to the participating agencies for revisions dealing with almost every section of the Enke report; little will be left of the original after the exercise. A number of the participants objected, since they did not want to run the risk of having this work become public knowledge while major efforts are under way in the Congress to reformulate the aid program. This concern was eventually recognized in the discussion, and top priority allegedly is accorded to support of the pending aid bill. There are strict instructions that the work on the Enke report is to be kept in very low profile.
4. In answer to the concern about the proposals in the Enke report regarding IFIs, it became clear that the governing policy is the memorandum from Secretary Schultz to the President on contributions to the IFIs.

August 21, 1973

This memorandum, concurred in by Flanigan, is of course inconsistent with the Enke conclusions.

5. The general assessment is that none of the particular recommendations of the Enke report are likely to become operative; the report does not reflect current Administration thinking.

6. The CIEP is devoting more time to the problems of the developing countries and has increased its staff for that purpose. They have employed Mr. Ray Sternfeld as the senior staff member dealing with developing countries. This is the first time this position has been filled since I held it, on a part-time basis, almost two years ago.

EStern/lm

bcc: Mr. Chenery ✓

McN 21. folder

Mr. Robert S. McNamara, President

August 17, 1973

Ernest Stern, Senior Adviser, VPD

The Work of the Population Division

I have checked with Timothy King, and he will be away on mission for the next two weeks. I will, therefore, not be able to abide by the schedule I mentioned this morning of having a paper on the work of the Population Division by August 24 for discussion with you the following week. Mr. King will be back on Labor Day, and we will have a paper for you by Friday, September 7, which can serve as a basis for the discussion you wanted in the following week.

EStern/lm

bcc: Messrs. Chenery, ✓ King

Mr. Robert S. McNamara, President

August 17, 1973

Ernest Stern, Senior Adviser, VPD

Policy Paper on Housing

Attached for your information is an outline of the policy paper on housing. Although it is very brief, we would welcome any comments you have on it or suggestions for other areas to be explored. The work on the paper itself has started; but before we proceed, we would like to be sure that the contents meet your expectations.

Attachment

EStern/lm

bcc: Mr. Chenery ✓

Policy Paper on Housing: Outline

I. Introduction

- a) The significance of housing in socio-economic development.
 - (i) consumption or welfare aspect.
 - (ii) housing and productive efficiency.
 - (iii) housing and generation of savings (through formal and "informal," i.e., self-help processes).
 - (iv) housing and generation of employment, demand for local manufactures and materials, etc.
- b) Housing and land use in urban development.
- c) The scope and sequence of the paper: The scope of the paper will be defined by our present knowledge. This will be made clear within each section of the paper and each instance will have obvious implications for future research requirements. These will be brought together in the form of a suggested research program in the field of housing in the Annex.

II. Present Status of Housing in Developing Countries

- a) The general situation.
- b) The situation of low-income groups: what is possible; what is being done.
- c) Major constraints affecting the gap between reasonable expectations and performance.

III. The Financial Problem

- a) The present situation and factors influencing demand for and supply of financial resources.
- b) The framework of financial institutions in developing countries.
- c) The past and present role of international bilateral assistance organizations.
- d) Alternative policy approaches.

IV. The Land Aspect

- a) The present situation and factors influencing the demand for and supply of urban land.
- b) Speculation in land.

- c) Locational considerations in meeting low-cost housing needs.
- d) Alternative policy approaches.

V. The Construction Process

- a) The present situation and factors influencing the demand for and supply of construction inputs.
- b) Self-help.
- c) Production factors in the construction industry: labor, building materials, infrastructure, etc.
- d) Technology and prospects for cost reduction.
- e) Alternative policy approaches.

VI. The Institutional Aspect

- a) Performance of housing related functions.
- b) Strengths and weaknesses of existing institutional forms.
- c) Alternative policy approaches.

VII. The Bank and the Housing Sector

- a) Further definition, evaluation, and development of on-going operational activities:
 - (i) Site and services.
 - (ii) Other urban development approaches (potentially) containing a housing element: settlement improvement, integrated extension areas, etc.
- b) It presently appears that the major constraints are to be found in insufficiencies in the land management process and in the mix of types of housing currently being provided. This would suggest the following new initiatives:
 - (i) Increased emphasis on land development corporations.
 - (ii) Direct finance of construction in appropriate circumstances and institutional settings.
 - (iii) Possible others not yet identified.

Annex: Research Requirements

Arch. L. Bolder
AUG 20 1973

AUG 17 1973

Dear Dr. Mahler:

Thank you very much for your letter inviting us to send a representative to your meeting to discuss the progress of your expanded program of research development and research training in human reproduction. This is a subject of great interest to us, and we welcome the opportunity to participate again. Although I cannot, at this time, indicate who our representative will be, as with the 1972 meeting, it will be a member of our Population and Nutrition Projects Department. I suggest, therefore, that you send the documentation and further correspondence relating to the meeting to the Director, Dr. K. Kanagaratnam. Dr. Kanagaratnam will provide the name of our representative as soon as possible.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. H. Mahler, M.D.
Director-General
World Health Organization
1211 Geneva 27
Switzerland

Cleared in substance: Mr. Baldwin

cc: Messrs. Chenery
Kanagaratnam
T. King

TKing/EStern:lm
August 17, 1973

McN bl. folder

AUG 16 1973

Mr. T. King, ECDPH

August 15, 1973

Ernest Stern, Senior Adviser, VPD

Attached Letter

Please note Mr. McNamara's comment on the attached.

Since T. I. Kim went to the 1972 meeting, this exercise must have some background which put it into CPS. The subject of the meeting (though obtuse) suggests we might have an interest.

Would you look into it and either (a) draft the response, including the name of a Bank representative or (b) turn it over to CPS for handling. Either way a draft letter should reach Mr. McNamara by Friday morning, since he will be on leave thereafter.

Attachment

bcc: Mr. Chenery ✓
EStern/lm

WORLD HEALTH
ORGANIZATION

1211 GENEVA 27 - SWITZERLAND
Telegr.: UNISANTE-Geneva



Tél. 34 60 61 Télex. 27821

ORGANISATION MONDIALE
DE LA SANTÉ

1211 GENÈVE 27 - SUISSE
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In reply please refer to:

Prière de rappeler la référence: H9/87/7(3)

6 August 1973

Dear Mr McNamara,

In September 1971, and again in October 1972, a group of interested agencies met at WHO Headquarters, Geneva to discuss plans and progress in implementing the WHO Expanded Programme of Research, Development and Research Training in Human Reproduction. At the 1972 meeting, we were pleased that the International Bank for Reconstruction and Development was represented by Dr T.I. Kim.

As a result of the interest and support of a number of agencies, WHO has during the past 18 months implemented the various components of the Expanded Programme. Although the second full year of programme operations is still underway, WHO is planning a third meeting of agencies to be held in Geneva from 26-27 November 1973. This meeting will provide an opportunity to review progress in implementing the programme. A discussion of technological and budgetary forecasts for a three to five year period is also planned.

It gives me great pleasure to invite your agency to be represented at this meeting. If necessary, the World Health Organization will provide air economy travel and a per diem allowance for one representative designated by you.

Please let us know the name(s) of your representative(s) and whether you would like WHO to assist in reserving hotel accommodation. Documentation for the meeting will be sent to your designated representative in advance.

We look forward to the participation of your representative in the discussions.

Yours sincerely,

H. Mahler, M.D.
Director-General

Mr Robert S. McNamara
President
International Bank for Reconstruction
and Development
1818 H. Street, N.W.
Washington D.C., 20433
United States of America

Mr. Robert S. McNamara, President

August 16, 1973

Ernest Stern, Senior Adviser, VPD

Basic Economic Reports

1. Some time ago we decided to select several countries for which Basic Economic Reports were scheduled for FY1974 or later, in consultation with the Region. The purpose was to design a series of initial studies on principal policy issues so that the Basic Economic Report could be built on the results of these studies. Implicit in the selection was a DPS commitment to give high priority to the necessary staff allocations. We hope, in this way, to test the proposition - not now widely shared in the Bank staff - that well prepared Basic Reports are substantially different from routine Economic Reports and that advance identification of policy issues is essential to an adequate analysis.
2. Our discussions with the Regions have led to the selection thus far of the Caribbean Region, Malaysia and the Cameroons as countries for concentrated effort. The addition of Afghanistan or Yemen is now under discussion with EMENA. The choices reflect a variety of factors, including the FY1975/76 Basic Economic Report schedule, the needs of the Region, the desire for diversity and our belief that with the limited staff resources available for this we had best limit the trial to reasonably small sized countries.
3. The attached memorandum describes the progress on the first study. The overall work is being done under the supervision of Mr. Gulhati, Deputy Director, Development Economics Department. The study of the Caribbean region is being coordinated by a team headed by Mr. Chernick of the Program Review Division and including a member from the Region and from the Development Economics Department. The detailed work schedule for FY1974 is to be found on the last page.
4. Even at this early stage we have learned a number of lessons which will affect our guidelines for future efforts at concentration and for the general work on Basic Economic Reports. For one, the data available to analyze specific policy questions may not be available even in countries which have a reasonably adequate general

August 16, 1973

data base. To generate such data requires more time and resources than we can reasonably devote to any one study. Even the processing of available data in the context of specific issues often will take a longer lead time than we can usually allow for. Related to this is the fact that the priorities of the local research community may not match the priority policy concerns of the Bank and/or the country so that little relevant empirical research is available to draw on. This problem obviously will vary with the size and sophistication of the local research community.

5. The work thus far also suggests that it is easy to err on the side of optimism as to how much preparatory work can be accomplished within the time available. Admittedly, this is our first effort and the time required to organize the work and obtain staff will decline as we gain experience. Moreover, if the approach proves itself, it will also become possible to program work earlier than has been feasible in the case of the Caribbean. Nonetheless, it is clear that staff constraints are serious and that it is difficult to obtain the long-term commitments necessary to carry out such work.

6. Although the attached paper requires no action by you, I thought you might be interested in this experiment in trying to improve basic economic work from the bottom up. If our expectations for this approach are realized, DPS would expect to double the number of countries for concentrated effort in FY1975; these eight countries would then constitute about half of the Basic Economic Reports due the following year.

Attachment

cc and cleared with: Mr. Gulhati

EStern/lm

bcc: Messrs. Chenery ✓
Haq
Chernick
Avramovic

AUG 16 1973

Mr. M. Haq, Director, EPR

August 16, 1973

Ernest Stern, Senior Adviser, VPD

Paper on Ocean Resources

As I told you on the phone, Mr. McNamara thought the paper on ocean resources excellent and would like to send it to the Executive Directors for information. This requires some minor changes in the paper, which I have made. Most of the changes are to avoid a premature request for a formal Bank policy statement. If you have any difficulty with the changes, let me know; if not, please have them incorporated and let me have the original for forwarding.

Page 1 - Note the new title. I would suggest that the title page contain only the title and the material in the lower left corner; the contents can be listed on a second sheet.

Para. 2 - Change last sentence.

Para. 3, last line - typo

Para. 11, Page 7 - Adjective unnecessary and unclear.
Most powerful in which way?

Para. 14 - Note suggested deletion unless this link is a matter of public record.

Paras. 20-22 - These paragraphs are unchanged but have been moved to what seemed a more logical sequence.

Para. 23 - This paragraph combined material from the previous paragraphs 20 and 24. I believe there is no substantive change involved.

Para. 23 - I assume item (b) should refer to cobalt, not copper.

Attachment

bcc: Mr. Chenery ✓
EStern/lm

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

8/17

To Mr. Stern

1. For the reasons we discussed, I cannot approve a Deputy Director position in EPD.
2. You have made a strong case for a second Senior Adviser in the Dept. I hope you will use 1 of your authorized=positions for that post.

RMcN

*orig of note
w/ Mr. Stern. 7/6
8/23*

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: August 16, 1973

FROM: Ernest Stern, Senior Adviser, VPD

SUBJECT: Deputy Director Position for
Economic Analysis & Projections Department

1. You asked us at our meeting last week to provide you with a memorandum as a basis for a final decision regarding the position of Deputy Director in the Economic Analysis and Projections Department. You had agreed earlier that we would retain the position of Deputy Director in the Development Economics Department and that Mrs. Hughes would be appointed to that position when it becomes vacant.

2. The Economic Analysis and Projections Department has a total staff of 127, of which 57 are professionals (Grades E through X). The Department's terms of reference and work programs cover a broad spectrum of responsibilities and interests, in some cases of a complex and innovative kind.

3. The Department consists of four major Divisions dealing respectively with commodities and export projections, economic and social data, comparative analysis and projections, and the international economy. These Divisions undergird different vital functions of the Bank. Material such as the commodity papers and debt data underlies our lending program; some, such as the country economic models and economic and social data, is central to country economic work, the CPP projections system and most of the statistical presentations to the Board; the trade and capital flow data are central to many policy issues. Since a great deal of the information which the Department obtains comes from outside the Bank, and since much of it is often germane to sensitive and urgent issues within the Bank, the amount of senior level liaison work involved is considerable.

4. The Front Office must retain a broad range of functions which are beyond the capacity of even the most capable individual, if he is to be utilized efficiently, and cannot be discharged adequately at the Division Chiefs' level.

9/17 To Mr. Stern
1. For the reasons
discussed, I
can not approve
a Deputy Director
position in EAPD
4. You have made

Strong case
for a Deputy
Director in
the Dept.
I hope you
will ask
of your
authorized
persons for
that post.
L. New

Liaison

The Department carries a considerable part of the Bank's cooperation with other international agencies. Attendance at their meetings, at which matters of interest to the Bank are frequently discussed, generally require the participation of the Director. A recent example was the discussion in UNCTAD's Committee on Invisibles and the Financing of Trade of the Bank position on supplementary financing as reflected in our Board paper, "Development Policy for Countries Highly Dependent on Exports of Primary Products", where the Bank came in for vigorous criticism.

Data

The development of the world's foremost collection of economic and social data and projections on the developing countries is a highly complex task, especially their integration in a consistent, logical framework. The issues involved require senior level attention as this is an innovative process which involves several Divisions simultaneously and close relations with the Regional Departments. The same is true with the work on debt and international capital flows.

Global Framework

The responsibility for the worldwide analytical framework which we are in the process of developing out of our work on the CPPs is therefore centralized in the Front Office.

Special Tasks

A high degree of intellectual guidance is needed for special projects, such as Board papers and commodity analyses; finally, the sheer size of the Department imposes additional burdens on the Director.

5. Part of the intellectual and professional guidance will be furnished by the Department's Senior Adviser. However, the Senior Adviser we hope to engage will have principal responsibility for work on the analytical system on the international economy, and his presence does not reduce the need or justification for a Deputy.

August 16, 1973

After a careful review of all the factors, including your well-known unhappiness at the perpetuation of Deputy positions, Mr. Tims and I have concluded that in this case a Deputy is required and warranted. He would have distinct and substantive responsibilities for a particular part of the Department's work and deputize for the Director. Hollis, as you know, concurs.

6. With the departure of Mr. Hayes and the appointment of Mr. Tims, the Deputy position is vacant. On a recruiting trip several months ago, Mr. Tims identified a number of possible candidates in Europe, and there are others in the Bank. We have delayed formal contact with potential candidates because of the uncertainty of the position. Good candidates are very hard to find, and I believe it is therefore a matter of some urgency that we be allowed to fill this position. The Deputy position of course would be accommodated within the recently approved ceiling of Director and OSS level positions. In looking for candidates, we will keep firmly in mind your objective, which we share, that the Deputy be an individual who is capable of replacing the Director should the latter go on to greener pastures.

7. I have discussed this memorandum with Mr. Clarke and Mr. Kearns. They do not support this request. They disagree essentially on two grounds: (a) that the appointment of a Deputy Director would inhibit the development of Division Chiefs for greater management responsibility and (b) that, in principle, no Deputy Directors should be appointed. As regards the latter point, I would only note that recently three Deputy Directors were appointed in the Regional Projects Departments, for reasons which I find to be fully justified. In one of these Departments, the number of professionals is not substantially different from those in the Economic Analysis and Projections Department. In addition, you have already authorized the appointment of a Deputy to the position which will become vacant in the Development Economics Department. Failure to authorize the continuation of the position in EPD not only creates an unjustified imbalance within the DPS but also between the EPD and other Departments. Of the 16 Bank Departments which have Deputies, only 5 have more professional people than EPD, and I doubt that very many have a more complex set of responsibilities.

August 16, 1973

8. Regarding the development of Division Chiefs, I entirely support the objective. However, it is erroneous to look at this in the static context of one Department. The Front Office of EPD requires individuals who have a capacity to integrate intellectually the work of the component Divisions. It is not, primarily, the burden of administrative management that leads to our request to retain this position. There is, consequently, no necessary evolution between the management of one of the specialized Divisions to the leadership of the Department. This is not to say that Division Chiefs who have demonstrated their capacity to manage these units should not be considered for more senior management responsibilities. On the contrary, they have been moved to more senior positions in the past, and I would expect this to continue; but their demonstrated management capacity plus their specialized skill would not, except in unusual circumstances, add up to the intellectual scope and academic background necessary to perform the integrative and analytical functions. Therefore the argument advanced by Personnel is not relevant in this case.
9. Finally, it was suggested that appointing a Deputy to this position would create pressures elsewhere in the Bank for similar assignments. I would only note that this is not a new position, no particular publicity is attendant upon recruitment for it, and any pressures for the appointment of Deputies will undoubtedly already have been generated by the creation of new Deputy positions in the Regional Projects Departments. We are not seeking a new position - merely the retention of an existing one.
10. It is my understanding that managers are responsible for meeting agreed output objectives with an agreed amount of resources. Within that, the structure of their organization should, within broad guidelines, be theirs to determine. We seek neither more money, nor more positions, nor an increase in X level positions. As to the broad guidelines, for reasons which I have discussed above, I do not believe that the retention of this position conflicts with established guidelines.
11. May we have your approval to proceed with recruitment for the Deputy Director position in EPD.

cc: Messrs. Clarke
Kearns
Tims

EStern/lm

bcc: Mr. Chenery ✓

AUG 15 1973

Mr. A. Ljungh, EXC

August 14, 1973

Ernest Stern, Senior Adviser, VPD

Private Foreign Direct Investment

Attached is the paper I mentioned during our telephone review of outstanding assignments. I am sure Mr. McNamara saw the paper at one time, and it was written in response to his assignment. If further material on foreign private investment is wanted, you might arrange a session where we can find out the specifics.

Attachment - WP #149
EStern/lm

bcc: Mr. Chenery ✓

Handwritten: Fred B. Folsom
AUG 15 1973

Mr. Robert S. McNamara, President

August 14, 1973

Ernest Stern, Senior Adviser, VPD

Export Projections

1. I have discussed the matter of export projections with Mr. Tims and his staff, and we can provide you with information on LDC export potential in time for the December Tidewater meeting. The analysis will not be complete but will be adequate for a policy discussion and indicate the magnitude of benefits which would derive from a more liberal trade policy. We have additional work in progress, in collaboration with UNCTAD and FAO, which will yield greatly improved data in about a year.
2. For the Tidewater meeting we would deal with three categories of commodities - primary agricultural exports, metals and minerals, and manufactured goods.
3. For the primary products we will, for selected major commodities, develop information showing principal exporters and importers, existing barriers, and expected benefits if these barriers were to be substantially reduced or eliminated. For the non-competing commodities (e.g. tea, coffee) there generally is only a tariff or excise tax. Depending on the demand elasticities, the removal of such a tax may not benefit the LDCs significantly unless they agree jointly to offset it with export taxes. However, other measures are being tried out in some countries and these will be explored. For competing commodities (e.g. sugar) we need to estimate what a rational domestic production level is for industrialized countries. For instance, in some areas the productivity of beet sugar is very high and it is said to be fully competitive with the best cane areas. Such estimates necessarily will be rough at this point, but good enough nonetheless to indicate an order of magnitude.
4. For some commodities, such as metals and minerals and some agricultural products, the direct trade barriers are few. Here, the issue is rather the impediments to moving up in the production spectrum. We intend to specify, for selected major products, the disincentives to LDC investment in processing and to estimate - in a very rough fashion - the benefits which might accrue if these impediments were to be reduced.

August 14, 1973

5. For manufactured goods we will also identify, for a few selected commodities, the principal exporters and importers and the major quantitative restrictions. Under the most-favored-nation regime, LDCs are not especially handicapped in manufactured goods exports except that their exports tend to be the labor-intensive, less sophisticated commodities. These also tend to be stagnant or slow growth industries in industrialized countries and increasing imports evoke non-tariff protection.

6. In preparing these estimates we will ignore two major problems - LDC supply response capacity and the rate and nature of the adjustment process in industrialized countries. Both are important, but they are secondary to the objective of spelling out what the potential for LDC exports is of a more liberal trade policy. Both factors obviously become crucial in discussions on how such a policy should be implemented.

7. We will have this material available for your review, and possible internal discussion, by mid-November.

cc and cleared with: Mr. Tims
ESTern/lm

bcc: Mr. Chenery ✓

OFFICE MEMORANDUM

AUG 14 1973

TO: Mr. Robert S. McNamara, President

FROM: Ernest Stern, Senior Advisor, DPS

SUBJECT: Policy Paper on Tea

DATE: August 14, 1973

Attached is the final copy of the tea paper. After the meeting we received comments only from Messrs. Knapp and Husain. These have been incorporated and other minor changes have been made. After you have reviewed the paper it can be sent to the Secretary's Department for reproduction and distribution.

Attachment

*Later) version circ. to
Board sent to HBC at M.V.
8/21*

*Board version rec'd. R 73-206
for discussion 9/11*

EStern:tk

August 14, 1973

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Bank Group Financing of Tea

Summary and Recommendations

1. The attached paper reviews the question whether the Bank Group should continue to lend for projects involving the production of tea in view of the poor market prospects for this commodity^{1/} and in the light of the President's Memorandum on "Development Policy for Countries Highly Dependent on Exports of Primary Products"^{2/} discussed by the Executive Directors in February 1973.

2. The main features of the situation for tea producers are as follows:

- the combined earnings of the tea producing countries from tea exports have continued to decline in real terms over the last two decades, although within the total individual new producing countries (mainly in Africa) have been able to increase their export earnings from this source;
- for the future, the slow growth of demand for tea is expected to continue at about 2% a year while supply will grow in excess of this rate, with a resulting decline in the world price of tea;
- a slowly increasing volume of tea exports at declining prices will mean that the earnings

^{1/} The main trends in the world market for tea were discussed in the paper "The International Tea Market: Review and Outlook for Bank Lending 1973-74" (Sec M72-655), December 20, 1972.

^{2/} R73-3, January 4, 1973.

from tea exports of all producers taken together are likely to stagnate over the next decade;

- 20% of the increase in exports in the decade 1975-84 will come from 8 IDA credits made between 1964-73 for financing of tea production;
- the outlook is such that there is a clear risk that any further investments in financing expanded production, no matter where they are undertaken, will have an adverse effect on the export earnings of existing producing countries, which are mostly at an extremely low income level.

3. In the light of the analysis presented in the paper, I recommend the following:

- (a) the Bank should undertake no further financing of projects involving production of tea;
- (b) any exceptions to this general policy should be strictly limited to:
 - (i) financing for increases in output in countries with no investment alternatives yielding an acceptable rate of return;
 - (ii) financing for rehabilitation involving no increase in output (this implies a reduction in acreage and encouragement to diversification);
- (c) projects for diversification out of tea production will be encouraged where economically feasible, particularly in countries with large shares of the market.
- (d) the above policy will be reconsidered if an effective international tea agreement is negotiated since then financing of increased production can take place in the framework of the agreement.

4. In addition, the paper points out that the return on new investments expanding tea production may be overstated if calculations on the return to the economy of the project do not take into account the likely effect on prices and therefore on

earnings of existing production in the same country. Bank appraisals for any eligible tea project will in future normally take this effect into account.

Attachment

BANK GROUP FINANCING OF TEA

I. INTRODUCTION

1. In the past decade the Bank Group has financed eight projects involving tea planting, including tea financed as part of other loans such as agricultural credit. All of the projects have been financed by IDA credits. Because of the slow maturation of the tea bush, production from these projects will only gradually be building up over the next decade. By 1980 output from these projects is expected to reach 50 thousand metric tons and by 1985 about 65 thousand metric tons (Table 1). On the reasonable assumption that 90% of this output will be exported, it will account for about 20% of the expected increase in tea exports from all sources during the period 1975-84.

2. During the discussion of the President's Memorandum on "Development Policy for Countries Highly Dependent on Exports of Primary Products," the Executive Directors expressed general agreement with the recommendation to "limit financing of new production of primary commodities facing inelastic demand, in general, to countries with few export alternatives." In light of that discussion it is desirable to review the question whether the Bank should proceed with any further projects involving expanded tea output.

II. THE MARKET FOR TEA

3. Over the past decade the volume of tea exports has grown at less than 2% a year. According to analyses by FAO^{1/}, growth over the next decade will be of the same order. This is attributable to the interaction of slow growing demand in relation to income increases and changing tastes:

- a. Demand for Tea and Income Growth. Tea consumption rises roughly in proportion to income in the less developed countries; it rises more slowly than income in developed countries.
- b. Taste Trends. On the upward side there is a growing consumption of iced tea in the US; on the downward side there is a switch from tea to coffee in the UK and elsewhere and more economical brewing of tea through the use of tea bags.

^{1/} FAO staff studies for the Committee on Commodity Problems, Intergovernmental Group on Tea (Sub-Group of exporters).

4. Moreover, the demand for tea is exceptionally unresponsive to changes in price within the present range of variation. According to the FAO analyses, the price elasticity of demand is in the neighborhood of 0.4. This means that a given percentage increase in supply can induce more than twice as large a percentage drop in price. If the excess of supply over the long-term growth of demand is large enough it can lead to a reduction in the aggregate income of tea producers. This is precisely what has happened over the past. The persistent growth in supply in excess of long-run demand has led to a decline in real prices more than offsetting the growth of exports in volume. Table 2, attached, shows that the volume of tea exports has grown at around 1-1/2 - 2% a year while prices have declined by about the same percentage. Thus in recent years, total tea export earnings have not risen. In addition, if allowance is made for a decline in the purchasing power of the pound sterling, in which tea prices are quoted, the average annual value of total tea exports has declined in real terms.

5. Based on the Bank's present assessment of supply in relation to the slow growth expected in underlying demand, the Bank is forecasting a continuing price decline for tea exports of roughly 1% a year. With volume growing only a little faster, the earnings of tea producers will continue to stagnate. Hence global prospects for tea export earnings justify the restriction of Bank financing of new production under the recommendation in the President's Memorandum referred to in para. 2 above.

III. SITUATIONS WHERE THE BANK SHOULD CONTINUE TO LEND FOR TEA

6. Although the prospects for all tea producers taken together are poor enough to justify a general restriction on Bank financing of tea production the situation is complicated by the fact that, within the total, individual producers have been able to gain from producing tea for export. The countries that have gained are those in East Africa, where six of the eight IDA projects have been located. These are all countries at very low per capita income levels with severe problems of rural poverty.

Value of Tea Exports: Countries in Africa

	<u>1960-62</u>	<u>1969-71</u>	<u>Gain</u>	<u>Market Share</u>	<u>Per capita</u>
	<u>--- (million pounds) ---</u>	<u>--- (million pounds) ---</u>	<u>-----</u>	<u>(1969-71, as %)</u>	<u>Income (1970)</u>
					<u>\$</u>
Kenya	5.1	13.9	8.8	6.5	150
Malawi	3.9	5.4	1.5	2.5	80
Mozambique	2.5	3.7	1.2	1.7	240
Tanzania	1.4	2.7	1.3	1.3	100
Uganda	1.7	5.5	3.8	2.6	130
Others	<u>1.2</u>	<u>3.1</u>	<u>1.9</u>	<u>1.5</u>	
Total Africa	<u>15.8</u>	<u>34.3</u>	<u>18.5</u>	<u>16.1</u>	

7. However, the countries in Asia which have lost against the competition from newer sources of supply have equally low per capita incomes and with equally acute problems of rural poverty. The impact has been particularly severe in Sri Lanka where tea accounts for more than half of export earnings.

Value of Tea Exports: Countries in South Asia

	<u>1960-62</u>	<u>1969-71</u>	<u>Loss</u>	<u>Market Share</u>	<u>Per capita</u>
	<u>--- (million pounds) ---</u>	<u>--- (million pounds) ---</u>	<u>-----</u>	<u>(1969-71, as %)</u>	<u>Income (1970)</u>
					<u>\$</u>
Bangladesh	0.9	-	0.9	-	100
India	92.0	79.5	12.5	37.4	110
Sri Lanka	<u>83.9</u>	<u>77.4</u>	<u>6.5</u>	<u>36.4</u>	110
	<u>176.8</u>	<u>156.9</u>	<u>19.9</u>	<u>73.7</u>	
<u>Memo Item</u>					
Other producers	16.1	21.6		10.2	
Total exports	208.7	212.8		100.0	

8. There is therefore a risk that further increases in tea production will benefit the rural poor in one country at the expense of the rural poor in another; under such circumstances the conditions under which the Bank should contemplate financing tea projects ought to be strictly limited.

9. In principle, a policy of limitations should be based on analysis of comparative advantage. However, such analysis is necessarily cumbersome and complex. At least 25 countries now produce tea and the potential number is larger. For each of these, it would be necessary to estimate rates of return on tea and alternative resource uses. Simplification of data requirements and methodology is therefore unavoidable. The following are two categories where financing of tea may be justifiable without analysis of comparative advantage.

a) Where there is no investment alternative with an adequate economic return

10. In most countries it is reasonable to assume that alternative projects, offering an adequate rate of return, exist or can be developed. Circumstances where such alternatives do not exist are likely to arise mainly in the small, least-developed countries and to be of limited magnitude.

11. In this context there is the question of whether projects for tea production could be financed when the advantage of tea over alternative products is confined to a particular region. Higher returns on other products might be available elsewhere in the country, but population movement may be constrained not only by economic cost but also by cultural (e.g. tribal) and political obstacles. While these factors are both real and valid they do not provide an adequate justification for making other poor countries bear the cost through effects on the tea market. They are subject to secular economic change as well as to political influence within a shorter time span than that of a tea project. These considerations would exclude financing for cases where the comparative advantage is regional but not national.

b) Financing for rehabilitation involving no net increase in output

12. Financing for replanting or rehabilitation projects could be considered if the project does not lead to increased production in the near or medium term. Such projects would lead to increases in yield, and these would have to be offset by shifting the acreage saved to other purposes. Tea bushes last, with slowly declining yield, for 75 years and more. Since the alternative to replanting or rehabilitation is usually to allow old bushes to continue their slow decline, the principal result

of such projects is the long-run extension of the period of production. The discounted present value of their effects upon world tea prices is therefore likely to be very small. The purpose of such a policy would be to give encouragement to diversification. The Bank is prepared to provide financing for this purpose.

13. The impact of limiting Bank Group financing for tea production to projects within the guidelines discussed above is likely to lead to very little Bank Group financing for tea in the future.

Appraisal Techniques

14. One important innovation in Bank Group project appraisal techniques which is being introduced in the case of tea and similar commodities is for the calculations of economic return to include explicit estimates of the effect of the proposed project on prices and thus on export earnings of other producers of that commodity within the same country. At present the inclusion of the cost to other producers is optional under the Manual of Operations (OPM 2.21, paras. 30-32); the inclusion is being made mandatory in the case of commodities with unfavorable market prospects like tea in order to obtain a realistic estimate of the return to the economy as a whole.

15. The reason for this introduction into the method of calculating economic return is that a change in production volume will have a large effect on price, affecting the earnings of all other producers. The estimate of economic return on a project is, therefore, unusually sensitive to the size of the unit, i.e. to the share of world production under consideration. A project may, for example, yield a good return to a firm which has only a small share of world output and no concern for other firms. From a national point of view, however, the same project may show a negative return if the combined output of all the firms in the country accounts for a large share of world production; the price decline associated with the project may impose offsetting losses on other producers in the same country which exceed the gains of the producer whose output is expanding. Thus in India and Sri Lanka (each accounting for about one-third of the export market) the combined reduction in earnings of existing producers is likely to be much larger than the return to a project for new production, making the economic return to the nation negative (illustrative calculations are included in the Annex). Finally, if all producers in the world are considered, the result of an expansion of output must, in an inelastic market, be to reduce aggregate receipts below what they otherwise would be.

IV. INTERNATIONAL AGREEMENT ON TEA PRODUCTION

16. Since the Bank Group is only one possible source of finance, its perception of the problem, unless shared by other lenders may have little impact. It would be inappropriate for the various multilateral and bilateral agencies to try to come to any formal agreement limiting their willingness to finance the expanded production of tea. However the Bank will communicate its own position to other interested parties with the hope that they will take these into account in framing their own policies.

17. In the mid-1930s, an International Tea Agreement succeeded in keeping prices up to about 75-80% of the pre-depression level. However FAO efforts to revive the Tea Agreement in the late 1960s and the 1970s have not been fruitful. India and Sri Lanka demand at least some part in the absolute growth of the market, even if their percentage share is to decline (see Annex). Meanwhile, other countries seek rapid growth and emphasize the need for increased efforts to encourage consumption. As a result, recent agreements allow an aggregate 4% expansion of tea exports per year. Since that is twice the rate of growth of demand for imports at constant prices, its realization would lead to further deterioration in prices.

18. The Bank Group supports FAO attempts to develop a more effective international agreement on tea, since such an agreement could benefit all producers. If such an agreement can be reached, the Bank would reconsider its policy towards the financing of tea and be prepared to finance expanded production within the global limits and national quotas agreed.

V. CONCLUSIONS

19. By refraining from continued lending, the Bank can confer an important net benefit on its tea-growing members collectively. The effect on prices would induce a redistribution of real income from the consuming (mostly high-income) to the producing (mostly low-income) countries. The Bank would at the same time enhance the returns on the tea production it has already financed, and the creditworthiness of the principal tea-exporting countries. Certain exceptions can be considered. The policy would in any case be reviewed if there is any marked change in the long-run market outlook for tea or if there were an effective international tea agreement.

SOME PROBLEMS IN NEGOTIATING AN EFFECTIVE
INTERNATIONAL TEA AGREEMENT

1. An effective international tea agreement could simplify the decision-making process on tea investments. If it applies to the longer term it can provide an explicit framework for investment plans.
2. The conditions exist which make an effective agreement possible. These are the inelasticity of demand for tea and the length of the period necessary for new producers to enter the market. The build-up of infrastructure is a long process, as is the maturation of the tea plant. Under these conditions all producers could increase their earnings by restricting output. The potential advantages to producers can be illustrated retrospectively by reference to the actual volumes, prices and earnings of tea exports for a preceding year. Given the inelasticity of demand, a 2% reduction of export volume by each country would have raised prices by about 5%; it would, therefore have increased the earnings of each country by the difference, i.e. about 3%. The absence of an effective agreement is the consequence of sharp differences between producing countries in their assessment of the tea situation. The differences are occasionally reflected in discussions on tea between these countries and the Bank. It may, therefore, be possible for the Bank to contribute toward the clarification of differences and thus perhaps toward eventual agreement.
3. The bargaining positions of producing countries are affected by the size of market shares (as noted above, para. 15). The effect of the latter on economic return may be summarized as follows:

Effect of Increase of Volume on Economic Return
in an Inelastic Market

<u>Earnings of</u>	<u>Effect of volume increase</u>
A. Single small producer	Increase
B. All producers in a nation	Depends on size of national share of world market
C. All producers in world	Decrease

At times in the past investment decisions have been made largely from the perspective (A) of the single producer. Decisions on investment in tea nowadays generally take a country perspective (B)--if only for balance of payments reasons. The purpose of the policies

here recommended for the Bank is to try to clarify the global perspective (C) for the decision-making process on tea investments.

4. Since the participants in the International Tea Agreement are governments, negotiating positions have a national perspective. In this perspective the differences in size of market share are important. In Table 3, shares of the world export market (column 3) are related to indexes of demand elasticity (column 2). The index is the ratio of the percentage increase in the volume of a country's exports of tea to the percentage decline in price which may accompany that increase. The reciprocal ratio (column 1) is more convenient for the present purpose; it shows the share of any increase in volume of exports which may be expected to be offset by price decline. Chart 2 illustrates some of the data from the Table. In the case of India and Sri Lanka, it may be seen that about half of any increase in quantity of exports will be offset by an associated price decline. For all other countries the offset is less than 10%.

5. For India and Sri Lanka the offset is likely to exceed any probable economic return after costs are allowed for. It follows that, if the elasticity of demand is taken into account, there should be no investments to increase production for export in those two countries. Whether for this or for other reasons, Indian export volume has not grown at all in the past 15 years (Table 2). Similarly, although exports from Sri Lanka did grow early in the period, they have levelled off in the years 1968 through 1971. For the other countries the offset is smaller. In fact the apparent absence of constraint of this sort is reflected in the record of growth of tea production in Africa, averaging about 10% per year (Table 2).

6. Diversification projects can also look more advantageous to countries with large market shares. A decline in volume of tea exports yields an offsetting rise in price, which benefits other tea exporters in the same country. The possibility of diverting output from exports to domestic consumption may also repay investigation.

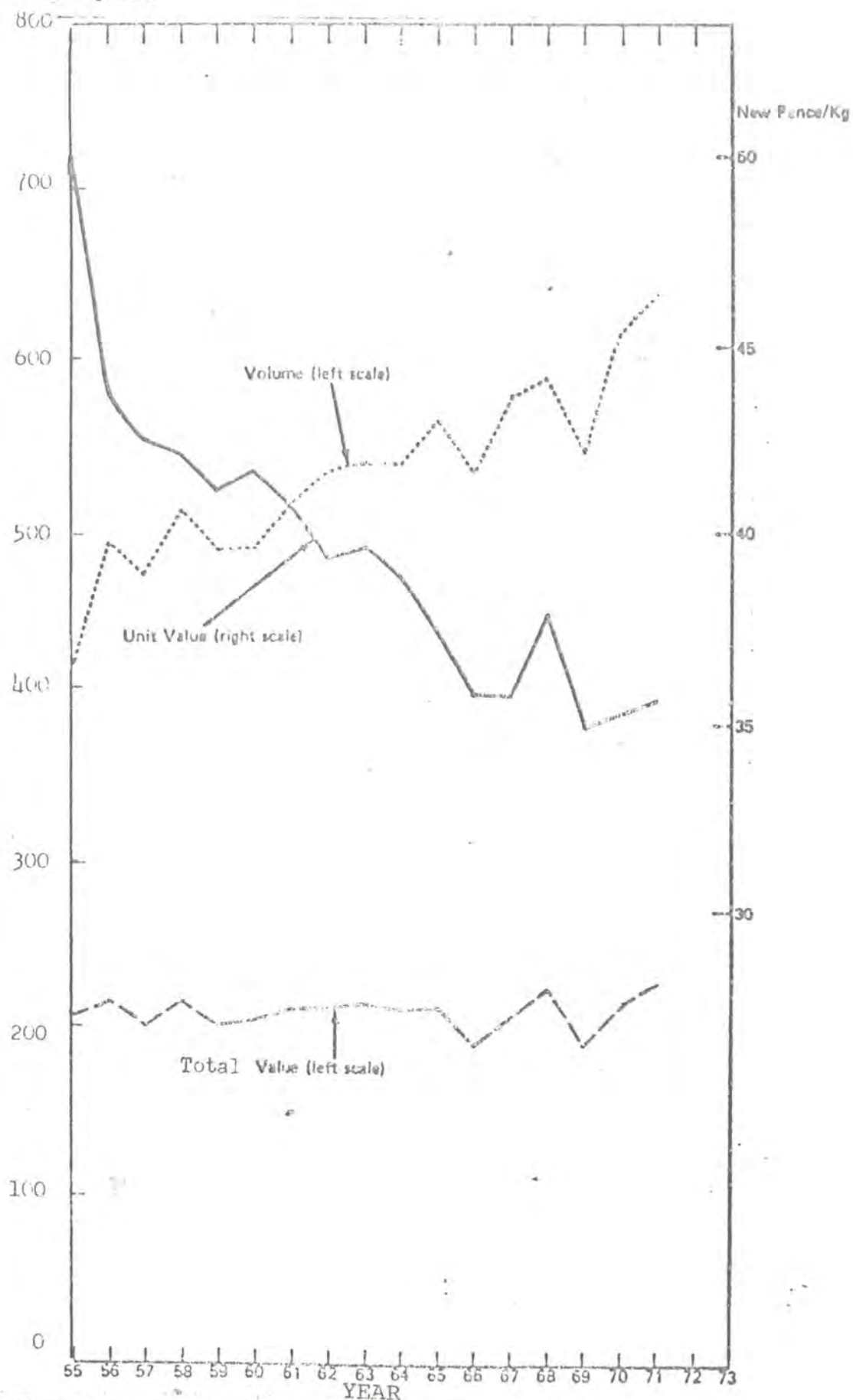
7. When decisions are made in the national perspective, there is thus a built-in incentive for large shares to be reduced. The reduction process may continue to the point where the effects of sizes of market shares are small enough for other cost differences to become relevant. But that point is a long way off; the effects of the present market shares of India and Sri Lanka are much larger than any plausible advantage in other costs. There is room for a long decline in their market shares while smaller ones expand.

8. These counterbalancing movements of expansion and decline bear no necessary relation to comparative advantage as it is conventionally understood. If India (or Sri Lanka) were subdivided into countries, with no other change in tea production, competitive positions vis-a-vis countries outside India (or Sri Lanka) might change sharply; some of the new smaller countries might be found to have the advantage in price and therefore in growth. As it is, however, whatever comparative advantage India or Sri Lanka may have will only appear when the shares of India as a whole, or Sri Lanka as a whole, have declined to levels comparable to those of the smaller national sources of tea.

9. In fact the adjustment process is being carried out by the rapid expansion of levels of exports of the small national sources of tea while the larger ones, India and Sri Lanka, hold their volumes of export roughly constant. The rapidity of expansion among the smaller producers is encouraged by the profitability of new methods of tea productions. With vegetative propagation (VP), using cuttings from plants of observed quality, yields can be increased threefold or more over seed plantings (Table 4). Results are as good in Asia (where the method originated) as they are in Africa. But conversion is expensive, and the majority of tea growers have not found it possible to switch from the old method to VP. In some areas of India and Sri Lanka it has been reported that more than half of them were operating at a loss. The attractive profits from VP thus increase the pressure of the newer producing nations to expand their tea exports, while aggravating the losses of the older producers.

10. An important obstacle to an effective international agreement is the divergence of views between the large, established producers--India and Sri Lanka--and the new producing countries. The former object to reduction in export volume while the latter add to the total in amounts larger than the market can sustain. The implication of the preceding analysis is that a decline in the exports of the larger national producers can be advantageous to them. The application of foreign and domestic capital to diversification, particularly by the larger producers, would lead to higher prices and consequently benefit both parties. In combination with a slowdown in growth of tea production by the smaller producers, diversification by the larger producers may be a necessary ingredient for an effective agreement.

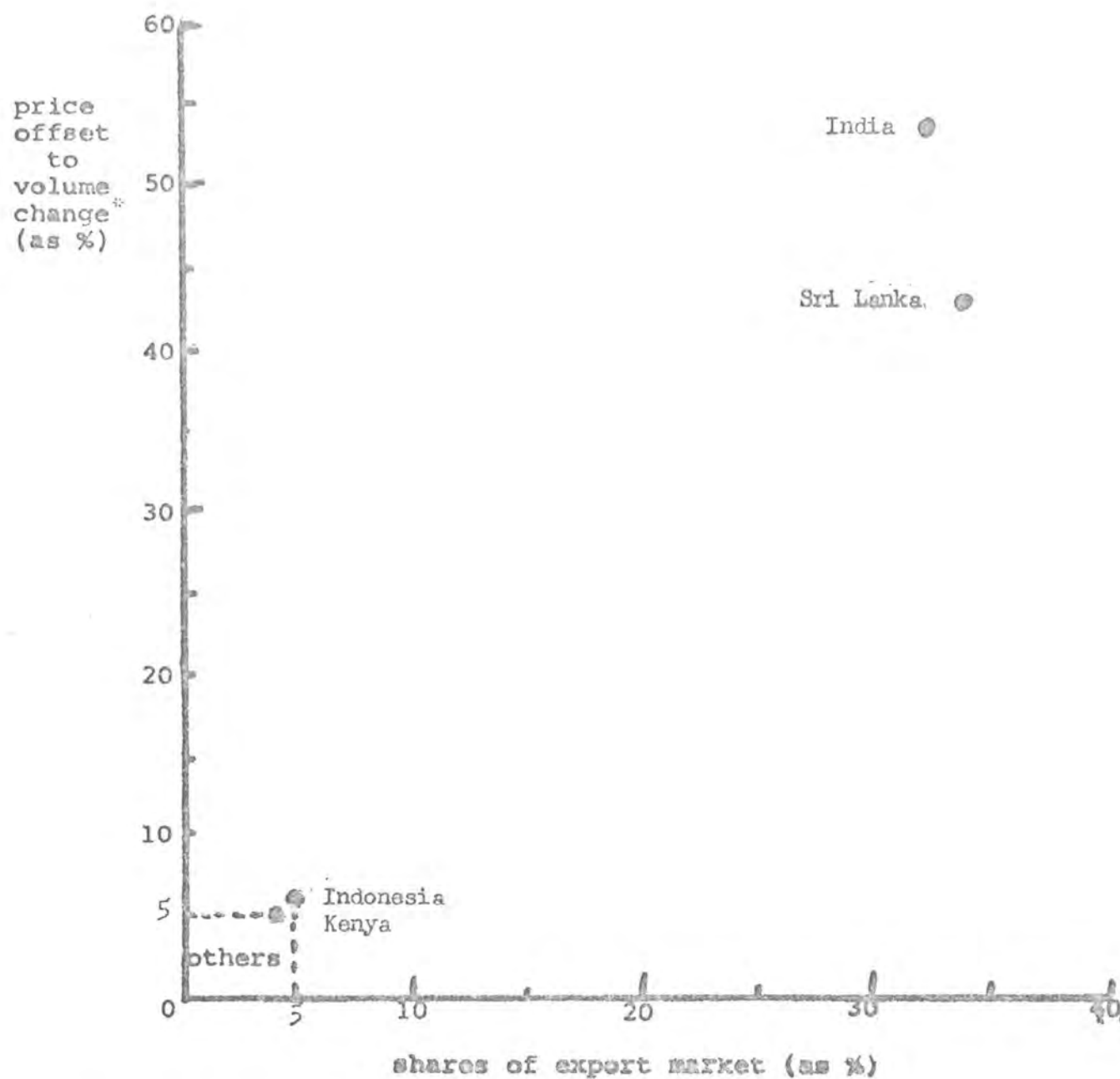
WORLD* EXPORTS OF TEA: VOLUME, VALUE AND UNIT VALUE, 1955-71

Thousands Metric Ton
or Million Sterling Pound

* Excluding Centrally Planned Countries.
Source: IBRD, *ibid* Chart 2.

TEA EXPORTERS
Elasticity of Demand
and Market Shares

Source: Table 3



* Extent to which an increase in volume of country's exports of tea will be offset by an associated decline of price.

Table 1: PAST AND FUTURE POSSIBLE BANK GROUP LENDING FOR TEA PLANTING^{/1}

Country	Date of Loan/ Credit Agreement or Fiscal Year of Anticipated Lending	Amount of Loan or Credit (US\$ million) ^{/3}	Projected Output 1980 (Thousand Metric Tons)	Projected Output 1985 (Thousand Metric Tons)
Past Bank Group Tea Investments (All IDA)				
Kenya	8/17/64	2.7	5.0-7.0	5.0-7.0
Kenya	6/17/68	2.1	18.0	18.0
Tanzania ^{/2}	1/13/66	1.4	2.1	2.1
Tanzania	3/ 3/72	10.8	7.6	9.6
Uganda	9/15/67	3.7	4.5	7.6
Mauritius	4/ 9/71	5.4	2.4	3.8
Indonesia	6/24/71	15.1	10.1	12.7
Indonesia	6/22/73	7.8	2.0	9.0
Total		49.0	51.7-53.7	67.8-69.8

^{/1} Includes only projects at least part of which are to finance planting or replanting; (some financing of processing and transport costs is also covered).

^{/2} Part of Agricultural Credit Project.

^{/3} As of June 30, 1973.

Table 2: WORLD/^a TEA EXPORTS:
VOLUME, VALUE AND UNIT VALUE

				Annual % Change	
	1955-57	1960-62	1969-71	1955-57 to 1960-62	1960-62 to 1969-71
<u>Volume</u> (1,000 metric tons)					
World Total	461.0	513.0	599.4	2.1	1.7
Developed countries/ ^b	12.0	9.0	13.5	- 5.6	4.6
Developing countries	449.0	504.0	587.7	2.3	1.7
Asia	420.0	450.0	460.0	1.4	0.2
Sri Lanka	163.0	195.0	205.3	3.6	0.6
India	202.0	204.0	196.6	0.2	- 0.4
Others	55.0	51.0	58.1	- 1.5	1.5
Africa	28.0	48.0	103.0	11.4	8.9
Latin America	0.3	6.0	23.0	81.0	16.1
<u>Total Value</u> (Million £)/ ^c					
World Total	206.0	208.7	212.8	0.3	0.2
Developed Countries/ ^b	2.5	1.9	1.7	- 6.4	- 1.2
Developing countries	203.5	206.8	211.1	0.3	0.2
Asia	193.4	189.6	171.4	- 0.4	- 1.1
Sri Lanka	81.5	83.9	77.4	0.6	- 0.9
India	95.0	92.0	79.5	- 0.7	- 1.6
Others	16.9	13.7	14.5	- 4.1	0.6
Africa	10.0	15.8	34.3	9.5	9.0
Latin America	0.1	1.4	5.4	60.0	16.2
<u>Unit Value</u> (New pence/kg)					
World	45.1	40.7	35.5	- 2.1	- 1.5
Sri Lanka	49.9	43.1	37.7	- 2.9	- 1.5
India	47.1	45.2	39.9	- 0.8	- 1.4
Africa	35.6	32.7	33.3	- 1.7	0.2

/a Excluding centrally-planned countries.

/b Japan and Turkey.

/c Converted from US dollars at: one pound sterling = 2.8 US dollars up to and including 1960-62; one pound sterling = 2.4 US dollars for the 1969-71 average.

Source: FAO, Tea Statistics, doc. CCP:Tah/1A69/WPl; and doc. CCP:TE70/2, October 1970; and Commodity Review and Outlook, 1971-72.

Table 3: ELASTICITY OF DEMAND FOR EXPORTS OF TEA, 1967-69

(by country)

Exporting Country ^{/a}	(1) Price Offset to Volume Change (as %)	(2) Elasticity of Demand	(3) Market Share (as %)	(4) GNP Per Capita 1970 \$
India	53	1.9	32.2	110
Sri Lanka	43	2.3	34.1	110
Indonesia	6	16.5	4.8	80
Kenya	5	18.5	4.3	150
China (Rep.)	4	24.8	3.2	390
Bangladesh	4	26.5	3.0 ^{/b}	100
Malawi	3	29.6	2.7	80
Mozambique	3	33.3	2.4	240
Argentina	3	36.3	2.2	1,160
Uganda	3	39.9	2.0	130
Turkey	2	60.2	1.3	310
Zaire	2	66.6	1.2	90
Tanzania	1	72.6	1.1	100
Others	-	-	5.5	-
World	233	0.43	100.0	-

^{/a} Includes all Bank members having shares of export market greater than 1%.

^{/b} Estimated. (Bangladesh, as East Pakistan, supplied West Pakistan during this period.)

Sources:

Column 1: Reciprocal of column 2. This measures the extent to which an increase in the volume of the country's exports of tea will be offset by an associated price decline.

Column 2: Price elasticity of demand for exports from each country, assuming the price elasticities of demand for and supply of world exports of tea are -0.43 and 0.37 respectively. These single values are derived from recent estimates by FAO staff. (Alternative values available from other sources do not significantly alter the results for the purposes of this paper.)

Column 3: IBRD, *ibid*, Table 12.

Column 4: World Bank Atlas, 1972. (Since no separate estimate for Bangladesh is available, the datum for Pakistan as a whole is shown.)

Table 4: TEA YIELDS IN SRI LANKA^{/a}
(Kg per ha in 1968)

Elevation	VP ^{/b} only	National Average
High	2,765	983
Medium	2,302	862
Low	3,904	949

^{/a} Based on sample of 118 estates.

^{/b} Vegetative Propagation (see para. 12, Annex)

Source: "Report on the World Tea Economy," Report No. EC 178,
IBRD. Table 6.

McN. H. folder

AUG 10 1973

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(through Mr. E. Stern)
FROM: Mahbub ul Haq
SUBJECT: Note on Ocean Resources

DATE: August 13, 1973

in Subj. file

1. I am sending you the attached note, which may be of interest. It has been prepared by Mr. Varon in the Policy Planning Division.
2. The use of ocean resources, particularly for seabed mining, has been receiving increasing attention in the last year. The interest stems in part from the impending UN Law of the Sea Conference to be held in Santiago, Chile, in April 1974, but more importantly from the realization in the United States and other industrialized countries that seabed mineral resources (consisting primarily of manganese, copper, cobalt and nickel) are enormous. This interest has been reinforced by fears of long-term shortages of industrial raw materials (inspired by the Club of Rome book) and also by talk of OPEC-type actions in other strategic materials besides oil.
3. The major facts on seabed mining are the following:
 - (a) The major areas with "nodules" (the ball-shaped concentrations where the four minerals are found together) are in the Pacific, at depths of 15,000 to 20,000 feet. These areas are well beyond the 200-mile territorial waters claimed by some countries, notably Chile, Ecuador and Peru. So far, no mining of nodules has occurred at these depths, but experiments by a subsidiary of Tenneco at about 3,000 feet off the East Coast of the United States and by Japanese firms have shown that it is possible to develop a viable technology for mining at the required depths.
 - (b) The economics of seabed mining is very uncertain. The uncertainty is partly the result of the unusual combination of minerals found in most nodules: the proportions of the minerals found in deep-sea nodules are 25 to 30 percent manganese, 1 to 1.5 percent nickel, 0.5 to 1 percent copper and 0.25 percent cobalt. The remainder is made up of silica, other minerals and water. These proportions - compared to the present pattern of consumption - imply a large surplus of manganese, nickel and cobalt. Once seabed mining gets started on even a fairly modest scale, the prices of these three metals would probably fall sharply. This would have serious implications for some of our member developing countries.

August 13, 1973

- (c) There are only speculative estimates at present as to the potential of seabed mining that can be realized over the next decade or two. One of the proposals is that an international fund be formed - several have suggested that the Bank manage the fund - to channel the royalties from seabed mining into development assistance. The developing countries are naturally interested in staking out a major claim on royalties from the exploitation of the common property resources of mankind.
- (d) There are many legal questions about who has the right to mine the seabed and under what conditions. A possible international regime has been discussed in the UN and the debate will continue in Santiago. In the meantime, a bill sponsored by Senator Metcalf of Montana is before the US Congress which would establish an interim regime to permit US firms to begin seabed mining operations. The bill has been attacked within the US and by developing countries as a unilateral action, and it is uncertain whether the bill will be approved.

4. Many outsiders see a large role for the Bank, as possible financier of seabed mining ventures and as administrator of an international fund. Inquiries have been received in recent months about the Bank's views on the subject of seabed mining from a number of agencies, including the Brookings Institution, Resources for the Future, Inc., The Overseas Development Council, the Law of the Sea Institute, the Rockefeller Foundation, the National Science Foundation, ECLA, the UN Environmental Program, and private industry. A few weeks ago, the US Executive Director's office inquired at the request of Senator Tunney of California if the Bank had prepared a paper on seabed mining issues. Some enthusiasts, like Professor Roger Revelle, have submitted a paper (July 1971) on The World Bank as an Agent for an Interim Deep Sea Regime visualizing an ambitious - and perhaps unrealistic - role for the Bank.

5. We plan to continue keeping ourselves informed, together with the Industrial Projects Department, of developments in this new field. This should be helpful in developing the position that the Bank may take in the UN Law of the Sea Conference in April 1974 which it would be invited to attend.

Copies for information:

President's Council
Department Directors, IBRD
Economic Adviser, IFC

MHaq:pa

Mr. Robert S. McNamara, President

August 10, 1973

Ernest Stern, Senior Adviser, VPD

Symposium on "Energy and Raw Materials"

1. I have reviewed this with Messrs. Tims and Haq, and we agree with your judgement.
2. Economic Analysis and Projections Department has a paper in the works on energy policy. It is scheduled for completion by the end of October, slightly later than the CED's deadline of October 15. After we have reviewed the paper, you might want to send it to CED for their information.
3. Your attendance at the symposium probably would serve little purpose. If you wanted to draw international public attention to the issue, there are more suitable forums. If you think it desirable, we could easily arrange to have someone appropriate at the symposium - e.g., Mr. Tims - although it would not warrant a special trip.

Attachment *now with this copy*
EStern/lm

bcc: Messrs. Chenery
Tims
Haq

cc McN binder ✓
McN pending
Aug 18 1973

Mr. Robert S. McNamara, President

August 10, 1973

Ernest Stern, Senior Adviser, VPD

Industrial Controls in India

The attached paper is written by Arun Shourie on the control ideology in India. Mr. Shourie is a Bank employee who has been lent to the Indian Planning Commission. The paper would be much better if it were half its length, but I nonetheless commend it to your attention - particularly for some inflight or vacation reading - since it provides some damning evidence of the straightjacket which has been created by over two decades of accumulating controls. On the basis of this memorandum, Mr. Shourie has been assigned by the Planning Minister to do a full-scale review of industrial controls and to prepare specific recommendations on reform.

Attachment *none with this copy*
EStern/lm

bcc: Mr. Chenery

10-11-74
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Bellagio '74

Mr. Robert S. McNamara, President

August 9, 1973

Ernest Stern, Senior Adviser, VPD

Meeting on Social Science
Research on Development

1. Both Hollis and I have mentioned briefly the meeting which is being arranged on social science research on development. Arrangements are reasonably firm now, and this note brings you up to date on the objectives and arrangements.
2. The meeting will be held at Bellagio on February 13-15, 1974. The meeting is being sponsored jointly by the IDRC, the Ford and Rockefeller Foundations, USAID and ourselves. The total cost of about \$25,000 will be divided amongst us. In addition, the Rockefeller Foundation is providing the facilities at Bellagio.
3. The purpose of the meeting is to initiate a discussion among senior officials with broad responsibility for the management of research and the relation of research to policy formulation. We expect to focus on a number of aspects, including:
 - the substantive priorities for social science research on development
 - the relationship between research and policy formulation in developing countries and development agencies
 - the financial support for social science research on development and the policies governing such financing
 - the relationship between research institutes in developing and industrialized countries.
4. In preparation for the conference, we have commissioned several papers. One, to be prepared by the OECD Development Centre, will provide an overview of the social science research programs of the principal national and international development agencies. The paper will give the principal trends in financing of social science research and a description of the research policies being followed by these agencies. A second paper, to be prepared by Paul Streeten, will cover the general

August 9, 1973

status of social science research on development in the industrialized countries and the relations of institutes in these countries with those in developing countries. Finally, we will have four parallel papers - on Latin America, Africa, the Subcontinent and East Asia - reviewing the status of social science research, its relation to policy, financial support for such research and the relationships with external research institutes.

5. We expect the following participants:

Bank - Messrs. Chenery, Stern
Ford Foundation - Messrs. Bell, Edwards
Rockefeller Foundation - Messrs. Todaro, Davidson
IDRC - Mr. Hopper, Ms. Zagorin
USAID - Messrs. Birnbaum, Muscat
Germany - Messrs. Sohn, Wieseback (invited)
U.K. - Messrs. Mathieson, Porter (invited)
Japan - Dr. Okita (invited)
OECD Development Centre - M. P.M. Henry
UNDP - Dr. I.G. Patel (invited)

In addition four individuals from developing countries will be invited, plus the authors of the papers.

EStern/lm

bcc: Mr. Chenery ✓

8/13
+ paper
LA (Arg.) OTE 17
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fr Kenya Chan

OFFICE MEMORANDUM

cc McN binder ✓
AUG 9 1973
8/21
Pol. Paper
file

TO: Mr. Robert S. McNamara

DATE: August 8, 1973

FROM: Ernest Stern, Senior Adviser, DPS

SUBJECT: Import Burden to Developing Countries
due to Petroleum Price Increases, 1970-1980

You requested that we examine the effect of recent and expected future increases in petroleum prices on the import bill of the developing countries. The attached analysis, prepared by the Commodities and Export Projections Division, shows that in 1973 the developing countries will spend \$1.7 billion more than they did in 1970 solely on account of price increases; by 1980 it is estimated that further price increases will cost them from \$2.4 to \$7.8 billion more than in 1973. The minimum cost of oil imports in 1980 will be \$11 billion if import volume grows at an expected average rate of 9 percent yearly from 1973 to 1980; it may be as high as \$15 billion.

The ability to bear the heavier cost of imports will necessarily depend on the export performance of the countries concerned. Countries with slow export growth, such as India and Pakistan, are likely to find the future oil import burden heavy.

Attachment

cc: Members of President's Council

SSingh/EStern:jl

IMPORT BURDEN TO DEVELOPING COUNTRIES DUE
TO PETROLEUM PRICE INCREASES, 1970-1980

Introduction and Summary

1. The cost of oil imports to developing countries which are net oil importers will become an increasingly severe burden on their balance of payments. Because of price increases alone these countries already will spend \$1.7 billion more in 1973 than in 1970 (Table 2). It is expected that their costs will rise further by 1980. At a minimum they will have to spend \$2.4 billion more in 1980 than in 1973 due to further price increases expected between 1973 and 1980; under less conservative but still realistic price assumptions, the additional costs could amount to \$8 billion.^{1/}

2. The burden of these considerable oil import costs will fall with different intensity on developing countries ^{2/} depending on the nature of their economies. Developing countries which are major and fast-growing exporters can afford to pay for the increased imports, for example, Brazil, Hong Kong, Israel, Republic of Korea and Mexico. However, there are developing countries, such as Bangladesh, India and Pakistan, which have in the past shown slow export growth and which may find it difficult to pay for their future oil imports. Finally, the hard-core, least developed countries are by their nature small users of energy, although their oil import burden could be heavy in a relative sense. These are mainly, but not exclusively, African countries. Country examples are given in the attached tables.

3. The weighted average c.i.f. price of crude oil imports in 1973 is estimated at \$3.01 per barrel, an increase of 20 percent over 1972 and 58 percent over 1970. This price increase is almost entirely due to the increase in f.o.b. prices, although freight costs increased as well. From now to 1975, the Teheran and parallel agreements provide for further increases in f.o.b. posted prices of 2.5 percent per annum plus 5 cents per barrel each year; their effect on tax-paid costs is expected to be passed on to customers. Looking beyond the expiration of present arrangements to 1980, a key question is what will happen in 1976 after the existing agreements expire. Three different f.o.b. price assumptions are made; the medium price forecast provides the working hypothesis.

4. The volume of imports for all developing countries is forecast to increase by about 9 percent yearly from 1973 to about 380 million tons by 1980. Their import bill is estimated to rise from \$2.3 billion in 1970

^{1/} In 1970, oil imports accounted for about 4 percent of the total export earnings of developing countries taken together; this could rise to at least 10 percent by 1980 and might become even as much as 14 percent.

^{2/} Singapore, together with the Netherlands Antilles, Trinidad and the Bahamas, which are major importers of crude oil for refining and re-export, are assumed to maintain the level of value added from refining, and hence are excluded in this note from the list of oil importing countries.

to \$4.7 billion in 1973 and, on the medium price forecast, to \$13.6 billion by 1980 (Table 1).

Realized f.o.b. Price Movements, 1970-1980

5. Realized f.o.b. prices of crude oil exported by the 11 member countries of OPEC, which account for 95 percent of crude oil exports from developing countries, have risen sharply in the last three years. They rose from about \$1.35 per barrel in 1970 in steps through 1971-1973 to about \$2.42 today.

6. Quantities of oil imported by developing countries consist roughly of 80 percent of crude oil and 20 percent of refined products. Assuming the value added in refining is roughly 50 cents per barrel, the weighted average f.o.b. price of crude oil and refined products in 1973 could be about 10 cents per barrel higher than that of crude oil alone and is worth about \$150 million for 1973 quantities. It is not taken into account in this memorandum, on the grounds that the range of forecasting is already wide without extending it to considering the growth of refining capacity in oil importing developing countries.

7. Realized f.o.b. prices in 1974 and 1975 are assumed to pass on to customers the contractual posted price increases of 2.5 percent for inflation and another 5 cents per barrel each year reflecting the continued bargaining strength of OPEC countries; however, producers' margins may possibly weaken. On this basis the average realized f.o.b. price of crude oil could be about \$2.60 per barrel in 1975. OPEC member countries are not seriously considering renegotiation of the present inflation factor in the Teheran Agreement, on the grounds that it no longer covers the inflation inherent in their imports from industrialized countries.

8. The key question in forecasting f.o.b. prices is what will happen when the present contractual arrangements for Middle Eastern and African posted prices expire at the end of 1975. Three different hypothesis are used:

(a) Low -- continues the present contractual yearly escalation through the future; the weighted average realized f.o.b. price would thereby grow from 1975 by an average 4.0 percent yearly to \$3.15 by 1980.

(b) High -- assumes a jump of \$1.50 in posted price in 1976 plus yearly escalation thereafter for inflation and additional bargained increases. Realized prices would grow yearly from 1975 by an average of 12.5 percent to a level of about \$4.60 by 1980.

(c) Medium -- splits the difference and assumes a jump of 75 cents in posted price plus yearly escalation thereafter; realized prices would grow yearly from 1975 by an average of 8.5 percent to a level of about \$3.90 by 1980.

Of the three hypotheses, the low represents the very minimum likely increases in prices; the medium is probably the best to adopt for our forecasting; the high is perfectly possible if some latest views being expressed on energy costs and the strength of OPEC prove correct.

Freight Trend through 1980

9. In calculating landed prices for selected developing countries, freight is projected on the basis of studies by our consultants, Petroleum Economics Limited, of new five-year charter rates for 35,000-45,000 d.w.t. tankers. The installation of discharge facilities capable of receiving larger tankers would make for lower freight rates; however, such savings depend on a domestic market large enough to justify the fixed and working capital costs of the additional storage needed to receive such ships. Freight rates are foreseen to rise by about 6.5 percent yearly from 1973 to 1980 - from about 34 to 53 cents per barrel taking the medium forecast - mainly reflecting strong demand for tankers and increasing ship-building costs with inherent inflation. (For details, see Table 1.)

Quantity of Oil Imports through 1980

10. The volume of petroleum imports into the developing countries has been accelerating in recent years. Their net oil imports amounted to about 200 million tons in 1972. (Of this amount four countries - Brazil, India, the Republic of Korea and the Philippines - accounted for 30 percent.) It is estimated that the total imports of the developing countries will rise to about 380 million tons by 1980, expanding at an average rate of 9 percent per annum in 1973-1980. This increase in volume reflects both (a) a slightly higher growth rate of energy consumption than of GDP in developing countries; and (b) the accelerating need to import incremental energy needs in countries such as Brazil, Argentina and Mexico which are unlikely to expand their domestic energy supplies enough.

11. To simplify the exercise, the projections assume that the demand for energy in the developing countries is price inelastic. However, several countries such as India may experience foreign exchange constraints which may necessitate a reduction in their oil imports. Moreover, the price forecast is for crude oil; the import burden will be a little higher to the extent that refined products are imported instead.

Commodities and Export Projections Division
Economic Analysis and Projections Department
Development Policy Staff

August 2, 1973

**Table 1: OIL IMPORT BILL OF 14 SELECTED DEVELOPING COUNTRIES,
ESTIMATED EXPENDITURES, 1970-1980**

	1970	1971	1972	1973	1975	1980		
						Low	Medium	High
	(US\$ millions)							
<u>Major Exporters of Manufactures</u>								
Fast-growing exporters								
Brazil	276	343	428	484	610	1070	1350	1635
Korea	137	185	208	291	480	890	1130	1370
Slow-growing exporters								
Argentina	20	52	54	37	30	180	220	265
<u>Large Developing Countries</u>								
India	140	200	264	365	550	1140	1430	1710
Pakistan	37	52	63	77	95	145	180	215
Bangladesh	17	22	24	31	35	55	70	85
<u>Other Countries</u> ^{/a}								
Uruguay	30	38	42	54	65	105	130	160
Turkey	68	118	152	187	275	485	570	655
Morocco	28	39	48	60	80	170	200	225
Ghana	13	15	18	24	30	55	70	80
Kenya	17	22	26	34	45	75	95	115
Sri Lanka	23	30	35	46	55	95	115	140
Philippines	115	153	183	237	300	470	590	710
Thailand	72	106	124	161	200	335	420	505
Sub-total: 14 Selected Developing Countries	993	1375	1669	2088	2850	5270	6570	7870
Total: All Developing Countries	2336	3132	3714	4656	6000	10900	13600	16300
(US\$ per barrel)								
<u>Weighted Average Prices for the 14 countries</u>								
F.o.b. price	1.34	1.74	1.93	2.42	2.57	3.14	3.88	4.62
Freight, insurance	0.57	0.57	0.59	0.59	0.69	0.70	0.91	1.12
C.i.f. price	1.91	2.31	2.52	3.01	3.26	3.84	4.79	5.74
(million barrels)								
Volume of Oil Imports:								
14 Selected countries	518	594	663	693	856	1370	1370	1370
Total Developing Countries	1223	1356	1474	1547	1845	2840	2840	2840
(percent)								
Growth rates for all developing countries		1970-1975		1975-1980		1970-1980		
Volume		+ 8.7		+ 9.0		+ 8.8		
Value - price low				+12.6		+16.6		
- price medium		+13.2		+17.7		+19.3		
- price high				+20.0		+21.5		

Note: /a The 25 hard-core least developed countries would be included here. No example is given, as individually they are by their nature small users of energy in an absolute sense but their oil import burden could be heavy in a relative sense.

**Table 2: OIL IMPORT BILL OF 14 SELECTED DEVELOPING COUNTRIES,
INCREMENTAL EXPENDITURES 1970-1980 DUE TO PRICE INCREASES SINCE 1970**
(US\$ millions)

	1970	1971	1972	1973	1975	1980		
						Low	Medium	High
<u>Major Exporters of Manufactures</u>								
Fast-growing exporters								
Brazil	-	51	90	163	245	510	790	1070
Korea	-	37	49	105	205	445	680	920
Slow-growing exporters								
Argentina	-	6	10	13	15	90	130	175
<u>Large Developing Countries</u>								
India	-	35	68	143	250	610	895	1180
Pakistan	-	10	18	32	40	75	110	145
Bangladesh	-	4	6	12	15	30	40	55
<u>Other Countries</u> ^{/a}								
Uruguay	-	7	9	18	25	50	80	105
Turkey	-	16	33	68	125	245	330	415
Morocco	-	9	15	26	40	95	125	155
Ghana	-	3	4	8	10	25	40	55
Kenya	-	4	7	14	20	40	60	80
Sri Lanka	-	6	9	18	25	50	70	95
Philippines	-	28	47	90	130	235	355	480
Thailand	-	18	29	60	85	170	255	340
Sub-Total: 14 Selected Developing Countries	-	234	394	770	1230	2670	3960	5270
Total: All Developing Countries	-	542	889	1700	2500	5500	8200	10900

Note: ^{/a} The 25 hard-core least developed countries would be included here. No example is given, as individually they are by their nature small users of energy in an absolute sense although their oil import burden could be heavy in a relative sense.

Mr. Robert S. McNamara, President

August 8, 1973

Ernest Stern, Senior Adviser, VPD

Age Specific Fertility

not attached to RBC's copy

The attached tables, for 50 countries, are the first step in developing a system which will report regularly on age specific fertility developments and family planning performance. Other countries are still being added, data are being updated and the material on national family planning performance is being developed. At this stage, I merely wanted to report that work is in progress and to elicit any comments you might have on format or coverage.

Attachment

cc & cleared with: Mr. T. King
EStern/lm

bcc: Mr. Chenery ✓

AUG 8 1973

OFFICE MEMORANDUM

cc Mr. Chenery
Mr. McNamara

TO: Mr. Robert S. McNamara

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

SUBJECT: Five-Year Program of Economic and Sector Work

DATE: August 8, 1973

1. I refer to your note of August 3 (Attachment A) to Mr. Chenery and me regarding the preparation of a five-year program of economic and sector work. I believe you have telescoped three different commitments into one.

- A. As far as I know, Mr. Chenery promised you in a memorandum dated April 3 (Attachment B), an "analysis of FY73 country missions and reports", an "analysis of FY73 sector missions", and recommendations on "resources to be assigned to sector economic work for FY74 and FY75" and on several other related subjects, to be available by the end of July. I understand that Mr. Chenery's memorandum and attachment of July 30 on "Economic Missions and Reports" was intended to fulfill the April 3 commitment.
- B. P & B undertook to produce by the end of September a five-year work program, of which economic and sector work are major elements. As you may recall, we sent you, and subsequently distributed "first cut" tables on June 30, and are now having discussions about them with the Regions, CPS and DPS. We plan to prepare agreed versions of the tables during September, in the expectation that they will be ready by September 30 and provide the basis for the forthcoming review of the five-year program FY74-78 (see my note of July 31 - Attachment C).
- C. P & B promised to provide you with a draft instruction on future program changes in economic and sector work (see Blaxall's note of July 12 to P & B files - Attachment D). We have not sent you these instructions because we wanted to be sure that they would fit into the scheme of the five-year work program described in the preceding paragraph. The draft is now attached for your approval (Attachment E).

2. In addition to these commitments, there is also the memorandum of July 30 from Mr. Knapp and Mr. Chenery to the Regional Vice Presidents on "Planning and Monitoring of Basic Economic Work" (Attachment F) proposing that:

"a five-year program for basic economic work should be prepared by mid-September by each Region with the

August 8, 1973

advice and assistance of the Program Review Division so that it may be incorporated into the five-year work program and manpower tables which P & B is scheduled to have completed by end-September, 1973".

Mr. Knapp has discussed this memorandum with the Regional Vice Presidents; its results will be reflected in the five-year work program, which, however, will cover also a number of other "country and sector work" categories not covered in the Knapp/Chenery memorandum (see Five-Year Program format sample dated June 22 - Attachment G).

Attachments

Clearance and cc: Mr. Stern

cc: Mr. Knapp
Mr. Aldewereld
Mr. Chenery✓

PJBowron/JohnHADler/mm



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

OFFICE OF THE PRESIDENT

August 3, 1973

MEMORANDUM FOR MESSRS. CHENERY and ADLER

Five-Year Program of Economic and Sector Missions

I had understood that I would receive by July 31 a five-year program for economic and sector missions, including an analysis of the adequacy of the program in meeting the Bank's objectives, plans for the staffing and scheduling of missions and preparation of reports, and a statement of the responsibilities and procedures for regular review and updating of the program. When will this material be available.

cc: Mr. Knapp
Mr. Aldewereld

A handwritten signature in dark ink, appearing to read "R. McNamara", is positioned above the typed name.

Robert S. McNamara

OFFICE MEMORANDUM

ATTACHMENT B

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Planning for FY74 Economic Missions and Reports

DATE: April 3, 1973

1. This is in response to your suggestion, prompted by my memorandum of March 1 and John Adler's memorandum of March 6 (copies attached), that we try to integrate possible revisions in FY74 economic work plans with the current budgetary process.

2. The objective of the review suggested in my memorandum is to make the best use of the staff we have, which should be a regular feature of our functional supervision. Given the status of the Regions' work programs, it is not possible to come up with a revised FY74 program of economic work, cleared with the Regions, in time to incorporate its inputs into the FY74 budget. Since changes in priorities will take time to implement, they may not have a significant impact on FY74 resource allocations. Given the backlog of sector and special studies, any staff savings that may occur in FY74 can be reassigned to higher priority uses.

3. With this objective in mind, we plan to have the following for you by end-July:

- (i) An analysis of FY73 country missions and reports. Were missions adequately or excessively staffed? Did the questions covered reflect the concerns of the Bank Group? What use was made of the reports?
- (ii) Proposals, prepared in consultation with the Regions and with P&B, to reduce the size and frequency of updating missions and reports and to simplify requirements for economic supporting material for CPPs and Board consideration of loans and credits.
- (iii) Guidelines for updating reports and for reports intended for consortia.
- (iv) An analysis of FY73 sector missions. Staffing. Purpose. Reasons for slippage. Recommendations on resources to be assigned to sector economic work for FY74 and FY75.

4. Before we can evolve more effective control mechanism, we must have a much better understanding of our work objectives, of the match between work programs and staff resources, and of our experience with the revised system. Once the analysis indicated in para 3 is completed, it should provide the basis for devising an appropriate control mechanism.

Attachments

cc and cleared with: Mr. J.H. Adler

PPKuczynski/EStern/MHag/HBChenery:csm

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

July 31, 1973

Mr. McNamara:

Please find attached the Outline of the Review of the Five-Year Program; it has been cleared with Mr. Chenery.

Regarding the schedule of preparing the paper, we have agreed with the Development Policy Staff that their inputs, especially section 2 and parts of section 3, would be available for incorporation in the draft by the end of September. By that time we also expect to have reached essential agreement with the Regional Offices and Central Projects Departments on their five-year work programs. On that basis I propose to have a first draft in your hands on Monday, October 29.



John H. Adler

cc: Mr. Knapp
Mr. Aldewereld
Mr. Chenery

P & B Files

July 12, 1973

John Blaxall, Deputy Director

Program of Economic and Sector Work

1. In the course of a discussion on a separate matter involving Messrs. McNamara, Chenery, Stern, and myself, Mr. McNamara reiterated his concern that there was "no economic work program". He instructed P & B to draft for his signature a memorandum to the Regional Vice-Presidents which would require them to get the authorization of Messrs. McNamara, Chenery and Knapp before making any change in their program of economic and sector work.

2. In the course of subsequent discussion, he made it clear that he saw this as a temporary (perhaps 12 months) measure to ensure that the country and sector work programs were taken seriously in the Regional Offices. He also conceded that only "significant" changes would have to be authorized in this way but indicated he would want to approve the definition of "significant".

3. Mr. Chenery mentioned the exercise now underway involving DPS and the Regional Offices to review the accomplishments of the country and sector work program in FY73, and propose changes in the FY74 program. Mr. Chenery said this document would be ready before the end of July, and suggested that no instruction be issued on future program changes until it had been circulated. Mr. McNamara agreed, saying he would like to see a draft of the P & B instruction at the same time as the review document.

JBlaxall:cbm

cc: Messrs. Adler (o.r.)
Bowron
Street

ATTACHMENT E

d r a f t

PJBowron/JohnHADler/mm

August 8, 1973

TO : Regional Vice Presidents, Mr. Baum, and Mr. Chenery
FROM : Robert S. McNamara
SUBJECT: Approval of Changes in Planned Economic and Sector Work

1. The substantial differences between planned (and budgeted) economic and sector work in FY73 and the actual results indicate a need for better initial planning and increased management attention in these areas. Improvement is expected this year because the work programs for FY74 have been developed by the offices responsible for their execution. The increased responsibilities for planning and review envisaged for Regional Chief Economists (outlined in the memorandum of July 30 to you from Messrs. Knapp and Chenery) should further improve the situation. The Five-Year Operations Program tables now being prepared jointly by the Regions and P & B also will help. I believe, however, that in addition it is necessary to establish the following procedure for the approval of changes in economic and sector work programmed in the current fiscal year.
2. The approved economic and sector work program will be the listings of missions and reports and the related manpower requirements in Standard Tables Va and Vb. Changes in these tables need be reported only through the regular monthly submission to P & B of mission and report timetables (Form 700), except for changes which (a) move a mission or report into or out of the current fiscal year, or (b) cumulatively

alter a Region's total staff requirements for the year (in manweeks) in either table by more than 10%. In these exceptional cases, a memorandum proposing the change should be sent by the Regional Vice President to P & B, with copies to the President, Senior Vice President, and Vice Presidents, Development Policy and Projects. The memorandum should give the reasons for the proposed change, and an indication of how any additional manpower needed would be provided, or how any manpower freed by the change would be used. P & B will ensure that staff recommendations from DPS, CPS, and P & B are presented in a single memorandum within ten days to the President or Senior Vice President with copies to the other parties involved. Similarly, P & B will make the necessary revisions to Standard Tables Va and Vb if the proposed changes are approved.

3. Programs of economic and sector work for the outyears will be prepared within the Five-Year Operations Program. Instructions regarding changes in these years will be issued by P & B.

cc: Regional Chief Economists
Regional Program Coordinators
Directors CPS Departments

OFFICE MEMORANDUM

TO: Regional Vice Presidents

DATE: July 30, 1973

FROM: J. Burke Knapp and Hollis B. Chenery

SUBJECT: Planning and Monitoring of Basic Economic Work

Mr. McNamara has indicated on several occasions that he is quite concerned about the substantial changes which occur during the course of the year in the schedules of economic and sector missions from those set out at the beginning of each year in P & B Standard Tables Va and Vb. These changes are essentially due to the tentative nature of the planning process in this area as it has evolved so far. However, based on the experience we have acquired it is now possible to define work program priorities more firmly and to define the mechanism for reconciling competing claims on staff resources.

"Basic economic work" includes the sectoral and other long-term studies that form the basis for our basic economic reports. It should be recognized that substantial advance planning and prior work are needed to obtain basic economic reports. The Blue Book issued in October 1972 assigns a key role to the Regional Chief Economist in "the annual establishment of economic work program priorities" and in maintaining "a high quality of economic work," but this responsibility does not appear to be backed up everywhere by sufficient operative support.

We believe that it would be desirable to establish a specific mechanism for planning and monitoring basic economic work. We have the following suggestions for your consideration and would like to discuss these ideas with you at an early date.

- (a) A five-year program for basic economic work should be prepared by mid-September by each Region with the advice and assistance of the Program Review Division so that it may be incorporated into the five-year work program and manpower tables which P & B is scheduled to have completed by end September 1973.

- (b) The Regional Chief Economist should be given a clear mandate to draw up this five-year program in consultation with the departments and divisions concerned, and should be responsible within the Region for its subsequent monitoring and revision. Similarly, all changes in schedules by the Regions should be made in consultation with their Chief Economists.
- (c) A complete five-year program of economic and sector work will continue to be prepared as an attachment to the CPPs. The review of that program should provide an important input to the revision of the Region-wide program of basic economic work.
- (d) P & B will prepare monthly reports on changes in the schedules in Standard Tables Va and Vb, and will prepare revisions to the Five-Year Program tables.
- (e) Separate instructions are now being prepared and will be issued shortly regarding the clearance to be obtained by the Regions before making significant changes in their programs of economic and sector work.
- (f) An annual report will be prepared jointly by P & B and the Program Review Division on the nature and direction of basic economic work and the associated manpower and financial requirements.

cc: Mr. McNamara
Mr. Kearns
Other members of the President's Council

Eastern Africa Region Country and Sector Work

Table D7

	FY72			FY73			FY74			FY75			FY76			FY77			FY78			FY79		
	Manpower			Manpower			Manpower			Manpower			Manpower			Manpower			Manpower			Manpower		
	No.	Unit	Total	No.	Unit	Total	No.	Unit	Total	No.	Unit	Total	No.	Unit	Total	No.	Unit	Total	No.	Unit	Total	No.	Unit	Total
Country Program Papers																								
Carryovers Completed	2	5	10	-	-	-	2	5	10	2	5	10	2	5	10	2	5	10	2	5	10	2	5	10
New Starts Completed	10	10	100	12	10	120	15	10	150	13	10	130	13	10	130	13	10	130	13	10	130	13	10	130
In Process End FY	-	-	-	2	5	10	2	5	10	2	5	10	2	5	10	2	5	10	2	5	10	2	5	10
Total Manpower			110			130			170			150			150			150			150			150
Economic Reports																								
Basic																								
Carryovers Completed	-	-	-	-	-	-	2	45	90	2	55	110	1	50	50	2	45	90	-	-	-	1	45	45
New Starts Completed	-	-	-	1	100	100	1	110	110	2	105	210	2	105	210	2	95	190	2	110	220	2	90	180
In Process End FY	-	-	-	2	45	90	2	50	100	1	55	55	2	50	100	-	-	-	1	45	45	1	40	40
Total Manpower			-			190			300			375			360			280			265			265
(of which Sector Work)			-			(95)			(75)			(75)			(75)			(75)			(75)			(75)
Updating																								
Carryovers Completed	2	10	25	4	27	110	-	-	-	1	5	5	2	10	20	2	10	20	3	10	30	3	10	30
New Starts Completed	6	60	370	2	35	70	8	22	175	5	30	150	5	25	125	5	25	125	6	20	125	5	20	100
In Process End FY	4	50	195	-	-	-	1	25	25	2	15	30	2	15	30	3	10	30	3	10	30	3	10	30
Total Manpower			590			190			200			185			175			175			180			160
(of which Sector Work)			(235)			(15)			(55)			(55)			(55)			(55)			(55)			(55)
Special																								
Carryovers Completed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	15	15
New Starts Completed	-	-	-	2	50	100	1	5	5	-	-	-	1	25	25	2	25	50	3	25	75	3	25	75
In Process End FY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	10	10	1	10	10
Total Manpower			-			100			5			-			25			50			85			100
(of which Sector Work)			(-)			(35)			(-)			(-)			(-)			(-)			(-)			(-)
Sector Reports																								
Surveys																								
Carryovers Completed	1	25	25	-	-	-	2	12	25	5	25	125	4	25	105	3	30	90	4	32	130	3	25	75
New Starts Completed	2	155	310	4	91	365	7	57	400	4	60	240	10	55	550	7	65	455	9	57	515	7	57	400
In Process End FY	-	-	-	2	71	145	5	34	170	4	30	120	3	35	105	4	25	100	3	32	195	3	32	95
Total Manpower			335			510			595			485			760			645			740			570
(of which managed by COPGs)			(40)			(170)			(115)			(-)			(185)			(90)			(240)			(115)
Special																								
Carryovers Completed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New Starts Completed	-	-	-	1	20	20	2	20	40	6	20	120	1	20	20	1	20	20	-	-	-	1	20	20
In Process End FY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Manpower			-			20			40			120			20			20			-			20
(of which managed by COPGs)			(-)			(20)			(30)			(60)			(20)			(20)			(-)			(20)
or Sector Work Manpower			80			95			100			700			100			100			100			100
of Country & Sector Work Manpower			1115			1235			1410			1415			1590			1420			1520			1365
(of which Sector Work)			(650)			(765)			(865)			(835)			(1010)			(895)			(970)			(820)
(of which managed by COPGs)			(40)			(40)			(145)			(60)			(205)			(110)			(240)			(135)
Previous Table (dated)																								
(of which Sector Work)																								
(of which managed by COPGs)																								
Beginning of FY Table (7/1/73)																								
(of which Sector Work)																								
(of which managed by COPGs)																								

MEMORANDUM FOR THE RECORD

August 3, 1973

Procedure for Documenting Results of Meetings of the Policy Review Committee
Chaired by the President or Senior Vice President

Mr. McNamara has agreed to the following:

1. The Secretary of the Policy Review Committee should prepare minutes to be distributed to those present at the meeting.
2. In addition, if the meeting concludes that the policy paper should be revised for purposes of reconsideration by the PRC or for purposes of its presentation to Executive Directors, the Secretary of PRC should prepare notes to be used in revising the paper. These notes will be distributed to the President, the Senior Vice President, and the Vice President for Development policy.
3. If the meeting concludes that specific action is required (apart from the revision of the policy paper), the Secretary of the PRC should transmit to the appropriate action authority, along with the minutes of the meeting, a memorandum specifying the action to be taken.
4. All documents mentioned should be cleared with the Office of the Chairman.

cc: Mr. Knapp
Mr. Chenery ✓
Mr. Haq

(Xeroxed to Mr. Stuen)



Anders Ljungh

AUG 3 1973



OFFICE OF THE PRESIDENT

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

August 3, 1973

*Mr. Stern
(with 2 extra
pages)*

MEMORANDUM FOR MESSRS. CHENERY and ADLER

Five-Year Program of Economic and Sector Missions

I had understood that I would receive by July 31 a five-year program for economic and sector missions, including an analysis of the adequacy of the program in meeting the Bank's objectives, plans for the staffing and scheduling of missions and preparation of reports, and a statement of the responsibilities and procedures for regular review and updating of the program. When will this material be available.

*Enclosing 30 pages of
on Econ Missions
and Reports*

cc: Mr. Knapp
Mr. Aldewereld

Erren

Robert S. McNamara

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

CC: J. Fern
1 tag
sent
Aug. 1

To Dr. Thucy
Do our Economic Reports
(+ our lending programs)
give proper weight to the
need to afford fertility
production in the CDC's.
Note the comment by
Norman Borlaug in the
attached pages of
L. B. and

type of varieties currently available. Major emphasis must be given to controlling the airborne pathogens such as the rusts, Septorias and mildews that can, when ecological conditions are favorable, rapidly build into devastating epidemics.

Currently our major emphasis at CIMMYT is to broaden the genetic gene pool for disease resistance, especially to the three rusts, the two Septorias, scab and mildew. Since the genetic materials from CIMMYT are fed into national breeding programs, as either segregating or advanced lines, in 40 different countries it behooves us to incorporate the broadest possible base for disease resistance. This we attempt to do by constantly modifying and improving the gene pool on the basis of monitoring and the "feedback" of information received from a series of international nurseries grown by a network of world-wide collaborating national programs.

We are also currently attempting to incorporate genes for resistance to high levels of aluminium toxicity into the gene pool so that the CIMMYT materials can become more useful to Brazil, where low soil PH and high levels of soluble aluminium are major obstacles to wheat production.

FERTILIZER NEEDS FOR THE NEXT DECADE IN THE DEVELOPING NATIONS

A rapid expansion in fertilizer use is absolutely necessary for expanding food production so as to stay ahead of population growth in the developing nations. Although some of the developing countries such as India and Pakistan have made dramatic progress in both, increasing

the use and production of fertilizer during the past five years, they are nonetheless still among the lowest consumers of fertilizer in the world, whether measured on either a consumption per hectare or on a consumption per capita basis.

Dr. Raymond Ewell has estimated that the developing nations will need to expand their fertilizer production capacity by 19 million metric tons, as well as to increase imports of fertilizer to 8 million tons during the next decade, if they are to meet their food production goals. He estimates that an investment of \$ 28 billion dollars will be required to achieve this target. These costs will include investments in new fertilizer plants (5.8 billion), transportation facilities (3.0 billion), marketing facilities (3.0 billion), imported fertilizer to make up the deficit (8.0 billion), raw materials to operate indigenous plants (7.0 billion) and spare parts and chemicals (1.4 billion). It is obvious that, to reach this fertilizer production goal, allocations of both public and private funds will have to be greater than they have ever been for agricultural improvement in the developing nations in the past. This is also more evidence which should help to destroy the myth that it costs little to produce the food we all need to sustain life. In the past, investments of this magnitude have been restricted to large public works projects such as the multiple purpose dams, development of heavy industries, defense outlays and national airlines.

THE POPULATION MONSTER

Whenever we talk about the world food production problem,

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 30, 1973

FROM: Hollis B. Chenery *HBC*SUBJECT: Economic Missions and Reports

1. The attached memorandum has been prepared by the Policy Planning and Program Review Department as a part of its role of functional review of economic work. An earlier draft has been discussed with the Regional Chief Economists, P & B and the CPS.
2. The main conclusions of this analysis are as follows:
 - (a) If present plans for 1974 are implemented without slippage, there will be a 20 percent increase in total economic and sector work over the average for 1972 and 1973. Although some slippage is likely, we still expect a significant increase. The number of reports issued in 1974 is expected to rise proportionately more than the number of man-years devoted to this work because of a carry-over of work in progress from 1973. A reduction in the number of man-years per mission and report is also projected, resulting in part from a decline in the number of basic missions. We believe more durable savings can be achieved by cutting down on the report writing requirements of updating missions.
 - (b) The planned reallocation of economic and sector work for 1974 reflects the Bank's growing concern with helping the poorer countries. Total economic and sector work in the 21 "least developed" and the 9 "other poorest" countries is expected to increase by nearly 60 percent in absolute terms, from 28 percent in 1972-73 to 37 percent of the total in 1974. A 50 percent decline is foreseen in the work on the 15 high-income countries.
 - (c) While there is a continuing need for in-depth studies of broad social and economic development issues, perhaps the main potential for improvement in our economic work is in a better focus on sector problems. We, therefore, support the trend which is now evident in some of the Regions to allocate more of their economists' time to this subject. Both we and the CPS believe that there is a need for a better definition of the economic questions to be covered in sector work.
 - (d) Under present plans, there will be a drop in the number of basic economic missions in 1974 below the 1973 level - from 13 to 11. The output of basic reports will rise from 10 to 17 because of the carry-over of work from 1972 and 1973 missions. For planning future basic missions, we need a

July 30, 1973

better determination of the priority for these missions relative to other economic and sector work.

3. While the Regional offices have made significant progress over the past year in undertaking basic economic work, the mechanism for planning and monitoring this work remains largely undefined. There is no accepted process for establishing economic work program priorities, either on an annual or a five-year basis, nor any defined mechanism for reconciling competing claims on staff resources for economic work.

4. I believe that it would be desirable to establish a specific mechanism for planning and monitoring of basic economic work. To meet this need, Burke and I have jointly sent a memorandum to the Regional Vice Presidents making the following proposals for the current year:

- (a) A five-year program for basic economic work should be prepared by the Regions and submitted to the Program Review Division and P & B by end September 1973. This program should be in detail for the first three years (since considerable advance preparation is essential including sector and special missions) and indicative for the last two years.
- (b) The Regional Chief Economists should be given a clear mandate to draw up this five-year program in consultation with the Departments and should be responsible for its subsequent monitoring and control.
- (c) P & B will prepare monthly reports, similar to those now issued for lending operations, on significant changes in mission schedules, and quarterly reports on the changes expected in total manpower allocation to economic and sector work. (All such changes by the Regions must be made in consultation with their Chief Economists.)
- (d) An annual report will be prepared jointly by P & B and the Program Review Division on the nature and direction of basic economic work and implications of this work for manpower allocations and for the annual budget.
- (e) A complete five-year program of economic and sector work for each country will continue to be prepared as an attachment to the CPPs. The review of that program should provide an important input to the annual revision of the Region-wide program of basic economic work.

5. I also feel that we should provide for regular review of basic reports. I have so far reviewed the two reports, on Mexico and Yugoslavia,

Mr. Robert S. McNamara

- 3 -

July 30, 1973

on an ad hoc basis, at the request of the Regions. I am discussing with the Regional Chief Economists a more institutionalized system for such reviews.

cc: Mr. J. Burke Knapp

JEdelman/MHaq:yet

Banner

John Baker

RVP

Chief Economists

OFFICE MEMORANDUM

TO: Regional Vice Presidents

DATE: July 30, 1973

FROM: J. Burke Knapp and Hollis B. Chenery

SUBJECT: Planning and Monitoring of Basic Economic Work

Mr. McNamara has indicated on several occasions that he is quite concerned about the substantial changes which occur during the course of the year in the schedules of economic and sector missions from those set out at the beginning of each year in P & B Standard Tables Va and Vb. These changes are essentially due to the tentative nature of the planning process in this area as it has evolved so far. However, based on the experience we have acquired it is now possible to define work program priorities more firmly and to define the mechanism for reconciling competing claims on staff resources.

"Basic economic work" includes the sectoral and other long-term studies that form the basis for our basic economic reports. It should be recognized that substantial advance planning and prior work are needed to obtain basic economic reports. The Blue Book issued in October 1972 assigns a key role to the Regional Chief Economist in "the annual establishment of economic work program priorities" and in maintaining "a high quality of economic work," but this responsibility does not appear to be backed up everywhere by sufficient operative support.

We believe that it would be desirable to establish a specific mechanism for planning and monitoring basic economic work. We have the following suggestions for your consideration and would like to discuss these ideas with you at an early date.

- (a) A five-year program for basic economic work should be prepared by mid-September by each Region with the advice and assistance of the Program Review Division so that it may be incorporated into the five-year work program and manpower tables which P & B is scheduled to have completed by end September 1973.

July 30, 1973

- (b) The Regional Chief Economist should be given a clear mandate to draw up this five-year program in consultation with the departments and divisions concerned, and should be responsible within the Region for its subsequent monitoring and revision. Similarly, all changes in schedules by the Regions should be made in consultation with their Chief Economists.
- (c) A complete five-year program of economic and sector work will continue to be prepared as an attachment to the CPPs. The review of that program should provide an important input to the revision of the Region-wide program of basic economic work.
- (d) P & B will prepare monthly reports on changes in the schedules in Standard Tables Va and Vb, and will prepare revisions to the Five-Year Program tables.
- (e) Separate instructions are now being prepared and will be issued shortly regarding the clearance to be obtained by the Regions before making significant changes in their programs of economic and sector work.
- (f) An annual report will be prepared jointly by P & B and the Program Review Division on the nature and direction of basic economic work and the associated manpower and financial requirements.

cc: Mr. McNamara
Mr. Kearns
Other members of the President's Council

Steven Hays Johnson

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: July 30, 1973
FROM: Hollis B. Chenery, VP, Development Policy
SUBJECT: Import Burden of Developing Countries due to Increase of Foodgrain Prices

The attached note, prepared at your request, examines the effect of recent increases in foodgrain prices on the import bill of the developing countries (LDCs). The analysis shows that the additional drain on LDC foreign exchange resources will amount to \$1.4 billion in 1973, 50% more than in 1968-70, \$1 billion in 1974, and \$0.5 billion in 1975. In addition, LDCs will incur additional costs because quantities of grains under food aid are expected to be reduced in the future and payment terms are apt to harden further. This extra burden, however, cannot be estimated at this time.

Attachment

cc: Mr. Tims, Director, EA&P Dept.
Mr. Singh/Mr. Marsili, EA&P Dept.

Aug. 6. Stern sent copies to P.L.

HBChenery:tk

President has seen

*Returned Aug. 2
(Veres given to Stern)*

IMPORT BURDEN OF DEVELOPING COUNTRIES DUE TO INCREASE IN FOODGRAIN PRICES

Summary

1. The increased prices of foodgrains will be a substantial, and unanticipated drain on LDC foreign exchange resources at least through 1975. Foreign exchange expenditure is estimated to be \$1.4 billion higher in 1973, because of price factors alone; this is a 50 percent increase from 1968-70.^{1/} The equivalent figure for 1974 is \$1.0 billion and \$0.5 billion for 1975. In addition to these estimates LDCs will incur additional costs because the percentage of food imports provided under aid programs is expected to be lower in these years than in the past and the terms may harden. The impact of the shifts in aid financing cannot be estimated since, in many cases, supplier decisions affecting imports in 1974 and 1975 have not yet been taken. Estimates for the major LDCs affected by higher foodgrain prices are given in Tables 1 and 2.

Background

2. The exceptional crop failures which occurred in 1972/73 in many countries had a dramatic effect on the level of international trade, stocks and prices of grains and rice in 1973. Compared with 1972, the volume of trade in all grains expanded this year by over 25 percent, while stocks (mainly of wheat) declined by 30 million tons (25 percent) and prices increased by 60 percent on average.^{2/} All grain deficit countries, developing and developed alike, are therefore faced with much larger outlays of foreign exchange than in the past to buy foodgrain supplies. On the other hand, a few surplus developed countries and Argentina currently benefit from record export earnings from these commodities.

3. The present tight grain situation is expected to ease somewhat in 1974. However, due to the substantial depletion of stocks in 1973 and the necessity of re-stocking, prices of grains and rice will remain high in the next two years compared with the 1968-70 level, though some decline is expected. This means that at least until 1975 expenditures on imports of foodgrains, particularly for developing countries ^{3/} will be substantially higher than they would have been if prices had remained unchanged. Moreover, food aid shipments ^{4/} are expected to decline because approximately constant

^{1/} The 1968-70 is considered in this note to represent a "normal" situation, i.e. a period characterized by reasonable balance between current supply and demand and stable prices.

^{2/} For further detail see "World Grain and Rice Situation and Outlook," SecM73-395, June 28, 1973.

^{3/} Because many LDCs either maintained their US dollar exchange rate or devalued vis-a-vis the US\$, higher dollar prices of grains are more directly reflected in these countries import outlays than is the case for most developed countries for which part of the increase in prices is absorbed by revaluation.

^{4/} Food aid shipments of grains averaged 10 to 12 million tons annually in 1970-72, about a third of LDC total grains imports.

budgets in the donor countries will provide less grains at the higher prices and because supplies, including stocks, will be more limited. In addition, terms may harden, particularly the maturity and downpayment required for credit sales.^{1/}

4. The assessment below, and the data in the Tables, are based on assumptions concerning the quantities that LDCs are likely to import in 1974 and 1975. These estimates assume normal weather and crop conditions.

Effect on LDC's Foreign Exchange Expenditure

5. In the 1968-70 period, LDC imports of foodgrains (including food aid shipments), averaged about 32 million tons, costing about \$2.9 billion per year (Table 1). Six countries, Bangladesh, India, Indonesia, Philippines, Sri Lanka and Egypt accounted for about 40 percent of total LDCs' foodgrain imports in 1968-70. Of the total foodgrain imports, aid shipments of grains to all LDCs combined, amounted to an estimated 30 percent of total grains import value. The proportion of imports supplied under aid programs ranged from 10 percent for Egypt to 80 percent for India. The terms of food aid also vary widely, ranging from grants to immediate cash payments of up to 50 percent. Actual expenditure of foreign exchange on foodgrain imports thus varied considerably by country depending on the proportion and terms of food aid in the total.

6. For 1973 we estimate that the volume of LDC foodgrain imports will rise to 36 million tons, i.e. 10 percent more than in the 1968-70 period. Mainly as a result of higher import prices, the value of these imports will reach about \$4.6 billion, i.e. \$1.7 billion more than in 1968-70. While the dollar amount of food aid is expected to increase slightly, the proportion of food aid shipments is estimated to decline from 30 percent to 20 percent of the total.^{2/} Projections for 1974 reflect our belief that grain prices will show some decline starting in 1974 while the volume of LDC grain imports will remain high, at around 36 million tons. A more normal volume of imports is expected in 1975; prices will also decline somewhat though not to the 1968-70 levels. Thus, even in 1975, LDCs as a group will still be spending \$500 million more on imports of foodgrains than in 1968-70. However, some of the developing countries shown in Table 1 will spend less because the reduction in the imported quantities will more than compensate for the higher unit prices of foodgrains.

^{1/} Terms under Title I of P.L. 480 have in fact been hardening over the years with the gradual phasing out of sales for local currencies and the corresponding increase in long-term dollar sales. Since 1972, all Title I sales are long-term credits repayable in dollars.

^{2/} The proportion of grains received as food aid by individual LDC is estimated to have changed considerably in 1973 as compared to 1968-70 (see Table 1). India, for example, received 80 percent of the value of its imports under food aid in 1968-70 but none in 1973. The increase in the import bill for India in terms of foreign exchange is therefore much larger than the actual figures show.

7. Table 2 presents, for selected LDCs and for all LDCs combined, an estimate of how much more these countries will spend to purchase foodgrains in 1973-75 than they would have if prices had remained at their "normal" 1968-70 level. For all LDCs combined, the supplementary expenditure is estimated at \$1.4 billion in 1973, almost \$1 billion in 1974, and \$0.5 billion in 1975. Since it can be safely assumed that food aid shipments in the next couple of years will be curtailed, the amounts shown represent the minimum increase in foreign exchange outlays which LDCs will incur as a result of higher import prices. These unanticipated increases in expenditures are, of course, a serious drain on foreign exchange resources available for development. In a number of cases countries had planned on achieving, or making substantial progress toward relative foodgrain self-sufficiency by 1975. The failure to reach these targets will imply substantial compensating shifts in planned development expenditures.

Commodities and Export Projections Division
Economic Analysis and Projections Department
Development Policy Staff

July 12, 1973

Table 1: DEVELOPING COUNTRIES - IMPORTS OF FOODGRAINS, 1968/70-1975; IMPORTS UNDER FOOD AID IN 1968/70 AND 1973

	Actual			Estimated			Projected			
	1968-70			1973			1974		1975	
	Volume (1,000 m.t.)	Value (\$ million)	% /1 Food Aid	Volume (1,000 m.t.)	Value (\$ million)	% /1 Food Aid	Volume (1,000 m.t.)	Value (\$ million)	Volume (1,000 m.t.)	Value (\$ million)
Selected Developing Countries										
Bangladesh /2	1,313	130	50%	2,400	288	70%	2,000	225	1,400	142
India	4,521	387	80%	4,200	460	-	5,300	535	2,800	259
Indonesia	1,239	173	60%	1,800	282	60%	1,300	186	1,000	120
Philippines	583	40	-	1,350	175	50%	1,150	140	930	95
Sri Lanka	988	96	50%	960	124	60%	900	105	900	93
Egypt Arab Rep.	1,760	102	10%	2,600	283	5%	2,400	239	2,400	215
Senegal	278	30	-	450	54	30%	400	47	400	44
Total above	10,682	958	60%	13,760	1,666	35%	13,450	1,477	9,830	968
Other Developing Countries	21,788	1,928	10%	22,240	2,900	10%	22,550	2,600	22,170	2,300
Total Developing Countries	32,470	2,886	30%	36,000	4,570	20%	36,000	4,080	32,000	3,270

/1 Partly estimated: expressed as percentage of total import value of foodgrains.

/2 Includes shipments from Pakistan until 1970.

Source: FAO, Trade Yearbook, 1971.

Economic Analysis and Projections Department estimates.

Table 2: DEVELOPING COUNTRIES - ESTIMATED VALUE OF IMPORTS OF FOODGRAINS 1973-1975:
(I) AT PROJECTED PRICES AND; (II) AT 1968-70 PRICES /1

	Estimated Value of Foodgrains Imports						Increased Expenditure because of higher cereals prices (I)-(II)		
	At projected prices			At 1968-70 prices /1			1973	1974	1975
	(I)			(II)					
	1973	1974	1975	1973	1974	1975			
-----(\$ million)-----									
Selected Developing Countries									
Bangladesh	288	225	142	212	177	126	+76	+48	+16
India	460	535	259	336	426	231	+124	+109	+28
Indonesia	282	186	120	236	160	117	+46	+26	+3
Philippines	175	140	95	129	109	82	+46	+31	+13
Sri Lanka	124	105	93	82	77	77	+42	+28	+16
Egypt Arab Rep.	283	239	215	151	139	145	+132	+100	+70
Senegal	54	47	44	40	36	36	+14	+11	+8
Total above	1,666	1,477	968	1,186	1,124	814	+480	+353	+154
Other Developing Countries	2,900	2,600	2,300	1,960	1,980	1,950	+940	+620	+350
Total Developing Countries	4,570	4,080	3,270	3,150	3,100	2,770	+1,420	+970	+500

/1 The calculation is based on the assumption that in absence of the crop failures in 1972/73, cereals prices would have remained, in the 1973-75 period, at the 1968-70 average level for grains, and at the 1970 level for rice; forecast of quantities of cereals to be imported are shown in Table 1.

Source: Table 1 and Economic Analysis and Projections Department estimates.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Gerald Alter *gfa*SUBJECT: Your Annual Meeting Address

DATE: July 27, 1973

1. I am in agreement with the emphasis you give in your Annual Meeting speech to rural poverty in the developing countries, its scope, nature, and effects, and what can and should be done about it by the developing countries, by the developed countries, and by the Bank. Reducing rural poverty is important from a strictly moral point of view, it provides the basis for a broad consensus among peoples in the rich countries of the world to expand their assistance to less developed countries and, it constitutes a challenge for the political leaders in the developing world, who are concerned with the risks of revolution. I think all of these points are brought out clearly in your address. However, there are questions of balance between objectives and implications of the targets you propose which you may wish to consider further. I suspect that the scale on which you are proposing an attack on the problem of rural poverty involves target-setting beyond the realm of practicality, taking into account other objectives of the developing countries and the limitations which surround them in achieving these objectives. I recognize that there is a real dilemma here because there is an urgent need for an ambitious program.

Hollis ask Program Review to draft to your attention + mail
any case where it is an LDC meeting were leading in
has reduced the resources there could be effectively applied to increase
to a small-holder spread
became "trade-off" argument.
on

2. In many countries of the LAC Region for example, high priority attaches to expand agricultural output to serve the needs of a rapidly growing internal market and to increase foreign exchange earnings. I fear that efforts on the scale envisaged in the present draft for increasing the productivity of small-scale subsistence agriculture may jeopardize these other objectives. How do we handle these trade offs? I think these trade-offs exist even though the productivity of small-scale holders may not be inherently low, modern agricultural technology is divisible (over a broad range), and the scale of operations (over a broad range) is no barrier to raising agricultural yields. We must face up to the fact that in many countries a very large part of subsistence agriculture is in the hands of farmers whose productivity is capable of being expanded, but at a very high price in terms of services to be provided by governments and quasi-governmental institutions. Similar or less costly services provided to commercial agriculture frequently have a much greater production effect, and may increase output of products having a much readier market, both internally and abroad. Shouldn't more recognition be given in the paper to this dilemma? Shouldn't the quantitative targets on pages 20 and 32 be qualified?

3. I realize that the 5% rate of growth projected for output on small farms is for 1985. This gives 12 years to achieve such a rate. Shouldn't however some attention be paid to the shorter term targets and their feasibility? A careful review of the actions that need to be taken, discussed in pages 21 to 32, suggest there are many constraints.

Responses: Sept. 28

July 27, 1973

4. These constraints are, I believe, recognized in the Bank's action program outlined on page 33. The \$4.4 billion program in agriculture for 1974-78 looks small compared with the target suggested for 1985. Much of the lending in our 1974-78 program is for commercial agriculture, even though a component in many of these loans will provide for the small farmer. Although it can be argued, as stated, that we will finance only a small portion of the total credit and investment needs of smallholder agriculture, I doubt that the finance available from other sources for the period in question is consistent with arriving at an amount of investment in smallholder agriculture equivalent to 7% of the combined GNP's of the developing countries.

5. We have reviewed all of the specific references to countries in the IAC Region. Mr. Avramovic will provide our comments to your staff preparing the next draft of the address.

cc: Mr. Knapp

GAlter:pa.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

CC: Tims, Singh

} Hand
delivered
July 26
5:40pm

TO: Tims

Please review before
forwarding.

OFFICE MEMORANDUM

TO: Mr. R. McNamara

DATE: July 23, 1973

FROM: Hollis B. Chenery, Vice President, DPS

SUBJECT: Board Paper on Palm Oil

1. The attached paper, prepared at the request of the Board, provides the market analysis for palm oil projects likely to be submitted to the Board in FY74.
2. The paper analyzes the market outlook for palm oil through 1980 in the context of the world supply and demand situation for oils and fats in general.
3. World supply and demand of oils and fats as a group are expected to be roughly in balance by 1980 and additional supplies of the different oils will be absorbed with little or no pressure on their market prices. However, the structure of supplies is expected to change with palm and soybean oils alone accounting for almost one-half of the total increase in output. This projected change partly reflects the expected slower growth of supplies of other oils and fats. The favorable demand outlook for oils and fats in general leads to an expectation for the price of palm oil in 1980 (in current dollars) at about the same level as in 1972, i.e., \$210 a metric ton compared with \$212 in 1972.
4. A large part (60%) of the projected increase in demand for palm oil will take place in developed countries, but the paper notes that rising incomes in developing countries can result in substantial increases in consumption in these countries, since income elasticities of demand for vegetable oils are relatively high at low income levels. As in the recent past, by far the largest share of new world output and exports is expected to originate in Malaysia and Indonesia while Nigeria, which hitherto was the main exporting country in West Africa, is expected to become a net importer by 1980.
5. Since export demand prospects remain favourable in the period to 1980 and probably also in the following decade, and consumption in developing countries is expected to increase rapidly there is scope for further investment in palm oil production.
6. Although physical yields are highest in the major producing countries of Asia, such investment still remains attractive in some other countries, notably in Africa, given the limited range of alternative investment opportunities available to such countries. By investing in palm oil production, the Bank would therefore make a positive contribution to their economic development.

cc: Mr. Knapp

JNusbaumer/SSingh/WThms:ar

7/25 To Dr. Chenery
① This I notice
The paper is
dated 6/6/73. Please
arrange more
frequent distribution
of future
memos.
Does not
the paper
weak in
explanation
of demand for
Palm Oil
will
increase
share
demand
for
palm
oil &
cocoa
oil
will
remain
stagnant.

JUL 26 1973

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

To Dr. Chavira 7/25
A Dr. Horacio Carrivos at
MIT is very interested in
low-cost housing in LDC's.
Please ask our staff members
who are working on the Housing
Policy paper to discuss the
subject with him
Lm

cc. Keave

Sadant

Dunbarley

Stem

} copies
hand-carried
July 27 am

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

copied
(from handwritten note)

July 25

"To: Dr. Chenery

A Dr. Horacio CAMINOS at MIT is very interested in low-cost housing in LDC's. Please ask our staff members who are working on the Housing Policy paper to discuss the subject with him.

RMcN

cc: Messrs. Keare
Sadove
Dunkerley
Stern

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery

SUBJECT: Annual Speech Data Check

DATE: July 26, 1973

I am forwarding to you the attached memorandum
from Mr. Yudelman.

OFFICE MEMORANDUM

JUL 26 1973

TO: Mr. Hollis B. Chenery

DATE: July 26, 1973

FROM: Montague Yudelman *my*

SUBJECT: Annual Speech Data Check-Addendum

1. The statement put up to you by Mr. Haq on July 25 suggested an amendment on page 32, paras 18-21, as follows:

"One estimate would place the annual average cost of on-farm investment, land and water resource development, additional training facilities and minimum working capital requirements for agriculture at \$40-50 billion by 1985. This would be about 7 percent of the present combined annual GNP of the developing countries."

2. To make this statement consistent there has to be reference to the compatibility of the period of reference for prices and GNP. The estimate of \$40-50 billion dollars is based on 1965 data and inflated to 1985 prices while the GNP estimate is for 1973. Thus I believe it will be more accurate to have both sets of data refer to the same time so that the estimate of costs should be revised to reflect 1973 prices. The statement which I recommend would then read:

"One estimate would place the annual average cost of on-farm investment, land and water resource development, additional training facilities and minimum working capital requirements for smallholder agriculture at around \$20-25 billion by 1985. This would be about 3.5% of the combined annual GNP of the developing countries."

MYudelman:go

cc: Mr. Haq

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery and Warren C. Baum

SUBJECT: Policy Paper on Health

DATE: July 25, 1973

You have asked whether the Policy Paper on Health will deal with the economic cost or development penalty of "poor health". The answer to this is yes. Item III (b) on the proposed outline is the place where this point will be examined.

RGulhati/mo

JUL 23 1973



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

OFFICE OF THE PRESIDENT

July 23, 1973

cc: Thurs/Sunday - Action

info: Reuthing

cc Stern 8/1

MEMORANDUM FOR MR. BAUM and MR. CHENERY ✓

Please draft a proposed reply to the attached letter from Dr. Boerma and in addition prepare a note on how you see the Bank's long-term role in the production, storage and trade of foodstuffs. Is there immediate action you would recommend to strengthen our ability to assist developing nations in this regard?

Specifically, I would like you to consider whether Bank policies and practices need to be modified to deal more effectively with such issues as:

- a) the financing of food production, food storage facilities and food stocks; and
- b) the determination of national and international requirements for the production and storage of cereal grains and appropriate policies to achieve those objectives.

cc: Mr. Knapp
Mr. Hoffman

A handwritten signature in dark ink, appearing to read "R. McNamara", is located above the printed name.

Robert S. McNamara



FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

JUL 20 REC'D

Via delle Terme di Caracalla, 00100-ROME

Cables: FOODAGRI ROME

Telex: 61181 FOODAGRI

Telephone: 5797

Ref. PA 4/1

Dear Bob,

Following the useful inter-agency consultations in Rome on 16 April 1973 concerning the proposals for a world food security policy, in which Mr. Yudelman participated, this matter has now been taken a step further in discussions by governments. At its June session, the FAO Council had a good debate on the proposals which it generally considered offered a reasonable approach to the problem. As you will see from the attached extract of its report, the Council decided on a series of specific steps and procedures for examining the proposals in greater detail at a technical and policy level, so that the FAO Conference will be in a position to take formal action at its forthcoming session (13-29 November 1973).

There was a general welcome for the preliminary consultations which the agencies have already had on the problem, and you will note from paragraph 100(f) and (g) that the Council has invited interested international and regional development agencies to indicate more specifically the ways in which developing countries could be assisted to participate effectively in the scheme. You may also recall that the interagency consultation in April concluded that it would be useful to meet again to explore together a number of issues in greater depth.

I would, therefore, like to make two requests. First, could you please arrange to send, by the middle of August if possible, a concise statement setting out specific ways in which you consider the International Bank for Reconstruction and Development could assist developing countries, both exporting and importing, in establishing or strengthening their national cereal stock programmes and policies in accord with their development priorities and in the general context of the proposed world food security policy. This should cover aid available under existing procedures as well as possible new forms of assistance. A brief review of past activities and experience in the food storage field would also be useful.

.....

Mr. Robert McNamara
President, International Bank for Reconstruction
and Development
1818 H Street, N.W.
WASHINGTON, D.C.

U.S.A.

The FAO Council were unanimous in agreeing that the financing of stocks and related facilities would be a key problem, and you will see (para. 91) that the possibility of agencies providing some form of special assistance was raised, as well as ways of identifying and mobilising (from multilateral and bilateral sources) the resources required by developing countries.

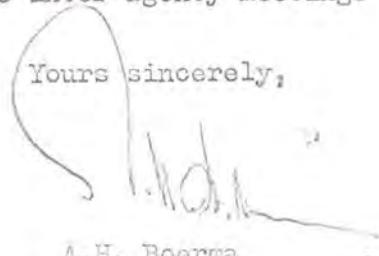
Secondly, I would like to invite participation at a senior level in a second informal inter-agency consultation. This consultation should be able to envisage, as a whole, what all the agencies felt they could offer on the basis of the various written policy statements submitted, which I would propose to make available as restricted papers at the consultation. The meeting could also discuss more concretely the form of a cooperative action programme which the agencies themselves might set up. For example, during our earlier consultations with governments, one bilateral aid agency suggested it would be useful to have some kind of clearing house for national reserve project proposals and requirements, and another suggestion was to devise ways of formulating "package proposals" covering finance, technical assistance, and food aid required to implement a national reserve project identified in a particular country. Consideration might also be given to ways of strengthening the FAO early warning system for food shortages, and the food information system generally. No doubt your staff will have a number of ideas on ways in which we can all act together to assist developing countries.

During the consultation I would also welcome comments and suggestions on the general proposals themselves. As the Conference document has to be sent for translation and printing by the end of July, it will unfortunately not be possible to incorporate the views of agencies in this paper, but there would be opportunities to take them into account before the final Conference discussion in November.

I propose to hold this second inter-agency consultation on Friday, 21 September, in Rome, and I am inviting the same agencies as in April plus representatives from the Regional Banks. I am planning to preside over this consultation myself for as long as I can, and in my absence will ask the ADG, Economic and Social Policy Department to take the chair.

I should be grateful to have the written statement of views requested by the FAO Council by 15 August if possible, and at the same time to receive the names of your representative at the inter-agency meeting.

Yours sincerely,



A.H. Boerma
Director-General

3 July 1973

EXTRACT FROM REPORT OF SIXTEENTH SESSION OF FAO COUNCIL

(Rome, 11-22 June 1973)

Resolution for the Director-General on International Action
to Ensure Adequate Basic Food Stocks 1/

31. The Council has before it a Note by the Director-General drawing attention to the problem of ensuring world security against serious food shortages and setting out proposals for international action to assure adequate basic food stocks.

32. The Council agreed this was an urgent food policy issue of vital concern to people all over the world. It commended the Director-General for his timely initiative in alerting the Council, which had central responsibility in this field, and in proposing the preparation of concrete proposals for governments to consider. The Council hoped that these proposals would represent a realistic approach to the long-standing problem of world food security. The assurance of an adequate availability of basic foodstuffs was a common responsibility of the entire international community, and was essential not only on humanitarian grounds but also for the economic and social stability of the world.

33. The Council recognized that the problem of world security against food shortages had become increasingly serious following important changes in the world cereal supply situation in the past season. After several years of ample cereal supplies on international markets, crop failures and lower production due to adverse weather in several parts of the world had led to a depletion of stocks and to a precarious world supply and demand position. For the first time since 1952, the new season would open with cereal stocks in exporting and importing countries at levels which would give no assurance of adequate supplies to meet world demand in the event of large-scale crop failures. Cereal supplies in 1973/74 were dependent almost entirely on the result of the 1973 harvests and were thus very vulnerable to the uncertainty of one season's weather. Although measures had been taken to expand output, demand remained strong and it would probably take more than one season, with favourable weather, to obtain a replenishment of stocks of sufficient magnitude. In the meantime, the world would be inadequately protected against shortages. The Council noted that there was at present no acceptance by the international community, in any meaningful sense, of the concept of a minimum safe level of basic food stocks for the world as a whole.

34. In introducing the proposals, the Director-General pointed out that the central problem was to ensure that basic food stocks were maintained at levels which safeguarded global security in the event of a major crop failure. In his view, this did not necessitate a complex and ambitious scheme for a world reserve along the lines of past proposals. He believed that the aim of a minimum level of world food

1/ CL 60/11, CL 60/PV/5, CL 60/PV/6 and CL 60/PV/12.

security could be met more simply through a limited degree of coordination of national stock policies, provided the necessary understanding could be reached among governments. The Director-General emphasized that while the proposed scheme was voluntary and designed to minimize the obligations of governments, acceptance of the proposal would imply that all producing and consuming countries should take steps, each according to its means, to assure food supplies in accordance with an agreed concept. It would require commitment to the concept and a determination to give effect to it through adjustments in existing stock policies.

85. The proposals contained four main elements. First, all producing and consuming countries, including developing countries, should cooperate in drawing up an acceptable concept of minimum world food security. This should aim to ensure, through national stock-holding, the availability at all times of sufficient supplies of cereals, the world's basic foodstuffs, to avoid acute food shortages. Second, regular intergovernmental consultations should be held to determine the adequacy of world stocks to meet minimum needs, and to recommend action if stocks were insufficient. An improved international information system would be necessary to assemble the necessary data on stocks and other relevant matters. Third, voluntary guidelines for national stock policies would be recommended to governments, with the aim that countries have a minimum protection against crop failure and, where feasible, could contribute to world food security. Fourth, the special position of developing countries would be recognized, and an international programme would be drawn up to expand and coordinate assistance to developing countries wishing to establish national food stocks.

86. The Council noted that ECOSOC at its Fifty-Fourth Session (May 1973) had adopted a resolution which endorsed the Director-General's analysis of the problem, emphasized that the assurance of adequate food supplies was a common responsibility of the international community, and welcomed the intention to submit proposals to the Council of FAO.

87. The Council agreed that the proposals, while necessarily presented in general terms at this stage, represented a reasonable approach to the problem.

88. The Council emphasized that full consideration should be given to the possible wider implications of implementing the proposal, which might have long-term repercussions both on the structure of world production and on world trade. The experience of the major grain exporting countries had shown the difficulties involved in assessing the appropriate level of stock-holding, in stock management and in avoiding over-accumulation of supplies. The agreed international strategy of the Second Development Decade should be borne in mind. In this respect, it was also observed that it would be necessary to ensure that the scheme did not indirectly encourage uneconomic food production, particularly in developed countries which had a very substantial productive capacity and pursued agricultural support policies; the importance was stressed of taking care not to stimulate production unhelpfully and cause structural surpluses and dislocations in international trade, which would be of particular disadvantage to developing countries heavily dependent on agricultural exports as a source of foreign exchange earnings and capital resources for development; furthermore, the plan presented by the Director-General should therefore contain ways and means to avoid those risks.

87. Many members considered that the document should clarify the relation between the proposals, international agricultural adjustments and the multilateral trade negotiations under GATT.

88. The Council agreed that the position of developing countries, both importing and exporting, needed special attention. The principle of self-reliance which underlay the proposals was widely supported. Most developing countries in view of their balance of payments problems, would have to build up their stocks from domestic production as far as feasible. This meant that priority in the allocation of their scarce capital resources should be given to building up the food production base. Implementation would therefore take time, perhaps several years, especially in view of the current tight supply conditions, and the proposals should clearly distinguish between the short-run and the longer-run situation. In the short-run, acute shortages and emergency situations would have to continue to be met by bilateral food aid programmes and the World Food Programme. It was suggested that the initial aim should be the restoration of stocks to normal operating levels, and, in the longer-run, consideration could be given to building up reserve stocks to meet emergencies and severe shortages arising from crop failure. Account had to be taken of the great world food consumption. In general, national stock programmes would have to be carefully formulated within the context of national development priorities, bilateral and multilateral assistance programmes, and international adjustments in agricultural production and trade.

89. The cost, source and mechanism of financing of national food stocks and related facilities would be a key problem. International assistance would be required for building storage facilities, infrastructure, and in ensuring adequate management and other services in developing countries. Problems of deterioration of stored food would have to be studied. The objectives of minimum stock policies had to be clarified, as well as the location of stocks and sources of supplies. The possibility of international, regional and bilateral development agencies providing special assistance to national reserve programmes should be further investigated, and ways of identifying and mobilizing the resources needed by developing countries should be worked out. The role of the World Food Programme in assisting national reserve projects, which had so far been limited, should also be reconsidered. It was noted that preliminary consultations which the Director-General had had with a number of international agencies (IBRD, IMF, UN, UNCTAD, UNDP and WFP) had already identified several aspects on which they could play a larger role in assisting interested developing countries in this sector.

90. In the discussion, some members pointed out that the inability of their countries to hold sufficient stocks to offset the wide crop fluctuations caused by natural disasters and adverse weather had created a precarious food situation and instability. It also disrupted their economy and trade, since in drought years higher food imports at high prices were often accompanied by losses from the sale of export livestock at low prices whereas in good seasons grains were exported at lower prices while livestock had to be imported at higher cost to rebuild the herds. Other members informed the Council of the advantages which had been gained from the positive food stock policies which their governments already followed, and concluded that national stock operations would be facilitated by the international system of consultation and cooperation envisaged in the proposals.

93. Some members urged bolder action, involving the international management of national stocks combined with a special programme to expand food production in developing countries. It was suggested that the feasibility should be explored of establishing a mechanism, possibly on a reciprocal basis, whereby countries could earmark part of their national stocks to help neighbouring countries suffering from temporary food shortages. Another member was ready to assist in the rapid mobilization of supplies which was the critical problem in emergency food situations. A member suggested that, in elaborating the concept, FAO should promote the negotiation of long-term bilateral trade agreements for the delivery of basic foodgrains as a means of assuring a regular flow of supplies. It was also suggested that it would be desirable ultimately to incorporate stock provisions into international commodity agreements rather than deal separately with this issue, and attention was drawn to the activities of the International Wheat Council. It was also felt that consideration of the proposals should not lead to delay in the implementation of the Emergency Food Supply Scheme.

94. Whilst associating themselves with the general aim of the proposal and sharing the view that the Director-General should now specify the content and procedures involved in his proposal, other members brought out a number of factors which they considered essential if the proposal was to be acceptable to their governments. Some members stressed national responsibilities in regard to production and stock-holding policy and the need for a clear statement of the limits of the international cooperation envisaged. Others thought that the problem of world food security was less a question of overall resources than of allocation and distribution, aspects to which a detailed plan should give serious consideration. Stress was placed on the idea that priority should be given to speeding up the improvement of food production in countries threatened by famine. It was accordingly stated that the additional cost of holding stocks should not hold up the financing of overall development.

95. Some members stated that since the problem of hunger was not exclusively a matter of wheat production or even of grain production, other products should also be considered in the scheme.

96. The Council agreed that an adequate information system would be an essential element, and procedures for reporting national stock levels, storage capacity, stock-holding programmes, food requirements and other necessary data on the supply and demand situation would have to be considered. The cooperation of all nations would be needed if a comprehensive scheme were to be developed. Better assessments of the production outlook would require improvements in national crop reporting and production statistics, which were also necessary to facilitate the management and maintenance of national food stocks. The seasonal unpredictability of agriculture presented great problems for stock management. The need to take full account of the longer-term trends in world production, consumption and trade was stressed. The interrelationships between cereals were increasingly important, because of the most dynamic growth in grain utilization as animal feed, in line with the strong demand for meat. The effect of substitution between commodities on price levels, market demand and supply, and consequently on stock positions, should be carefully studied.

97. As regards the proposed intergovernmental consultations, the Council agreed that use should be made of existing machinery, including the CCP, the Intergovernmental Group on Grains, the Intergovernmental Group on Rice, and the International Wheat Council.

98. The Executive Secretary of the International Wheat Council gave a short account of the recent activities of his organization, and expressed his belief that the Wheat Council would wish to explore ways in which it could collaborate in developing and implementing the proposals, particularly as they could have implications for the renegotiation of the International Wheat Agreement which would be under discussion at the forthcoming session later in June 1973. In this connection, the Council welcomed the close working cooperation which already existed between the secretariats of FAO and the International Wheat Council.

99. The observer for the International Federation of Agricultural Producers stressed the basic responsibility of the world's farmers in assuring adequate food supplies and pledged the support of his organization in helping to implement the proposals.

100. The Council agreed that the following steps should be taken:

(a) Concrete proposals designed to implement the concept of a minimum world food security policy should be prepared by the Director-General for consideration at the Conference, taking into account the views expressed at this Council session and the contents of the document approved by the Seventeenth Session of the IGC entitled "Report on Food Aid and Related Issues during the Second Development Decade".

(b) This should be submitted to the CCP for preliminary scrutiny, with the request that the CCP advise on the commodity policy aspects of the proposals and in particular on the proposed guidelines for stock policies and the suggested consultative machinery.

(c) The Intergovernmental Group on Grains should be requested to advise through the CCP on the required information system, and on the practical problems and procedures involved in appraising the adequacy of stocks in relation to world needs. It should also make a special evaluation of the adequacy of current and prospective stock levels. The Intergovernmental Group on Rice should be requested to carry out a similar evaluation at its next regular session.

(d) The Intergovernmental Committee of the IGP should be invited to review its procedures and policies towards assisting developing countries to build national food reserves.

(e) The International Wheat Council should be informed of the proposals and invited to consider in what way it could participate in the examination and the plan arising from it.

(f) The Director-General should invite interested international and regional development agencies to indicate the specific ways in which they could assist developing countries to participate effectively.

(g) The views of these bodies and international organizations should be transmitted to the Conference for consideration together with the Director-General's proposals.

101. In conclusion, the Director-General emphasized that his more detailed proposals would be designed to be effective and acceptable. They could not, however, replace the immediate shortage. In view of the precarious state of the current supply position, he urged Governments to undertake emergency planning to meet the situation worsened to the extent that very quick action was needed to secure available supplies. The Council agreed there was a full awareness among Governments of the seriousness of the problem and a recognition of the urgency of taking any necessary action.

OFFICE MEMORANDUM

TO: Mr. R. McNamara

DATE: July 23, 1973

FROM: Hollis B. Chenery, Vice President, DPS

SUBJECT: Board Paper on Palm Oil*in PALM OIL file (Commodities)*

1. The attached paper, prepared at the request of the Board, provides the market analysis for palm oil projects likely to be submitted to the Board in FY74.
2. The paper analyzes the market outlook for palm oil through 1980 in the context of the world supply and demand situation for oils and fats in general.
3. World supply and demand of oils and fats as a group are expected to be roughly in balance by 1980 and additional supplies of the different oils will be absorbed with little or no pressure on their market prices. However, the structure of supplies is expected to change with palm and soybean oils alone accounting for almost one-half of the total increase in output. This projected change partly reflects the expected slower growth of supplies of other oils and fats. The favorable demand outlook for oils and fats in general leads to an expectation for the price of palm oil in 1980 (in current dollars) at about the same level as in 1972, i.e., \$210 a metric ton compared with \$212 in 1972.
4. A large part (60%) of the projected increase in demand for palm oil will take place in developed countries, but the paper notes that rising incomes in developing countries can result in substantial increases in consumption in these countries, since income elasticities of demand for vegetable oils are relatively high at low income levels. As in the recent past, by far the largest share of new world output and exports is expected to originate in Malaysia and Indonesia while Nigeria, which hitherto was the main exporting country in West Africa, is expected to become a net importer by 1980.
5. Since export demand prospects remain favourable in the period to 1980 and probably also in the following decade, and consumption in developing countries is expected to increase rapidly there is scope for further investment in palm oil production.
6. Although physical yields are highest in the major producing countries of Asia, such investment still remains attractive in some other countries, notably in Africa, given the limited range of alternative investment opportunities available to such countries. By investing in palm oil production, the Bank would therefore make a positive contribution to their economic development.

cc: Mr. Knapp

JNusbaum/SSingh/WP113:ar

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 20, 1973

FROM: Hollis B. Chenery *HBC*SUBJECT: Status of Senior Advisers in the Development Policy Staff

1. Mr. Chadenet tells me that he is recommending to you that the two Senior Adviser positions in the Development Economics Department and Economic Analysis and Projections Department should be downgraded from their present OSS (X) level to A level in the forthcoming reclassification and has encouraged me to submit my comments to you. I wish to recommend that they retain the OSS level which they have carried in recent years.
2. The two principal Economics departments have staffs of some 50 professionals each and between them are responsible for all of the fields of economics relevant to development. Since more than half of the professional time in these departments is spent on research and policy formulation, a high order of imagination and professional competence is needed to guide this work. It is the experience of the Bank and other organizations that people charged with major administrative responsibility cannot devote the amount of time to keeping up with developments in a variety of fields of economics that is needed to guide research effectively. The Senior Adviser is therefore expected to provide this intellectual leadership and to coordinate the research and policy activities of his department.
3. In order to attract and retain the best economists for this function, I think it is essential that they be graded at a level equal to the Deputy Director or Chief Economist. The professional responsibility of the Senior Advisers is clearly equivalent to that of the Chief Economists in the Regions. We have in the past had Mahbub ul Haq and Ben King performing effectively in these positions, and in the future it would be valuable for the Bank to have the Chief Economists and other top professionals in them as part of a career rotation. Since there is a continuing shortage in the Bank of high level economists, it is desirable to have our top professional positions the equivalent of the senior administrative levels to retain the best people.
4. If these positions are downgraded, as proposed, it will accentuate the existing tendency of the best economists to take administrative posts in order to be promoted after they have reached the age of 35-40. This works against your desire to make the Bank an innovator in the field of development policy. It will also make outside recruitment of people of

July 20, 1973

the necessary calibre extremely difficult--we are already having trouble in negotiating with Europeans even at the X level.

5. The position of the Senior Advisor in the Development Research Center is somewhat different. Since this is a smaller department, we have abolished the position of deputy director as of July 1 and plan to have the Senior Advisor act as deputy, as well as guide research. Here, I think the argument for the OSS status is quite clear. Although relatively small in Bank terms, the DRC has a research budget on the order of a million dollars a year, and it is rapidly becoming one of the leading development research institutions in the world. The present Senior Advisor, Jack Duloy, meets the highest standards of academic research--as is evidenced by attempts by universities to hire him--and, in addition, is quite effective in integrating the work of the DRC into the Bank context.

cc: Mr. Chadenet
Mr. Clarke

HBChenery:tk

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 17, 1973

FROM: Hollis B. Chenery and Warren C. Baum

SUBJECT: Policy Paper on Health: Scope and Timing

1. Our objective is to prepare a paper to be discussed by the Board. Since we do not yet have a coherent "health policy," a good deal of internal discussion of the subject at various levels in the Bank will be necessary before any proposals can be put to the Board. It would be wasteful to wait for the full Board paper before beginning these discussions. We therefore propose that the preparation of this paper be regarded as a two-track affair. The longer track is the preparation of the Board paper, for which an outline is attached. We should hope to complete this by September 1974. Work will begin, principally by consultants, as soon as possible on the sections that will provide the necessary background against which to set an analysis of policy options, in a way that has proved useful and effective in the sector working papers.

2. The shorter track will lead to a briefer paper, analyzing the main policy options facing the Bank against a background that will be drawn from the work on the main paper. We hope to have this in draft by January 1974; this timing, however, is contingent on finding staff and consultant time in the very near future and these arrangements are not yet firm. In terms of the outline, the options paper would concentrate heavily on Sections III and V.

Attachment

cc: Messrs. Kanagaratnam
Stevenson
King
Stern

TKing/KKanagaratnam:tk

7/20 To Messrs Chenery & Baum

1. Should not the paper be written by the Board?

"economic cost" or development health of "from health".

The quantity report of Policy

Refuses

- 6/1/73

Shows the

paper

due March

1974.

*I do not

understand

why

45 days

later will

should slip

at 6 months.

L. New

OFFICE MEMORANDUM

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Attachment

cc: Messrs. Kanagaratnam
Stevenson
King
Stern

HEALTH POLICY PAPER

Outline

I. Introduction

- a. The health sector and its frontiers.
- b. Direct and indirect factors affecting health levels.

II. The Health Situation in Developing Countries

- a. A review of recent trends and present prospects in mortality, disease levels, other health indicators.
- b. Pattern of resource use by the sector - preventative health and curative health, organizational aspects, manpower needs, financial aspects.
- c. Distribution of health care by income levels of recipients.

III. LDC Health Policy

- a. Better health as a social goal.
- b. Health expenditure in relation to other social goals - fertility reduction, economic growth, more equal income distribution.
- c. The choice of health priorities.
- d. Comparative cost effectiveness of alternate health strategies.
- e. Implications for research.

IV. International Assistance in Health

- a. WHO.
- b. Other UN organizations.
- c. Bilateral organizations.
- d. Non-government organizations.

V. Health in Bank Activities

1. Experience to date.

- a. Water supply/sewerage.
- b. Population (Maternity hospitals, MCH care, training).
- c. Nutrition.
- d. Education - Medical and paramedical training.
- e. Environmental health - River blindness, etc.
- f. Other - Sites and services, rural development projects.

2. Options for the future.

- a. Continue same type and levels of support but recognizing health as an explicit benefit.
- b. Is there a case for specific health projects - if so, what health activities should the Bank finance?
- c. Operational and organizational implications.

OFFICE MEMORANDUM

TO:

Mr. Robert S. McNamara, President

DATE: July 13, 1973

FROM:

Ernest Stern, Senior Adviser, VDP
M. Yudelman, Director, AGP

SUBJECT:

Agricultural Production

1. You asked us some time ago about the problem of food sub-sufficiency in the near future and whether our economic missions, sector studies and project programs should give increased attention to the programs of agricultural production.

2. Increasing food production will remain a major objective in many of the developing countries. During the first development decade and in the first few years of the second development decade, total agricultural production has fallen well behind expectations. The first years of the second development decade were of course beset by major droughts in very large parts of the developing world, and they hopefully do not constitute a trend line for the future. Nonetheless, it is clear that the rate of adoption of the new seeds introduced as part of the Green Revolution has not made as great an impact as originally anticipated, and the development and adaptation of new varieties have not made as much progress as would be desirable. Moreover, the new technologies are still only applicable to a select number of crops and the conditions which are required for maximum effective use include inputs, such as assured supply of irrigation water, which are not available in wide areas.

3. Nonetheless, we believe the focus of our agricultural work should be on increasing production and productivity in agriculture without undue regard to foodgrain self-sufficiency. The most rapid growth in agricultural production can come from shifting to high-value crops for export, or domestic consumption. It is desirable to continue the emphasis on productivity increases in the most suitable crops in our economic and sector work.

4. However, there are a few countries where the magnitude of food shortfalls can be so great, and the foreign exchange flexibility so limited, that priority should be given to achieving foodgrain production targets. These objectives must be supplemented by a well defined stock policy and by efforts to increase production of high protein products. We would include in this list India, Indonesia, Bangladesh, Egypt, the Philippines, and Sri Lanka. In addition, special attention must be given for the time being to West Africa.

July 13, 1973

5. We intend to take the following steps to insure that we remain current on major developments and that our programs include appropriate projects:

- a. we will request the Regional Departments to include supply and demand projections in the economic reports for the countries on the above list;
- b. we will identify related policy issues in the CPPs (pricing, stock policy, production objectives;
- c. we will emphasize the analysis of food production in our sector work in these countries; and
- d. we will review the project programs in these countries to see whether additional projects, addressed to these problems, are warranted.

cc: Mr. Knapp, Senior Vice President
Mr. Baum, VP, Central Projects Staff
Mr. Chenery, VP, Development Policy

EStern:tk

Hold

Mr. M. Yudelman, Director, AGP

July 11, 1973

Ernest Stern, Senior Adviser, VPD

Agricultural Production

In March Mr. McNamara asked (his memorandum of March 26, of which you got a copy) a question about foodgrain production. It has been kicking around ever since, and proposed responses have ranged from suggestions for hiring consultants for a year to a 15-page paper. I think the question was relatively simple - Mr. McNamara wants to be sure we have the long-term food supply problem under review in our economic and project work. Hence, a brief answer seems appropriate - and an attempt at it is attached. Would you have a look at it and give me a call.

Attachment

EStern/lm

OFFICE MEMORANDUM

TO: Mr. S. Reutlinger

FROM: Hollis B. Chenery *HBC*

SUBJECT: Agricultural Targets

DATE: April 4, 1973

I do not think we need to hire a consultant to prepare an answer to McNamara. Please see whether you and Yudelman can agree on an approach and draft a reply.

cc: Mr. Baum
Mr. Stern
Mr. Yudelman

HBC:di

APR 3 1973

OFFICE MEMORANDUM

TO: Mr. H. B. Chenery - V.P., Development Policy DATE: April 2, 1973
FROM: S. Reutlinger, Chief, Rural Dev. Div., DED
SUBJECT: Agricultural Targets (The Food Problem)

1. I concur with Mr. McNamara that the food problem in selected countries does deserve more attention in the Bank's country work.
2. Given the complexity of the problem and the scarcity of resources in missions available for dealing with additional issues, I would recommend that some preliminary work be done before proceeding on a large scale.
3. I propose that we have an "issues paper" prepared which would very briefly describe ways of measuring food balances, using measures such as effective demand, nutrition requirements, supply, production, imports, exports (see attached note). Then using existing data, the paper would give a preliminary overview of the problems in selected countries. Finally, the paper would discuss policy options to deal with the food problem.
4. Procedurewise, I propose to consult with Alan Berg on the extent to which his Department intends to address the overall food question in a number of countries and the extent to which he could advise economic missions on how to deal with the question. Another main source of information is FAO.
5. If it is appropriate to proceed along the lines suggested, I will discuss with Mr. Yudelman whether we have in-house staff capacity which could be made available to pursue this work. Otherwise, we should propose to ask someone at Stanford or Sussex to undertake a brief assignment. I would judge that we might devote about one man-month of work to this and that it might take three to four months to get it done, depending on how we or a consultant could re-arrange present work plans.

Attachment
SReutlinger:coh

cc: Mr. Baum
" Berg
" Stern
" Stevenson
" Yudelman

Outline of an Issues Paper on
"Food Problem and Policies in
Country Economic Work"

1. What we want to measure?

- (a) Present Food Supplies and Utilization
- (b) Projected increases in effective demand assuming changes in population and per capita income, but no substantial changes in prices and income distribution
- (c) Projected increases in production, imports and exports
- (d) Present size of food deficiency in segment of population which cannot afford to purchase (or produce for itself) acceptably adequate diets
- (e) Food requirements under alternative assumptions about distribution policies for available or projected food supplies

2. Review Dimension of Food Problem

From available data, show approximate magnitudes for the measures described in (1) in a select group of countries.

3. State Policy Options

Briefly review policy options directed towards changing distribution of available food supplies and production patterns and their likely relative impact.

Mr. S. Reutlinger

March 27, 1973

Hollis B. Chenery

Agricultural Targets (Mr. McNamara's Memo)

Please discuss with Yudelman and prepare a joint reply. This was a casual question by McNamara to me and I do not think it requires extensive treatment. The list of countries should be illustrative, not exhaustive. ✓

Attachment

cc: Messrs. Baum, Stevenson, Stern

(also Knapp & Goldstein)

HBC:di

MAR 26 1973

MAR 26 1973

Messrs. Baum and Chenery ✓

March 26, 1973

Robert S. McNamara *RM*

Economic Mission Reports

For countries in which achieving adequate levels of food production will be a major problem in years to come, should not our economic mission reports give as much attention to this subject as they do to monetary policy, and should not our agricultural sector studies and project programs (including the CPPs) place greater emphasis on it as well?

Which countries are these? How would you plan to address the problem?

cc: Messrs. Knapp
Yudelman

Neutlinger
Original to McKenna Query 3

April 2, 1973

Mr. A. H. Boerma
Director-General
Food and Agriculture Organization
of the United Nations
Via delle Terme di Caracalla
00100 Rome, Italy

Dear Ad:

Thank you for your letter of March 22, 1973, about the consultations you are proposing with representatives of IMF, UNDP, WFP and the Bank in Rome on April 16 and 17 on measures which could be recommended to help meet the problem of world-wide shortages of food. I cabled you on March 23 accepting your invitation for the Bank to be represented and promising full consideration of your letter.

Thank you also for the advance copy of the note you are submitting to the next session of ECOSOC. The note and your letter outline the need for consideration by governments, of rich and poor countries alike, of a more coordinated approach to the subject of food stocks in order to meet acute shortages which may occur from time to time due to sudden unforeseen falls in production. You have invited my views on the proposals you have outlined and have asked for ideas on the way in which the Bank itself might contribute.

The acceptance of proposals for an agreed approach among nations to attaining acceptable world food security depends, in the first instance, on the attitudes of governments and these will become clearer as you explore with them, in your Council, the proposals you have made. As you point out in paragraph 9 of the note, much preparatory consultation would be necessary to develop a concept of minimum world food security and to explore the degree of interest among governments. As you say, also in paragraph 9 of your note, the promotion of more coordinated food stock policies cannot be separated from production and trade policies. I need not enlarge here on the way in which the Bank has been increasing its lending to agriculture, since you are well aware of this and since it has been partly due to the assistance the less developed countries have had from the FAO/IBRD Cooperative Program in helping the preparation of agricultural projects. I expect the Bank Group to continue to provide a flow of development finance to the less developed countries for the purpose of helping to increase food production.

April 2, 1973

Another specific way in which the Bank can contribute is in the provision of finance for properly conceived food storage projects. We have already been able to provide finance for grain storage projects in a number of countries -- for example, Bangladesh, Brazil, India, Philippines -- and we have a number of storage projects under consideration at the present time. The Bank Group stands ready to consider the provision of finance for storage projects in our borrowing countries wherever such projects are of sufficient priority within the countries' development plans and programs.

You have asked in your letter whether the Bank's regular review missions could assess the adequacy of national stock positions. Certainly this question, and the broader question of the need for national stockpiles as compared to other means of coping with food emergencies, can be explored whenever we send an agricultural sector review mission to a country and whenever our general economic review missions includes an examination of the agricultural sector, as they usually do. I would hope that in this examination of stocks and storage needs our missions could have close consultation with FAO country representatives and could have the benefit of the knowledge which your representatives would have of the countries' needs.

I am proposing to send Mr. Montague Yudelman -- as of April 1, 1973, the Director of our Agricultural and Rural Development Department -- to your meeting of April 16 and 17 and look forward to hearing from him the results of your discussions.

With best wishes,

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

WJB
MLH
NMcIvor/MYudelman/MLHoffman/pnn
March 30, 1973

cc: Mr. Knapp, Sr. V.P.
Mr. Chenery, V.P., DP ✓
Mr. W. Clark, Dir., ER
Mr. Yudelman, Dir., ARDD
Mr. Huyser, Dir., Investment Centre and FAO/IBRD Co-operative Programme
Mr. McNamara's files (2)

3086
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, VP-Development Policy

SUBJECT: Botswana Rural Income Survey

DATE: July 11, 1973

1. The Government of Botswana has submitted a request for IBRD financing of a rural incomes survey. The cost of the survey (recently approved by the Botswana Parliament) is anticipated to be \$40,000 in FY74 and \$15,000 in FY75. The purpose of this memorandum is to request contingency financing for the FY74 amount.

2. In response to your speech at the 1972 Annual Meeting, the Botswana delegation indicated their government's intention to take us up on our call for an effort to improve the Bank's knowledge of the poor, and the "implied" offer that technical and financial assistance for this would be made available from the Bank and other UN agencies. Of course, we hoped for a rather more widespread response which could have become the basis for a multilaterally financed, global effort.

3. The Government of Botswana has accordingly submitted a fairly complete project proposal, which has already been approved by its Cabinet.

4. The salient features of the request are:

Purpose:	To establish how the rural population subsists (sources of income) so that a strategy for rural development can be developed as envisaged in the Plan.
Method:	Interviewing a panel of households at several times of the year. "It is envisioned that a rotational stratified sample of 800 households will be selected."

Timetable: May, 1973 - March, 1975.

5. We have reached general agreement with both the Eastern Africa Region and Agriculture Projects Department that this study is worth doing. The question to be resolved is: how does the Bank finance such requests? If a global program had evolved from our call for a world-wide effort to improve our knowledge of the poor, the financing would have been worked out between the participants. If this were a normal support operation, it would have been included in the budget of one of the Departments. However, this project request arrived after our FY74 budget submission; and the Botswana Government believes

7/13
Approved
Done
[2] the
factual
please
submit
all "budgetary
matters
through
P2 B.]

(Xerox
given to
B. Bell
Stem
J. Adde
Yudelmon)

July 11, 1973

it is responding directly and effectively to your urging. Delaying the project for a year would mean disrupting Botswana's work schedule for, what to them is a major and well published effort. We are, therefore, requesting an allocation of \$40,000 from the Bank contingency for the FY74 portion of the project. Messrs. Bell and Yudelman concur. The project will be monitored by the Income Distribution Division of the Development Research Center in cooperation with the Country Program Division and the Rural Development Unit of the Agriculture Department.

cc and cleared with: Messrs. B. Bell
M. Yudelman

EStern/PSmith/mp

Mr. Robert S. McNamara, President

July 10, 1973

Hollis B. Chenery, VP, Development Policy by E. Stern

IBRD Scale of Operations - FY1974-78

1. The Bank's five-year program for FY1974-78 was prepared jointly by P & B and the Development Policy Staff. The updating of the program, which you have promised the Board in February 1974 will provide an important occasion for spelling out some of the qualitative objectives of the Bank (the sector composition of lending, particularly lending to the rural poor) and for indicating the direction of future policies.

2. Work on the necessary projections has been under way for some time in the Economic Analysis and Projections Department, but I would like to meet with you and John Adler at your convenience for an initial discussion of the contents of the paper and the assignment of the additional work. If we agree that the five-year program should relate our lending objectives to our policy objectives, we might have a detailed outline for review by the end of July.

cc and cleared with: Mr. J. Adler
HBChenery/lm

bcc: Messrs. Haq, Tims

JUL 5 1973

INTERNATIONAL DEVELOPMENT
ASSOCIATIONINTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP

Date
July 5

OFFICE OF THE PRESIDENT

Name

Room No.

~~Mr. Chenery~~

SD em } Xerox sent to each
Wass } July 5.

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

It surprises me to read in the attached work program prepared by Mr. Weiss that two missions to Spain (see page 2 of his memorandum) are considered to be top priority in his work. How does this accord with the work priorities which are discussed in the paper on Lending to High Income Countries?

Send print. AC
[Signature]

From

J. Burke Knapp

OFFICE MEMORANDUM

JUL 13 1973

1. HBC
2. MCN notebook

3060

TO: Mr. Robert S. McNamara, President

FROM: Hollis B. Chenery, VP, Development Policy

SUBJECT: Office of Science and Technology

DATE: July 3, 1973

Attached is a statement of the activities of Science and Technology Adviser, in FY 73 and the work program for FY 74, prepared by Mr. Weiss. The focus is on applications of technological research to problems of poverty in areas which fit well into the work programs of the operational departments.

The objective of the work of the Science Adviser is to formulate ideas for new Bank activities and to develop them to the point where they will be taken over by other parts of the Bank staff. The time involved necessarily will vary considerably from area to area and the allocation of time shown is a best estimate based on the experience of the last year.

Enclosures

cc: Messrs. Knapp, Baum;
DPS Directors

Mr. Weiss
Mr. Stern

President has seen

FY74 Work Program: Office of Science & Technology, DPS, IBRD

	<u>Professional Man-months</u>	<u>S.S. Man-Months</u>
A. International Research on Nutrition	2	
B. Technology for the Urban Slum	3	3-1/2
C. Science and Technology Support to Country Programs	7	2
D. Research on Technological Alternatives and Technology Policy	3	3
E. Unprogrammed Time: "Targets of Opportunity," and Monitoring Special Topics	2	2
F. Follow-up on Earlier Work:		
1. Commodities Research	3/4	
2. Resources Satellites & Surveys	3/4	
	<hr/>	
Total:	18-1/2	10-1/2
	<hr/>	

SUMMARY OF FY 73 ACTIVITIES AND FY 74 WORK PROGRAM:
Office of Science and Technology*

A. International Research on Nutrition

In cooperation with the Development Economics and the Population and Nutrition Projects Departments, we have drafted terms of reference for an ad hoc working group of the U.N. Protein Advisory Group, which will devise a strategy for research on nutrition policy and technology. We will follow up the meeting of this group and undertake to develop a research program suitable for international funding, in cooperation with other aid agencies.

(2 professional man-months)

B. Technology for the Urban Slum

In consultation with the Urban Projects, Public Utilities and Development Economics Departments, we will study research possibilities on low-cost design and technology for urban settlements (for example, water supply and sewerage), and take steps toward developing a research strategy and international funding mechanisms. This will be coordinated with the Global Projects Office of the UNDP and with the Human Settlements Program of the UN Environmental Program.

(3 professional man-months; 3-1/2 research assistant man-months)

* During FY 73, Mr. Weiss was the only professional staff member on board

C. Science and Technology Support to Country Programs

We will undertake a reconnaissance mission to one or two countries -- probably Spain and India or North-east Brazil -- to recommend how the Bank might foster scientific research on, and its application to, critical national problems.

We organized an industrial technology mission to Indonesia in FY 73. This recommended Bank assistance for modernization of technological institutes serving specific industries, and organization of a Bank-IFC team for the promotion of investment in sectors especially suited to local technology, such as food processing. These recommendations will be followed through.

We will serve, on request, as a resource to area staffs, make suggestions concerning specific country programs, and, if appropriate, perform brief reconnaissance functions. We have already carried out such a preliminary exploration of the advisability of an industrial research project in Spain.

(7 professional man-months, of which 2 are unprogrammed, and 2-1/2 special services man-months)

D. Research on Technological Alternatives
and Technology Policy

We have reviewed research on and experience with technology appropriate to LDC industry and the kind of institutions and policies needed to bring it about. Seminars were organized and extensive

documentation prepared to bring this work to the attention of Bank management and staff.

Much less work has been done on the problem of appropriate technology in other sectors, whose employment-generating potential is at least as great. We will therefore cooperate with the Development Economics Department in drafting policy papers and research programs on issues involving technology policy and choice of technology. One area under discussion is the delivery of health care services.

(3 professional man-months: 2 special service man-months)

E. Unprogrammed Time

We have deliberately left unprogrammed time to respond to specific requests from operating staff, and to bring to the Bank's attention subjects of special interest through seminars or special memoranda. Examples of subjects treated in FY 73 include: solar energy, undersea and offshore technology, meteorology, the role of local LDC consulting firms and experts in project preparation.

We also represent the Bank at a number of international meetings dealing with science and technology. We coordinated the Bank participation in the joint meeting of the American Association for the Advancement of Science and the Mexican National Council for Science and Technology held June-July 1973.

(2 professional man-months; 2 special service man-months)

F. Follow-up on Earlier Work

1. Commodities Research: The Office of Science & Technology was instrumental in the Bank decision to participate in a joint mission with UNDP to assess feasibility of the proposed International Jute Center. We will meet regularly with South Asia Country Programs Department, which has primary responsibility for the project, and participate in project development. We will also follow the progress of the UNDP initiative on international cotton research, and will promote interest in national or international research on sisal through low-key efforts by appropriate regional departments.

(3/4 professional man-month)

2. Resources Satellites & Surveys: The Earth Resources Technology Satellite (ERTS-1), launched by NASA in June 1972, takes imagery of an area of $(100 \text{ mi})^2$, all at virtually the same instant. It makes possible studies of geology, land use, hydrology, forestry, and soil classification that would be impossible or enormously expensive by aerial and ground survey alone. There are indications from area staffs, especially Asia, that satellite imagery will be a useful tool to the Bank in project preparation and supervision.

We have brought the new technology to the attention of the Bank staff by a series of seminars, by commissioning a mosaic of

imagery covering 250,000 mi² of Central Africa, and by consultation. We assisted the Mekong and Special Projects Division in preparing a proposal for the establishment of a "browse" facility to provide Bank staff with easy access to earth resources satellite data. This proposal is now being prepared by Central Projects Staff for presentation to Management.

We are also preparing a general paper on the technological potential of resources satellites for LDCs and the international institutional problems.