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Hollis B. Chenery Papers - McNamara Discussions 1971 (Sept.-Dec.)

SEPTEMBER -
DECEMBER 1971

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 17, 1971

FROM: Hollis B. Chenery

SUBJECT: Notes on Bank Organization

As requested, here are some preliminary thoughts on the reorganization of the Bank which I have discussed briefly with Shoaib. Some of the implications for policy formulation are spelled out in a companion piece on Preparation and Review of Policy Papers.*

Diagnosis

The need to reorganize the basic structure of the Bank arises not only from the continuing growth in the number of countries, sectors and projects for which we lend but also from our desire to transform the Bank into a development institution. The growth in the number of operations causes congestion at the top because the parallel lines of area and project responsibility and organization only come together there. The expansion of our interests to cover more aspects of the development process requires a substantial amount of management attention and creates a demand for larger and more diversified staff capabilities. Both these developments point to the need to delegate operating authority to lower levels to enable the President and the Executive Vice President to function more effectively.

The philosophy of a development institution has only taken hold to a limited extent in the area and projects departments. While some people may speculate on what the Bank Group would do if its objective were to maximize development of a given country with given Bank resources, the Area department does not have the command over staff resources and decision making to proceed on this basis. This is apparent in most of the CPP's, in which there is typically not much connection between the strategy statement in Part I and the Bank program in Part III. At the operating levels, it is easier to put together a "safe"

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*A draft is available, but I will incorporate comments I have received before sending it to you.

program that can be negotiated within the Bank bureaucracy.

Another organizational obstacle to maximizing the effectiveness of Bank lending is the absence of field missions. More basic analysis of development and innovative programming require fairly continuous contact with the country authorities, particularly in areas such as rural development where the government itself is poorly organized. As a Washington based organization, we are handicapped in entering some of the most important fields of development.

Elements of a Solution

Although there are many ways to reorganize the Bank, there are, to my mind, two key elements in any solution to these problems.

(1) To delegate operating responsibility to three or four vice presidents on an area basis. This would imply regrouping the seven Area departments into regions for say, Western Hemisphere, Europe-Africa, and Asia. Most of the personnel of the larger projects departments -- Transportation, Public Utilities, Agriculture, Education -- would be assigned to the regions.

(2) To establish strong Bank missions in major countries, headed by a man of Department Director status and reporting to the regional Vice President. This would resolve the present problems of having a sufficiently senior bank official as mission director and having both area and project personnel responsible to him.

These basic changes would bring a number of advantages: (a) for each region, they would centralize responsibility for the preparation and execution of country programs and projects; (b) project personnel would be more effective because they would become familiar with the countries to which they are assigned; (c) policy review by top management could focus on broader issues and less on the scheduling of individual projects; (d) the Bank's analysis of economic and social development would be more effective from a base in the principal countries; (e) a rotation of the Bank's staff between Washington and field assignments would produce better qualified people in both technical and managerial capacities (Rotation at the level of Directors and Deputy Directors is badly needed and is hard to achieve with our present structure.); (f) decentralization would give more responsibility to middle management and improve morale.

There are also costs to be considered.

(1) Policy guidance would have to be more formalized to maintain effective management control. (I think this is needed in any case, as indicated in my other memorandum).

(2) Some would argue that the project departments would suffer. This need not be the case if they are organized on the model of the Central Economic Staff, in which the more specialized functions are provided by a central division, but more than half of the Bank's economists are located in the operating departments. Functional supervision can be exercised by the senior technician in each field without having to review each project in detail.

cc: Mr. M. Shoaib
Mr. Henderson
Mr. Hayes

(Harry is drafting a proposal)
~~Van der Pack~~

Messrs. J.P. Hayes/
P.D. Henderson
Hollis B. Chenery

December 14, 1971

Matters of Interest at the President's Council,
Monday, December 13

The following items involve action by the Central Economic Staff:

1. Proposal for a Study of Private Foreign Investment

McNamara repeated a request that he has made before that the Bank should be better informed about the role of foreign private investment in development. He has in mind two purposes: (1) to be able to assess the importance of private investment in the transferring of capital to LDC's, and (2) to decide whether the Bank should do anything in this area that it is not now doing. After some discussion, I proposed that someone in the CES should prepare a background paper that would summarize the main material available on (1) and suggest any additional work needed by Bank staff. This summary would be discussed by Gaud's coordinating group on industrial policy. (As part of the study, the main data on flows of private investment to particular countries should be assembled for McNamara's benefit. This may be already in hand in the International Finance Division.)

I would like to discuss with you where this assignment should be undertaken.

2. The Effects of Possible Mineral Scarcity on LDC Exports

McNamara raised the question of whether the Bank should study the long-term prospects for key mineral markets and the foreseeable benefits to LDC's of improved terms of trade. He has in mind particularly the dramatic improvement in the revenues of the oil exporting countries resulting from their getting together to raise prices. He would be interested to know of any other such possibilities and the countries likely to be affected. I pointed out that we made price forecasts for the major commodities and did not anticipate shortages in any major minerals for the rest of this decade. However there may be some cases like oil e.g. copper, bauxite, iron ore - where supply is sufficiently concentrated to make a cartel feasible. Apparently, there are some studies prepared for the UN (Maurice Strong) and by Resources for the Future.

On this topic, I wish Henderson would have someone make a quick survey of available material and give me a note as to whether (a) a study is worth doing or (b) there is a summary of the present prospects that can be made available to McNamara.

3. Publication

There was a discussion of the success of the sector working papers in their published form and the desirability of pushing ahead with publication of country economic reports. There was no dissent on the latter point. Knapp said that he thought it was agreed by the Area Departments that the basic reports should be published; it was mainly a question of setting up a program and negotiating with each country after the report was available. I said that the division of responsibility for publications between Clark, Demuth and Chenery was unclear, a proposition to which all agreed. Clark is now asked to convene the three of us to clarify our respective responsibilities. At our next Directors' meeting, I would like to have some discussion with you as to the form that an improved general publication system might take. EPD should give further thought to the next steps toward publication of country reports and identify the likely candidates.

cc: Messrs. Stevenson, Haq, Lerdau & King.
Mr. Ljungh(for information)

Tues Mtg

Make copies
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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 3, 1971

FROM: B. Chadenet BC

SUBJECT: Operations Evaluation Study of Highway Projects

DEC 10 1971

You asked me to comment on Mr. Willoughby's proposal to you (memorandum of November 30, 1971) that his unit undertake an evaluation of the results of two Bank-financed highways in each of four countries (Ethiopia, Mexico, Thailand and Yugoslavia). I attach a memorandum from Mr. Thalwitz commenting on the proposal; in brief, we think the sample of highways is very small and therefore that only relatively modest results could be expected from it. While we have no objection to Mr. Willoughby's carrying out the proposed study, we feel that before his unit embarks on such additional work it would be advisable: a) to have an agreed division of labor between the Operations Evaluation Unit in P & B and the Economics Department, dividing the post-evaluation work between them on a rational basis; and b) following from (a), a work program for Mr. Willoughby's unit over the next several years, so that the priority of the highway study can be considered in the light of alternative proposals.

WCBaum:rma

Attachment

cc: Mr. Chenery
Mr. Adler
Mr. Knox
Mr. Willoughby

Sven, when you return please discuss with me:
1) Bernard is correct - we need a long-range program for Chris' division. I have already asked him to prepare one.
2) I question whether Operations Evaluation should be "divided" between P & B + the Economics Dept.
RSMcN

c.c. Mr. Chadenet

Mr. C. Willoughby November 22, 1971

W. P. Thalwitz

Operations Evaluation Study of Highway Projects

1. We agree with the proposal to subject past highway projects to critical post-evaluation. However, while we must accept your word that the evaluation of power projects led to the identification of problems common to Bank operations in that field the objectives of a similar exercise on highway projects must be more modest. Eight roads in four countries are an extremely small sample of the many and varied highway operations the Bank has financed. We feel that coverage is too small to derive from it results that can be generalized. The question then is whether it is worth spending $150,000 on a study from which we expect the following, more modest results: (i) a better understanding of the economic effect of highway construction in four particular countries; (ii) the beginnings of a comparative analysis of highway projects in different countries. We would like to have your judgment on the merits of the studies, realizing that there is a great risk of their not achieving the generally applicable results of the power studies.

2. Provided you can convince yourself and us that the necessarily limited results of the study warrant its costs, we have some comments on the selection of countries and roads. If it is the objective of the study to single out the economic impact and institutional improvements attributable to a particular road investment, care must be taken to eliminate in the analysis the overlay effect of subsequent investments, changes in maintenance procedures, administrative changes and other factors not attributable to the investment to be evaluated. We realize that you must select roads that have been in use long enough for benefits to materialize, but the effects of a project that was started 15 years ago (166-ET) will be very difficult to disentangle from the overlay effect of subsequent events.

3. On the methodology, we wonder what is meant by the frequent reference to "conventional reappraisal." Was it not one of the lessons of the Colombia exercise that we are still grasping for improvements in the methodology of post-evaluation? One difficulty is the one Mr. Baum mentioned -- the tendency to slip into a "before/after" analysis rather than a "with/without" one. Even the ex-post "with" case cannot be firmly established on the basis of actual cost data in an uninterrupted time series; at best, we have data for two or three points in time and must interpolate. The "without" case is really as conjectural as it was at the original appraisal; the fact that time has passed has not helped us in learning what would have happened without the project. In the absence of a simulation technique, do you have any way of reassessing the "without" case?

4. The distribution of benefits from cost reduction is crucial for the generation of a more general development effect. It will, therefore, be necessary to analyze the scope and tariff changes for different types of users (for both passenger and goods traffic) and to trace the factors influencing them (level of competition, elasticities of demand and supply for transport services and production generating transport requirements, government regulations and price fixing).

5. In this context we would also like to learn more about the distribution of benefits between domestic and foreign users. This is particularly acute in West Africa where a large part of benefits accrues to foreign enterprises, lenders, and shippers. Depending on the incidence of benefits, there can be very substantial differences between the "global" and "national" returns on the investment.

6. For your information, I am attaching copies of the comments from the Highway Divisions and the Engineering Adviser on which I have heavily drawn in preparing this note. I will be pleased to discuss it further with you and Mr. Israel after returning to office on December 3.

Attachments

cc: Messrs.	Knox	(w/o attachments)
	Geolot	" "
	Hardy	" "
	Mahoney/deMan	" "
	Young	" "
	North	" "
	Pouliquen	" "

(Drafted but not read by WPT)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** November 2, 1971

FROM: Hollis B. Chenery

SUBJECT: Follow-up to the 1971 Address to the Governors

1. The attached memorandum by Messrs. Hayes and Henderson describes the work being undertaken in the Central Economic Staff on the main topics discussed in your 1971 Address.

2. On some of these we are reaching the stage where the management can consider implications for Bank actions and policies, and hence for our internal organization. On others, the pay-off is inevitably further in the future; the present stage is largely concerned with accumulation of basic data or efforts to understand the economic and social processes involved, often in areas where it is still the case that little is known. In the first category, I would include the papers on employment, nutrition and commodity lending. In the second or longer-term category is included much of the work on income distribution, population and rural development.

3. The memorandum deals specifically with the main subject-matter of your Address, but it does not cover related aspects of the work program of the Central Economic Staff, such as fiscal policy, performance criteria, creditworthiness, and sector policies.

Attachment

Copies sent to Mr. Hayes
Mr. Henderson

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery

DATE: October 27, 1971

FROM: J.P. Hayes and P.D. Henderson P.D.H.

SUBJECT: Follow-Up to Mr. McNamara's Address

1. You asked us to send you a memorandum on the action that is planned, in particular by the central economic staff, in connection with the principal themes of Mr. McNamara's 1971 Address to the Governors.

2. The main form of follow-up action will be through the agency of the Bank's economic reporting systems. The combination of a new and improved system of country economic reporting, the recently-established sector program reviews, and the expanded program of sector missions that is planned, should over a period of time lead to a considerable improvement in the Bank's knowledge of our member countries. The economic staff will play a part in this, through contributions to methodology and comparative analysis, by participating in review of work done elsewhere in the Bank, and through staff participation in country and sector missions.

3. Apart from this, there are a number of actions that we shall be taking, or which we are now considering, in relation to the seven topics which you asked us to comment on. We will deal briefly with each of these in turn.

4. Population. Besides mission support activities, our people are as you know responsible for the basic work in the Bank on demographic data. The scope of this work is being extended. A computer program has been developed, and is now in use, which utilizes demographic data for preparing population projections under alternative assumptions about fertility, mortality and migration rates. Studies have recently been put in hand on (i) the costs of national family planning programs in relation to other forms of social expenditure and (ii) labor migration in West Africa. It is hoped soon to embark on a study of the economic factors affecting fertility, which would be carried out in conjunction with the South Asia Department.

5. Employment. In our view, the next major stage in determining and clarifying Bank policies in relation to employment problems, which should involve a thorough review of associated work programs, is the preparation of the paper on this subject for submission to the Board. At present this paper is scheduled for May 1972, and described as a "Review of Unemployment". We would prefer a somewhat broader title, such as "Employment Considerations in Bank Group Lending". We think that it is by no means too early to assign responsibilities in connection with the preparation of the draft, in which all operational departments as well as the central economic staff are necessarily

concerned. In the meantime, we are initiating two complementary studies within the economic staff on the interrelation between employment problems and (i) Bank lending for projects and (ii) development policies at the macro level. In more specific areas, the first results are now becoming available of the major study that has been proceeding on the substitution of labor for capital in highway construction; and the study of the employment effects of tractor mechanization in the Punjab and Gujarat is well underway. Similarly, first results are now becoming available from a number of studies in the Development Research Center and the Economics Department concerning the extent of and trends in the unemployment problem in developing countries, the substitutability between capital and labor (particularly in agriculture) and some of the policy instruments and trade-offs involved in a higher employment development strategy.

6. Income Distribution. The work on employment just described above, as also that on rural development which is referred to below, are closely related to the problem of income distribution. The central economic staff is also however focussing its research effort on this topic more directly. A methodology has been developed and applied to a number of developing countries for measuring and comparing the income distribution in the agricultural sector. This work was initiated in the Population and Human Resources Division, which is also preparing a study on income, labor participation rates and education. A major study is now under consideration, to be carried out in the D.R.C. under the general direction of Mrs. Irma Adelman, of the impact upon income distribution of a number of policy instruments both in the medium and long-run.

7. More broadly, the Bank's concern with income distribution can be expressed in its policy advice to governments on such issues as factor pricing, the pricing of foreign exchange, fiscal policies, education programs and so on. Much of the work of the central economic staff relates to these topics, and hence has a bearing on income distribution. We have not however done much work on some of the more controversial and politically sensitive aspects of the distribution problems, such as the distribution of landholdings, regional development priorities, and policies for redistributing wealth. It may be that more attention should be directed to these.

8. Nutrition. Arrangements have been made with Messrs. Sol Chafkin and Alan Berg to prepare a study reviewing: (a) the views of experts on the nature and priorities of nutrition intervention programs; (b) current and projected activities of selected national governments and international organizations in the nutrition field; and (c) the areas in which the Bank can play a useful role. We are providing the full-time assistance of a staff member on this study. A draft report should be available for discussions in the Bank by the end of the calendar year. In the meantime, we are assembling a list of candidates from

which to select a person to the staff who will initiate and coordinate the Bank's work on nutrition. Three of the recent appointees to the central economic staff have worked in this field.

9. Agriculture and Rural Development. The newly created Agriculture and Rural Development Division is organizing most of its work around the central concern for improving the productivity and incomes of operators of small farms and landless laborers. A study proposal is presently being formulated to analyze peasant agriculture in a few East African countries with a view to evolving concrete recommendations for involving a large proportion of rural population in the development process. Other specific follow-up actions consist of our people participating in missions to Yugoslavia and Mauritius to review the role of small farmer participation and employment implications in the agricultural development programs of these countries. For the longer run, a comprehensive research program concerned with examination of the applicability of intermediate technology and income distribution and employment impact of agricultural projects and sector policies is currently under preparation and review, in consultation with operational departments. In three specific areas related to broad problems of rural development, we have just begun a study of rural electrification problems; work is continuing on the subject of feeder roads; and we expect to be involved in a study of rural water supply which is now under consideration by the Public Utilities Projects Department.

10. One possible action that we think worth considering is that the Sector Program Paper on agriculture that is prepared next year should concentrate on the problem of rural development. Alternatively, a policy paper on this topic could in due course be prepared for submission to management and the Board.

11. Exports. Your memorandum to us made specific reference to primary products and industrial exports. On each of these, we are setting up an arrangement by which forecasts are made and regularly up-dated by the Economics Department of the aggregate exports of the developing countries, broken down appropriately in each case. These in turn will be used by the Economic Program Department in its projections of aggregate trade flows, and more generally of world payments including capital flows. Apart from developing the work on projections, which itself is a major task, studies have been completed or are well advanced on different aspects of the problem of manufactured exports from the developing world. A proposal which we are considering seriously, and intend to raise with the other departments concerned, is for a paper for submission to management and to the Board on Bank policies in relation to commodity lending.

12. Aid Flows. Work on the current study of Capital Flows and the Role of the World Bank is now nearing completion. The central economic staff is discussing with Area Departments the redesign of CPP Attachment 4, and a procedure for making the necessary projections, so that comprehensive information on prospective reserve gaps, capital requirements and debt servicing situations of developing countries may in future be generated as a regular by-product of the CPPs. The joint OECD/IBRD reporting system on external lending is beginning to generate much additional material on capital flows, and with further work it should be possible to make detailed forecasts of disbursements in the immediate future, on the basis of information on commitments. In preparation for a further Board paper on IDA lending policies, we are updating analyses of the geographical distribution of ODA. Over the next few months, P & B and/or CES should put considerable effort into the question of non-traditional ways of raising IDA money or other soft assistance - e.g. the link with SDRs, interest subsidy funds a la Horowitz.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 21, 1971

FROM: Hollis B. Chenery

SUBJECT: Background Material for your Statement to the Board on Islam and Stern on October 26.

Attached are:

1. Statement covering the background of Professor Islam and Dr. Stern.

2. A summary of steps taken to develop the Bank Research Program over the past year.

3. The briefing paper prepared in May in connection with the budget for research, which summarizes the expanded Bank Program.

If you need any additional information in my absence, I suggest you call Ben King, who has been a leading member of the Bank Research Committee since it was established.

cc: Mr. R.A. Clarke

Attachments

Record Removal Notice

The World Bank Group Archives & Records Management

File Title Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1971 (September - December)	**Barcode No.** 30235175
Document Date Undated	**Document Type** Board Record

Correspondents / Participants

Subject / Title
Statement to Board of Directors by Robert McNamara
Development Research - Central Economic Staff

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Ann May	13-Jan-17

Attachment 2

SUPPLEMENTARY INFORMATION ON BANK RESEARCH ACTIVITIES

1. Establishment of a Bank-wide Research Program. Last spring Mr. Chenery was asked to undertake responsibility for developing a research program for the Bank as a whole that is responsive to the needs of the several departments as well as the developing countries. A committee representing all interested departments of the Bank was set up to advise him.

In submitting the FY72 budget to the Board, I noted an increase in the budget for outside consultants for research to $1.3 million in the current fiscal year. By expanding outside research under Bank supervision, we have been able to substantially increase our work on important areas such as employment, rural development, income distribution, education and other topics in which such collaboration is highly desirable. The Bank Research Committee has reviewed the requests for use of these funds, and we expect that they will be fully committed by December of this year.

2. New Actions in Support of Research. I now propose to take two further actions to strengthen the Bank's research effort. First, to expand the Development Research Center and to give it the status of a department. To carry this out, several functions and associated personnel have been transferred from the Economics Department to the Center, which now has a staff of 22 professionals. Second, I propose to appoint a senior adviser to Mr. Chenery who will be responsible for the coordination of research throughout the Bank.

3. Reasons for Selection of Islam (to be used if necessary). Before selecting Professor Nurul Islam for the position of Director of the new Research Center, we considered a large number of candidates including Mr. Louis M. Goreux, who has been the head of the research unit while it has had the status of a division. I have selected Professor Islam on the basis of his broader research experience and because of the importance that I attach to the strengthening of research institutions in developing countries. Islam's experience in heading such an institution for nearly 10 years will be invaluable to us in this respect.

Mr. Goreux has done an excellent job in building up the present research group which will be recognized in his promotion to be Deputy Director of the expanded center.

4. Ernest Stern (additional information). Mr. Stern was born in Germany. He served as both Deputy to the Executive Secretary and as Staff Director of the Bank-supported Commission on International Development.

OCT 26 1971

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OCT 21 REC'D

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 20, 1971

FROM: Hollis B. Chenery

SUBJECT: Ex-Post Project Evaluation Work in the Bank

1. In connection with a recent report which went to the Board, consisting of an economic evaluation of some of our agricultural projects on Mexico, you raised with me two questions, namely

   (i) "Is it desirable for the Economic Staff to continue project evaluation studies (note work of Willoughby's Division)?"

   (ii) "Before such studies are sent to the Board should not Burke, Siem, you and I review them?"

2. Mr. Henderson has sent me a note on this, a copy of which is enclosed. I agree with him - and so does Mr. Chadenet, with whom I have discussed the matter - on the three main points he makes. These are:

   (i) The central economic staff should continue to undertake work in this area.

   (ii) The responsibility for ex-post evaluations should not be confined to any one part of the Bank.

   (iii) It would be useful to consider the question of how the responsibility for this work should be assigned within the Bank when the future of the Operational Evaluation Unit comes up for consideration.

3. I also agree with Mr. Henderson's remarks on the subject of clearance, but would like to know the views of others on this point.

cc: Messrs. Knapp
Aldewereld
Chadenet

PDH/vhw

Hollis, when you return from your LDC trip, you, Siem + should discuss how the Bank should proceed on Operational Evaluation. RSMcN

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery **DATE:** October 18, 1971

FROM: P. D. Henderson PDH

SUBJECT: Project Evaluation Studies in the Bank

1. In connection with the recent distribution of the EC-180 report, An Economic Evaluation of Irrigation Rehabilitation Projects in Mexico, Mr. McNamara has asked you

   (1) "Is it desirable for the Economic Staff to continue project evaluation studies (note work of Willoughby's Division)?"

   (2) "Before such studies are sent to the Board should not Burke, Siem, you and I review them?"

This note deals with both issues, the first of which in particular is a very important one for us.

2. As you know, the main single function of the Economics Department consists in providing services and advice, and in undertaking studies and research in relation to the sector and project work of the Bank. In the case of some divisions this is pretty well their exclusive function. I do not see how this role could be properly performed if a crucial area of project work, namely that of ex-post evaluation of projects or more broadly, the attempt to learn from experience and to determine how best we can do this, was declared ultra vires for the Department. Nor do I see how the Economic Adviser to the President could adequately carry out what I take to be his task if his staff were precluded from dealing with a matter which is so central to the functions of the Bank.

3. The main issue however goes well beyond the question of the proper scope of our department, and concerns how best the work of ex post evaluations can be carried out in the Bank. This might indeed be worth further consideration, and the completion of the first phase of the work of the Operational Evaluation Unit might be a suitable occasion for reviewing it.

4. Whatever precise forms of organization one may argue for, it has to be realized that many parts of the Bank are rightly and necessarily involved in the process of evaluation, in varying degrees and for different reasons. It would not make sense to try to assign to any single unit or department the exclusive responsibility for this work.

5. Concerning the second issue which Mr. McNamara has raised, namely the procedure for clearing studies which are sent to the Board, it seems to me to raise two distinct questions, namely

(i) what studies should be sent to the Board? and

(ii) what clearance or review procedures should there be for studies of a particular kind?

6. On the first point, I will deal only with studies in the series of blue-cover "EC" reports, of which the EC-180 report is the most recent instance. On this, my own inclination could be to bring this series to an end, since I am not clear that it serves any special purpose. The normal form in which central economic staff studies are issued is that of a working paper, and this would I think have been entirely suitable for this particular study. In the cases where wider circulation may seem desirable, and the study in question is too long for a journal article and ought to be published in full, the Occasional Papers appear to be a suitable medium.

7. Staff working papers are not sent to the Board, nor should they be sent as a matter of course. They are however available to anyone on request, and they are sometimes submitted for publication. Hence despite the fact that they are not sent to the Board there is a need for some kind of clearance procedure. In the case of the Economics Department, all such studies are reviewed by the Senior Adviser (now that Mr. Haq has joined us), and a draft is normally seen also by either Mr. Stevenson or myself, or both. When any question of publication arises, they are also cleared by Mr. Lind. In every case where a study involves the interest or expertise of another department of the Bank, drafts are submitted for comment. However the experience with EC-180 clearly indicates the need to ensure that our internal review processes are both thorough and adequately recorded, and I have drawn the attention of our division chiefs to this.

8. In the case of papers which are sent to the Board, it may be a useful precaution for a top-level management review to be held, in the form which Mr. McNamara's note suggests. If this were done in every case, however, it might impose an unreasonable burden on management: and some of the papers that we send - e.g., special commodity studies - should not normally raise problems. Provided that the review mechanism further down the line is clearly understood and is working properly - and there may still be room for improvement here - it should not be necessary to involve the top management in the review of every study.

9. Since they are concerned in one or more of the matters that are dealt with above, and hence may wish to comment, I am sending copies of this memorandum to Messrs. Adler, Baum, Lind and Williams.

cc: Messrs. Adler, Baum, Hayes, Lind, Williams

cc and cleared with: Mr. Stevenson, Mr. Haq
Economics Department Division Chiefs

Record Removal Notice

The World Bank Group Archives & Records Management

File Title Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1971 (September - December)	**Barcode No.** 30235175

Document Date October 12, 1971	**Document Type** Letter	

Correspondents / Participants
From: Lincoln Gordon, School of Advanced International Studies, Johns Hopkins University
To: Robert McNamara

Subject / Title
Proposed Assignment as Consultant to World Bank Group

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	**Date**
Ann May	13-Jan-17

Oct 8

Mc Namara - Oct. 8 - (HBC Future)

A. Preliminary Points to Clarify

1. My performance

2. R.M. tenure - Is bishop judgement - (will be resolved soon).

B. Plans for future + Relevant to me

1. Bank Organization - Staff changes - prospects for new leadership.

Not discussed

2. CES - Changes in functions

3. Research - develop major role.

Feasible objective: to establish intellectual

C. Proposal - HBC Preference

35-40 hrs. 1. Policy leadership - a) Econ Committee
b) Pres. Advisor

2. Admin. Control of CES but delegate operations more. (Reduce from 25 to 10 to 15 hrs)

10-15 hrs 3. Research + Analysis

Need some personal involvement - lecturer at Harvard in alt terms [1 day/week (12 trips)].

D. Conclusion

1. Take up with Harvard - not foreclose until December.

2. Proceed on assumption of staying

FORM NO. 75 (2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date

NAME	ROOM NO.
~~Mr. H. B. Chenery.~~	
File - DPC	

	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

To note

OCT 14 1971
2:15 p.m.

From W. Diamond

10/5 To Mr. Diamond MS 10/12

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Bill do we have economic rates? return for any Dev Fin Cos - if not, when do you expect them to be available. Bob

TO: Mr. Robert S. McNamara **DATE:** October 6, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: Financial and Economic Rates of Return on DFC Projects

Following is a summary answer to your memorandum of August 5. Further detail is given in Mrs. Hughes' attachment.

1. Appraisal reports for DFC projects do not at present express an anticipated overall economic or financial rate of return for each loan. They do express actual average financial returns for the past five years and projected financial returns for another five years for each development finance company. Such financial rates are, however, not meaningful as comparative performance indicators because of the serious distortion of interest rates both on the borrowing and lending sides. Thus although it would be possible to calculate an average rate of financial return on DFC projects, it would not be particularly useful.

2. Economic rates of return for each DFC could be calculated on the basis of a weighted average of past lending by the company. Such calculations would:

   (a) Permit better judgement as to the developmental quality and effectiveness of a particular DFC loan;

   (b) Enable DFC projects to be compared to other lending alternatives in the recipient country.

3. The DFC Department has begun work on these lines, but the problems of persuading some 60 individual development finance companies to adopt valid methods of project evaluation are formidable. In the meantime partial indicators such as levels of effective protection and capital/labor ratios are being developed to guide judgements as to the developmental impact of DFC projects in relation to other Bank Group loans and alternatives in the recipient country.

Attachments:

1. Memorandum Mr. McNamara to Mr. Chenery of August 5.
2. Memorandum Mrs. Hughes to Mr. Chenery of September 22.

cc: Mr. Knapp
Mr. Aldewereld
Mr. Diamond
Mr. Henderson

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

OFFICE OF THE PRESIDENT

August 5, 1971

AUG 5 1971
12:45 p.m.

MEMORANDUM FOR MR. CHENERY

At present our appraisal reports for DFC projects do not express an overall economic and/or financial rate of return for each project similar to what is done in most other fields of Bank/IDA lending. Perhaps your staff can look into this practice and advise whether such rates of return calculations are meaningful for DFC projects. In case you conclude that they are, which rate of return calculation would then best represent our judgment as to the developmental quality and effectiveness of the DFC project? Can it tell us something about the merit of the project relative to other Bank/IDA lending alternatives in the recipient country?

Robert S. McNamara

Copy given to Mr. Henderson who will handle.
Aug 5/71

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

SEP 22 1971
4:45pm

P.D.H.

TO: Mr. Hollis B. Chenery (through Mr. Henderson/ Mr. Stevenson) DATE: September 22, 1971

FROM: Helen Hughes

SUBJECT: Financial and Economic Rates of Return on DFC Projects (Mr. McNamara's memorandum of August 5, 1971).

1. Appraisal reports for DFC Department projects do not, indeed, express an overall economic or financial rate of return for each project; they do, however, include a financial analysis of the past and expected future performance of the development finance company to which the loan is being made. This memorandum sets out:

(a) the reasons why appraisal reports of the DFC Department do not express overall economic or financial rates of return for each loan,

(b) the particular limitations of financial indicators in assessing the economic impact of development finance loans, or as a basis of comparing the performance of development finance companies,

(c) the practice of appraisal followed by the DFC Department,

(d) progress and possibilities in the economic evaluation of DFC Department loans.

A. Problems of evaluating loans to development finance companies

2. Loans to development finance companies represent lines of credit which differ fundamentally from other World Bank Group loans. World Bank Group loans are generally granted for purposes with known end uses, and this is true of industrial import program loans and lines of credit to agricultural institutions, as well as of more conventional project loans. The financial and economic results of such activities can be pre-appraised. 1/ Such pre-appraisal estimates can not be carried out for development finance companies' lines of credit. Although a development finance company's project pipeline is examined at the time of a DFC Department's appraisal mission, there is no way of anticipating precisely the end-use of a World Bank Group line of credit. The time lag between an appraisal mission and the extension of a loan by a development finance company to a sub-project from a line of credit granted as a result of the appraisal mission's recommendations can be 2 or 3 years. By then, a development finance company's pipeline will almost certainly be changed quite considerably. The more development oriented a company is, the more likely are there to be new projects. Ex ante evaluations of rates of return on sub-projects are therefore not possible for development finance company loans.

1/ For example, see IBRD, Third Credit for the Agricultural Development Bank, Pakistan, June 12, 1969 (PA-15a).

3. Alternative ways of both financial and economic return appraisal for loans to development finance companies have therefore been of considerable concern to the DFC Department.

Limitations of financial return estimates for development finance companies

4. Each DFC Department appraisal report includes a full financial analysis of the development finance company to which the line of credit is being extended. Table 1 gives financial statistics for 34 development finance companies for the years 1968, 1969 and 1970. 1/ In addition, projections are made for 5 years ahead. While the interpretation of this data is extremely important to the appraisal of each development finance company, it has little comparative value among companies and has to be interpreted carefully through time for any one individual company for the following reasons:

(a) On the borrowing side:

Development finance companies borrow at various interest rates and these are greatly influenced by their individual sources of national and international concessionary finance so that the interest rate "package" varies greatly among them. It also varies through time because a development finance company generally has less access to concessionary finance as it matures.

(b) On the lending and investment side:

(i) The interest rates which companies may charge vary with national policies. Credit ceilings are very general, but their level varies from country to country. Thus in India where rates are held down, earnings before interest, provisions and tax as a percentage of average total assets for ICICI have been 7 per cent and 8 per cent. In Korea for KDFC they have run from 14 per cent to 21 per cent (Table 1), but these figures in no way indicate that KDFC is a better company than ICICI.

(ii) Some development finance companies are more heavily involved in equity holdings of companies which they promote than others. This is usually an excellent strategy; for example, a development finance company may take a large equity holding in a company with foreign investment to preserve an interest in that company

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1/ The three other development finance companies at present receiving World Bank Group finance have not been functioning long enough to provide data.

for potential local owners thus enabling joint venture arrangements rather than outright foreign ownership. However, immediate returns on such investments are usually low, and since it is the limitation of local stock markets which leads to such equity investments, the development finance companies usually have to wait a long time to realize capital gains by selling shares to private investors.

(iii) Development finance companies operating in a highly protected economy lend to highly protected firms whose financial returns are higher than in a more competitive economy. By making lending safer and easier this spreads a development finance company's costs over more projects and increases its financial returns, but the economic returns on its loans may be low.

(iv) Promotional and developmental activities, which are most important to a development finance company's economic impact, are a cost to the company, although they are a benefit to the economy. In financial terms, however, a vigorous promotionally-oriented development finance company may for a time perform less well than one which plays little promotional role and does not give technical assistance to its borrowers; in the long run, it is true, the situation would be likely to be reversed, as a company makes large profits or capital gains from equity interest which initially kept its returns low.

(v) Administrative costs vary over time. There tend to be economies of scale in lending as well as "learning by doing", so that older companies have lower administrative costs per dollar loaned. While such changes reflect real economic differences among companies, they distort comparability among companies of varying maturity.

(vi) Miscellaneous income varies among companies.

(vii) Inflation might erode earnings.

5. Development finance companies have an inherent conflict between profit considerations and developmental aims. This is evident in the policy statements of even wholly privately owned development finance companies, whose boards of directors have to take national interest as well as profit into consideration, limiting their financial returns. Many of the wholly privately owned development finance companies which at present rely on the World Bank Group for lines of credit were, moreover, established with government assistance, and sometimes even on government initiative. The

private ownership form was usually chosen to ensure good business management rather than in the mere pursuit of profits. Many of these companies continue to rely on government concessionary finance. 1/ The very fact that a development finance company receives a World Bank Group loan which requires a government guarantee induces a feeling of national responsibility. A development finance company's identification with national goals tend to grow with its stature in the economy. Completely government owned development finance companies may, of course, wish to operate at the lowest possible financial return commensurate with commercial viability. 2/

6. The inadequacy of financial rates of return as indicators of development finance companies' economic impact is of course only a rather extreme case of problems more general to World Bank Group projects. Other appraisals sometimes express a rate of return on an enterprise carrying out a project rather than on the project itself. Public utility enterprises which are usually monopolistic in nature and thus able to determine the prices which they charge for the services they provide, might have misleading financial returns. However, for the reasons set out, an average financial rate of return on development finance companies to which World Bank Group finance is made available would not be a useful figure, and could well be a misleading one.

Appraisal of development finance companies

7. An analysis of financial accounts on the other hand has a very important role to play in the appraisal of an individual development finance company for it is a measure of the enterprise's ability to mobilize equity capital, satisfy creditors etc. It is not, however, the only measure, and appraisal reports therefore in addition carefully weigh the performance of each development finance company in the following terms:

(a) An examination of the development finance company's policies and operational performance. This includes an evaluation of its portfolio and its competence for project appraisal, including economic analysis, and the ability to follow-up on its investments.

(b) The economic conditions under which the development finance company operates. This involves general background information on the economic trends of the country, and an examination (where possible based on World Bank Group sector studies) of government policies towards the sectors in which the development finance company operates.

(c) Appraisal reports also include an analysis of the development finance company's contribution to financial resource mobilization. The aim is to evaluate the company's ability to administer and allocate what are

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1/ While in general the Department's policy is to encourage development finance companies to become less and less dependent on concessionary finance as they mature, in some cases there is a strong argument for a continuation of government funding. It is sometimes the best way in which a government wishing to strengthen the industrial sector can direct its funds.

2/ Some are even satisfied to operate at a loss, although this is of course discouraged by the DFC Department.

usually scarce financial resources. 1/ Thus a company's capacity to raise capital from both domestic and international sources, and its ability to channel these funds to projects that enhance the economic development is examined.

8. The DFC Department has over the years acquired considerable experience in such appraisal, and this is reflected in Operational Policy Memorandum No. 2.64 (issued March 31, 1971) which lays down the basis of the Department's appraisal. Development finance companies applying for loans are weighed in terms of their own performance and potential, and a start has been made on comparisons among them for appraisal purposes. While it is argued below that the calculation of economic returns is essential, and in the long run possible to the appraisal of the suitability of development finance companies for World Bank Group loans, it must be stressed that such calculations can not replace the qualitative evaluation of development finance companies as institutions. Appraisals must always be forward-looking, and the maintenance and improvement of a development finance company's performance must remain a prime consideration. The evaluation of management, that is the people who run the institution, is as essential to such judgment as the more objective indicators such as portfolio composition and financial position.

9. Other factors of course also enter into the consideration of a loan. A country's overall economic position, its qualification for IDA funds, and the balance between lending for industry and for other sectors is important.

Economic appraisal

10. Once the institutional soundness of a development finance company and a country's qualification for loans to industry are established, the economic assessment of the projects for which the World Bank Group line of credit is used, 2/ becomes the principal issue. This is the approach

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1/ It is relevant that while techniques for the economic evaluation of individual enterprises are now being evolved, no technique has yet been developed for assessing the efficiency with which a financial system raises, and distributes, financial resources. The DFC Department's appraisal reports can therefore continue to play a useful role by their attention to the problems of resource mobilization.

2/ Calculating an economic rate of return on the performance of each development finance company would be technically possible. The Little/Mirrlees method has not yet been used for evaluating the performance of financial institutions, but it has been applied to activities such as education, and its adaptation to a financial institution, though very difficult, would not be insuperable. It would, however, be difficult to gauge the full development effects of a development finance company without considering the sub-projects it finances, and this approach is therefore suggested directly.

the DFC Department has begun to take, but there are considerable difficulties.

11. Because it is impossible to know all the projects for which the World Bank Group lines of credit will be used, it would seem that the most satisfactory procedure for the assessment of development finance companies to which repeat lines of credit are now being extended, would be to estimate the weighted average of economic returns on sub-projects financed during the previous World Bank Group loan. Initially such economic returns might be calculated for those sub-projects which require Bank approval, 1/ but eventually all sub-projects involving World Bank Group loans might be included. The principal problems which are likely to be faced are as follows:

(a) The DFC Department began to introduce the notion of economic project evaluation to the development finance companies to which it had extended lines of credit some two years ago. At first a very limited concept - effective protection - is being used as an initial step to lead the development finance companies' thinking from nominal protection, about which most of them were knowledgeable to ensure financial success for their projects, to the full economic effects of such protection, that is to effective protection. However, even this limited approach has been very slow and difficult, partly because of staff limitations within the DFC Department, but mostly because of lack of qualified personnel within the development finance companies, and their concern with costs.

(b) At present all economic sub-project evaluation is based on estimates calculated at the time when a company presents its case for a loan. It is clear that such estimates can not be accurate. They lack a precise knowledge of the future, and sometimes they are distorted by the desire to obtain government incentives. For a meaningful evaluation of projects it would be necessary for the development finance companies to engage in economic follow-up work on projects, and to make economic return estimates on this basis.

12. As the introduction of full economic evaluation of sub-projects is likely to take considerable time, the use of a number of partial economic

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1/ The DFC Department has to be consulted for loans extended to projects exceeding a certain minimum which varies from company to company. For example, in the case of ICICI (India) the minimum is US$4 million; CDC (China) US$500,000; KDFC (Korea) US$500,000; NIBID (Greece) US$500,000; TSKB (Turkey) US$750,000; PICIC (Pakistan) US$4 million. In addition, the Bank may impose a limit to the total amount from its loan that can be loaned out without being consulted. This limit also varies. Thus for CDC the limit is 33 per cent of the total Bank loan, for TSKB 30 per cent, and for NIBID 25 per cent.

indicators such as effective protection, capital/labor and labor/output ratios, which are far from comprehensive individually, but which together give a good intimation of the economic impact of a development finance company's lending activities, are being stressed by the DFC Department. Their utilization on a comparative basis in project appraisal is one of the objectives of the industrial projects data bank.

13. Measures of economic returns on past performance are not always applicable for new development finance companies to which the Bank has not previously made loans. It is planned to extend loans to 23 new development finance companies out of some 40 applicants in FY1972-76, and some of these are new institutions. An institutional assessment is likely to be the only one possible.

Conclusions

14. The DFC Department has begun the task of assisting development finance companies to make economic evaluations on their sub-projects, and this will eventually enable meaningful rates of economic return to be calculated for each development finance company loan. However, the task is formidable. It depends on staff available for such activity, within the World Bank Group, and on changing attitudes, as well as improving levels of economic analysis, in some 60 development finance companies. The past effort has been directed particularly towards those development finance companies which have both a relatively well qualified staff and a forward-looking management, and it would perhaps be possible to increase this concentration at the initial stage of a program which might eventually seek to make economic evaluation a requirement of Bank lending. However, while the DFC Department has stressed that economic project evaluation is in the development finance company's own commercial interest from the view-point of long term viability, as well as important to the national interest, such arguments are not always persuasive to the development finance companies. For small companies particularly, highly trained manpower is scarce, and economic evaluation in addition to conventional engineering, commercial and financial appraisal is very costly. If such companies are able to add staff, they want to use it to find more projects for their pipeline. In a fairly open economy they are usually afraid, with justification, that manufacturers will seek alternative, even if perhaps less favorable, sources of finance rather than submit to lengthy project appraisals. As business organizations they argue that establishing appropriate "rules of the game" is the responsibility of the government, while their job is to get on with promotional and funding activities in accordance with government policies. The World Bank Group's interest in economic project evaluation does not in fact always coincide with the commercial interest of the development finance companies to which it

extends lines of credit. The World Bank Group may therefore wish to place a greater emphasis on consultations on appropriate industrial policies with governments in the context of extending lines of credit to development finance companies.

Att.

HHughes/kg

Eastern and Western Africa

	BIDI (Ivory Coast)			LBIDI (Liberia)			NIDB 2/ (Nigeria)		
	1967/68	1968/69	1969/70	1968	1969	1970	1968	1969	1970
Year of Operation 1/	4th	5th	6th	3rd	4th	5th	5th	6th	7th
Year-end Total Assets (in millions of $)	8.6	11.0	15.7	2.4	3.4	3.4	15.6	19.9	22.5
(a) Ratios of Profitability									
1. Earnings before Interest, Provisions and Tax as % of Average Total Assets	3.0	4.3	4.8	2.8	3.7	4.2	3.7	4.0	4.9
2. Profit before Tax and Provisions as % of Average Total Assets	3.0	3.9	3.1	2.5	2.9	2.8	3.7	4.0	3.9
3. Profit before Tax and Provisons as % of Average Equity	8.3	12.8	13.4	4.7	6.5	7.7	8.2	9.4	10.3
4. Profit after Tax as % of Year-end Share Capital	7.6	13.9	104.8	5.7	8.3	9.6	8.1	10.4	9.4
(b) Ratios of Structure									
5. Non-current Debt 3// Equity	1.7	2.3	3.8	1.0	1.5	1.6	1.2	1.6	1.7
6. Non-current Conventional Debt 3// Equity plus Quasi-Equity 4/	*	0.3	1.0	0.1	0.8	0.5	0.2	0.7	0.9
(c) Average Rate of Growth (last 3 years)									
7. Average Annual Rate of Growth of Total Assets (%)	2.7	17.4	30.7	4.9	18.1	17.7	7.9	8.6	14.3
8. Average Annual Rate of Growth of Profit before Tax and Provisions (%)	98.0	180.6	37.7	13.8	10.8	18.9	24.0	33.0	38.9
(d) Portfolio									
9. Year-end Equity Portfolio as % of Year-end Total Equity and Term Loan Portfolio	5.7	4.6	3.1	19.7	8.7	7.8	30.5	28.2	38.0
(e) Financial Earnings & Margins									
10. Gross Income (including net capital gains before tax) less Direct Financial Costs as % of Average Total Assets	6.2	6.6	5.6	5.9	6.1	5.9	6.2	6.1	7.5
11. Income from Term Loans as % of Average Term Loan Portfolio	6.1	6.5	7.3	7.1	7.6	8.7	8.8	8.4	9.1
12. Cost of Term Debt as % of Average Term Debt	*	0.6 5/	2.3 5/	0.6	1.4	2.5	-	0.1	1.8
13. Equity Income (including net capital gains before tax) as % of Average Equity Portfolio	-	-	2.0	-	-	-	6.9	6.7	9.2
(f) Administrative Costs									
14. Administrative Costs as % of Average Total Assets	3.1	2.7	2.5	3.4	3.1	2.9	1.8	2.2	2.5
(g) Reserves									
15. Reserves (including retained earnings) plus Provisions as % of Year-end Portfolio (Loans, Guarantees and Equity Investments)	4.7	4.7	5.8	23.9	18.2	21.8	10.1	13.9	11.4
(h) Share Capital									
16. Book Value as % of Par Value	108.8	116.3	125.7	122.8	131.1	126.7	112.5	122.8	128.3
(i) Dividend									
17. Dividends as % of Par Value of Share Capital	4.0	5.0	5.0	-	-	-	5.5 6/	5.5 6/	6.5 7/
18. Dividends as % of Net Earnings (Pay-out Ratio)	52.8	36.1	47.7	-	-	-	4.5	3.5	41.8

General Note: For definition and implication of terms used, see Attachments 1 and 2.

1/ In counting year of operation, the first year is the first full or nearly full business year in which a development finance company actively operated. For NIDB the first year is taken to be the first full business year after its reorganization.
2/ On the basis of consolidated financial statements.
3/ Including guarantees.
4/ All maturities of quasi-equity falling due prior to the estimated date of the last maturity of the Bank loan are excluded from quasi-equity and included in non-current debt.
5/ Including bills rediscounted.
6/ On 5½% cumulative preference shares.
7/ On both Ordinary and Preference shares.

* Denotes a value of less than 0.05%.

Comparative Operational Ratios of Development Finance Companies, 1968, 1969 and 1970 (Cont'd)

	East Asia and Pacific																	
	CDC (China)			KDFC (Korea)			MIDF (Malaysia)			PDCP (Philippines)			DBS (Singapore)		IFCT (Thailand)		
Year of Operation 1/	1968 9th	1969 10th	1970 11th	1968 1st	1969 2nd	1970 3rd	1968/69 5th	1969/70 6th	1970/71 7th	1968 5th	1969 6th	1970 7th	1969 1st	1970 2nd	1968 8th	1969 9th	1970 10th
Year-end Total Assets (in millions of $)	44.2	47.9	51.9	14.0	16.9	25.5	29.0	29.2	42.4	38.3	46.4	47.0	77.0	107.3	15.5	19.2	21.1
(a) Ratios of Profitability																	
1. Earnings before Interest, Provisions and Tax as % of Average Total Assets	9.0	9.0	8.4	21.1	14.0	13.7	7.4	7.0	6.4	9.0	9.4	11.7	5.2	5.3	6.1	6.6	7.4
2. Profit before Tax and Provisions as % of Average Total Assets	3.9	3.9	3.2	18.0	12.1	10.1	6.4	6.0	5.5	5.7	5.6	4.9	3.3	2.1	2.8	2.6	3.0
3. Profit before Tax and Provisions as % of Average Equity	25.0	24.2	19.9	30.9	25.5	25.2	18.7	17.0	15.6	22.1	24.2	28.1	6.4	5.8	12.6	14.1	17.1
4. Profit after Tax as % of Year-end Share Capital	32.2	31.5	23.7	32.3	38.5	40.6	11.9	12.1	8.2	19.5	23.8	26.3	2.1	1.9	15.4	18.5	21.7
(b) Ratios of Structure																	
5. Non-current Debt 2//Equity	5.7	5.4	5.5	1.1	1.1	1.8	1.7	1.6	1.8	3.5	4.4	6.2	1.0 3/	1.7 3/	4.0	4.8	5.8
6. Non-current Conventional Debt 2//Equity plus Quasi-Equity 4/	3.6	3.6	3.2	-	0.3	0.8	0.5	0.5	0.8	2.0	3.1	4.0	1.0 3/	1.7 3/	1.5	2.0	2.7
(c) Average Rate of Growth (last 3 years)																	
7. Average Annual Rate of Growth of Total Assets (%)	15.2	7.6	12.0	-	31.4 5/	43.5 6/	22.3	3.2	16.3	20.1	22.5	36.2	-	39.2 5/	39.8	38.3	25.1
8. Average Annual Rate of Grwoth of Profit before Tax and Provisions (%)	15.1	11.2	4.8	-	19.2 5/	11.6 6/	39.9	30.3	20.5	12.5	17.0	24.1	-	-6.3 5/	31.4	34.7	29.9
(d) Portfolio																	
9. Year-end Equity Portfolio as % of Year-end Total Equity and Term Loan Portfolio	11.8	12.6	14.7	46.7	38.1	19.6	11.6	13.4	12.8	0.6	2.7	2.9	26.9	21.9	-	0.1	0.1
(e) Financial Earnings & Margins																	
10. Gross Income (including net capital gains before tax) less Direct Financial Costs as % of Average Total Assets	5.1	5.2	4.6	22.4	15.3	13.1	7.7	7.4	6.8	7.1	7.2	6.5	4.2	3.7	4.9	4.4	4.7
11. Income from Term Loans as % of Average Term Loan Portfolio	10.9	10.6	10.2	4.4	16.7	18.6	8.6	8.0	8.8	9.6	9.8	13.2	6.2	7.1	9.3	8.5	9.1
12. Cost of Term Debt as % of Average Term Debt	6.3	6.4	6.5	7.6	5.0	6.0	1.7	1.7	1.6	4.8	5.3	8.2	4.0	3.9	4.5	5.0	5.5
13. Equity Income (including net capital gains before tax) as % of Average Equity Portfolio	6.5 7/	9.7 7/	7.8 7/	-	1.0	1.6	18.8 8/	10.4 8/	3.5 8/	-	-	6.4	1.6 7/	1.1	-	-	-
(f) Administrative Costs																	
14. Administrative Costs as % of Average Total Assets	0.7 9/	0.7 9/	0.8 9/	4.5	3.2	3.0	1.3	1.4	1.3	1.4	1.6	1.6	0.9	0.8	2.1	1.7	1.7
(g) Reserves																	
15. Reserves (including retained earnings) plus Provisions as % of Year-end Portfolio (Loans, Guarantees and Equity Investments)	9.6	8.9	9.7	181.0	46.3	25.9	12.9	12.5	11.9	10.3	9.3	8.4	2.1	6.2	5.6	6.0	6.1
(h) Share Capital																	
16. Book Value as % of Par Value	230.7 10/	259.3 10/	276.0 10/	140.2	178.7 10/	213.4 10/	123.2	130.6	129.4	145.2	159.1	176.9 10/	101.6	103.9	130.2	140.2	152.9
(i) Dividend																	
17. Dividends as % of Par Value of Share Capital	21.0	12.0	12.0	-	20.0	20.0	6.0	6.0	6.0	10.0	20.0 11/	10.0	-	-	7.5	8.5	9.0
18. Dividends as % of Net Earnings (Pay-out Ratio)	65.2	38.1	50.7	-	52.0	49.2	43.6	30.0	45.2	51.2	83.9	38.1	-	-	48.0	45.9	41.5

General Note: For definition and implication of terms used, see Attachments 1 and 2.

1/ In counting year of operation, the first year is the first full or nearly full business year in which a development finance company actively operated. For MIDF the first year is taken to be the first full business year after its reorganization.
2/ Including guarantees.
3/ Including fixed-term deposits.
4/ All maturities of quasi-equity falling due prior to the estimated date of the last maturity of the Bank loan and excluded from quasi-equity and included in non-current debt.
5/ Compared with the previous year.
6/ Two year average.
7/ Including stock dividends received.
8/ Including income from subsidiary company.
9/ Excluding business taxes.
10/ Adjusted value to reflect stock dividends on original equity investment.
11/ 10% in stock and 10% in cash.

ITEM I

Comparative Operational Ratios of Development Finance Companies, 1968, 1969 and 1970 (Cont'd)

	South Asia														
	DFCC (Ceylon)			ICICI (India)			IMDBI (Iran)			PICIC (Pakistan)			IDBP (Pakistan)		
	1968/69	1969/70	1970/71	1968	1969	1970	1968/69	1969/70	1970/71	1968	1969	1970	1967/68	1968/69	1969/70
Year of Operation[1/]	13th	14th	15th	14th	15th	16th	8th	9th	10th	11th	12th	13th	7th	8th	9th
Year-end Total Assets (in millions of $)	6.8	10.4	12.3	160.3	174.6	190.8	89.3	106.8	136.8	177.5	212.8	247.9	176.9	192.8	215.4
(a) Ratios of Profitability															
1. Earnings before Interest, Provisions and Tax as % of Average Total Assets	5.3	5.6	6.9	6.8	8.2	7.3	6.6	6.7	7.4	8.8	9.6	9.7	6.8	6.7	6.7
2. Profit before Tax and Provisions as % of Average Total Assets	4.5	3.2	3.0	2.4	2.6	2.7	3.5	3.3	3.0	3.6	4.4	4.1	2.2	2.0	2.2
3. Profit before Tax and Provisions as % of Average Equity	16.1	15.6	18.0	23.7	25.3	24.7	20.0	20.3	22.0	31.4	36.4	34.2	26.7	22.5	22.4
4. Profit after Tax as % of Year-end Share Capital	13.2	12.4	13.4	19.9	24.1	26.9	14.6	17.3	19.3	35.3	52.5	53.8	29.7	24.4	25.2
(b) Ratios of Structure															
5. Non-current Debt[2/]/Equity	2.6	4.2	5.3	8.7	8.7	8.2	3.5	4.3	5.3	7.6	7.6	7.5	5.2[3/]	12.6[3/]	10.9[3/]
6. Non-current Conventional Debt[2/]/Equity plus Quasi-Equity[4/]	0.7	1.8	2.4	7.4	7.4	8.2	2.5	3.7	4.8	4.9	6.2	6.3	5.7[3/]	4.[illegible][3/]	4.6[3/]
(c) Average Rate of Growth (last 3 years)															
7. Average Annual Rate of Growth of Total Assets (%)	13.4	28.5	31.5	21.8	8.4	6.5	40.9	36.6	27.0	19.8	19.9	19.5	20.3	12.6	9.8
8. Average Annual Rate of Growth of Profit before Tax and Provisions (%)	7.7	0.4	8.3	24.4	11.1	9.1	20.1	22.1	21.0	25.3	29.9	30.3	21.7	1.7	9.3
(d) Portfolio															
9. Year-end Equity Portfolio as % of Year-end Total Equity and Term Loan Portfolio	17.0	12.6	10.8	12.9	12.4	12.4	11.3	12.7	13.5	7.3	7.5	7.7	0.9	0.9	1.3
(e) Financial Earnings & Margins															
10. Gross Income (including net capital gains before tax) less Direct Financial Costs as % of Average Total Assets	6.1	4.8	8.4	2.7	2.9	3.1	4.7	4.4	4.2	4.2	4.9	4.7	3.4	3.3	3.3
11. Income from Term Loans as % of Average Term Loan Portfolio	7.0	7.5	9.1	8.2	8.3	8.0	8.9	9.1	9.3	9.1	9.6	10.3	8.1	8.1	8.2
12. Cost of Term Debt as % of Average Term Debt	1.3	3.2	5.0	5.2	5.2	5.4	5.2	5.6	6.6	6.1	6.2	6.6	5.3	5.6	6.0
13. Equity Income (including net capital gains before tax) as % of Average Equity Portfolio	8.2	6.2	5.0	3.4	5.3	6.8	3.4	2.6	3.9	12.3	18.6	15.2	1.0	1.4	n.a.
(f) Administrative Costs															
14. Administrative Costs as % of Average Total Assets	1.6	1.6	1.5	0.3	0.3	0.5	0.9[5/]	0.8[5/]	0.8[5/]	0.5	0.5	0.6	1.2[5/]	1.3[5/]	1.2
(g) Reserves															
15. Reserves (including retained earnings) plus Provisions as % of Year-end Portfolio (Loans, Guarantees and Equity Investments)	8.7	6.3	6.0	5.0	5.4	6.5	6.3	6.5	3.8	6.6	7.5	8.3	5.1	5.9	6.7
(h) Share Capital															
16. Book Value as % of Par Value	131.0	135.3	140.8	166.5	182.3	209.8	132.6[6/]	138.5[6/]	151.6[6/]	201.5	243.5	286.0	230.3	215.1	206.7
(i) Dividend															
17. Dividends as % of Par Value of Share Capital	8.0	8.0	8.0	9.0	9.0	10.0	10.0	12.0	12.0	10.0	10.5	12.5	7.5	8.0	8.0
18. Dividends as % of Net Earnings (Pay-out Ratio)	60.7	64.6	59.8	45.2	36.4	37.2	68.7	69.3	62.1	24.1	20.0	23.2	25.3	28.7	32.1

General Note: For definition and implication of terms used, see Attachments 1 and 2.

1/ In counting year of operation, the first year is the first full or nearly full business year in which a development finance company actively operated. For IDBP the first year is taken to be the first full business year after its reorganization.
2/ Including guarantees.
3/ Including deposits.
4/ All maturities of quasi-equity falling due prior to the estimated date of the last maturity of Bank loan and excluded from quasi-equity and included in non-current debt.
5/ Total assets include public funds entrusted to a company for management.
6/ Adjusted value to reflect stock dividends on original equity investments.

Comparative Operational Ratios of Development Finance Companies, 1968, 1969 and 1970 (Cont'd)

	Europe, Middle East and North Africa														
	IVK (Austria)			IFF (Finland)			NIBID (Greece)			ICC (Ireland)			IDBI (Israel)		
	1968	1969	1970	1968	1969	1970	1968	1969	1970	1968	1969	1970	1968	1969	1970
Year of Operation[1]	10th	11th	12th	5th	6th	7th	5th	6th	7th	36th	37th	38th	10th	11th	12th
Year-end total Assets (in millions of $)	91.3	107.9	130.0	38.4	59.6	77.5	28.3	42.8	68.1	40.7	46.8	53.2	262.0	283.7	340.4
(a) Ratios of Profitability															
1. Earnings before Interest, Provisions and Tax as % of Average Total Assets	6.2	6.5	7.2	7.7	7.8	8.4	6.1	7.1	7.5	4.5	6.6	6.6	8.0	8.3	8.4
2. Profit before Tax and Provisions as % of Average Total Assets	1.3	1.5	1.6	3.1	2.6	2.7	3.0	2.8	2.8	1.9	3.6	2.9	5.4	5.6	5.2
3. Profit before Tax and Provisons as % of Average Equity	11.4	11.7	9.7	33.9[2]	29.4[2]	39.5[2]	7.4	9.2	14.0	3.5	6.7	6.2	17.8[4]	19.3[4]	20.5[4]
4. Profit after Tax as % of Year-end Share Capital	7.0	5.7	6.1	7.9[2]	12.9[2]	13.0[2]	3.9	5.0	6.6	-5.7[3]	2.9	4.5	12.2[4]	10.0[4]	11.5[4]
(b) Ratios of Structure															
5. Non-current Debt[5]/ Equity	5.7	7.0	7.7	7.6[2]	12.3[2]	14.8[2]	1.6	2.8	4.9	0.7	0.9	1.0	2.2[4]	2.3[4]	3.3[4]
6. Non-current Conventional Debt[5]/ Equity plus Quasi-Equity[6]	2.4	3.1	3.4	1.8	1.4	2.0	1.6	2.8	2.7	0.7	0.9	1.0	0.7	0.9	1.5
(c) Average Rate of Growth (last 3 years)															
7. Average Annual Rate of Growth of Total Assets (%)	16.3	13.6	17.1	40.4	43.0	38.3	61.3	37.9	43.0	-4.7	-1.9	3.6	9.7	8.6	11.1
8. Average Annual Rate of Growth of Profit before Tax and Provisions (%)	4.1	14.1	17.5	46.9	33.8	36.3	134.8	37.1	30.7	9.2	31.0	38.1	10.0	14.7	8.9
(d) Portfolio															
9. Year-end Equity Portfolio as % of Year-end Total Equity and Term Loan Portfolio	-	-	-	1.0	1.1	0.9	6.6	5.9	7.7	17.1	16.5	17.7	4.4	3.6	2.7
(e) Financial Earnings & Margins															
10. Gross Income (including net capital gains before tax) less Direct Financial Costs as % of Average Total Assets	2.6	2.8	2.4	3.9	3.4	3.3	4.5	3.9	3.7	2.5	4.8	4.4	6.0	6.1	5.7
11. Income from Term Loans as % of Average Term Loan Portfolio	7.9	7.6	8.2	8.3	8.4	9.0	8.4	9.0	8.7	4.1	7.3	5.8	7.9	8.2	8.5
12. Cost of Term Debt as % of Average Term Debt	6.1	6.1	6.7	5.8	6.3	6.5	5.3	6.4	5.5	6.1	7.3	8.3	5.0	5.0	4.6
13. Equity Income (including net capital gains before tax) as % of Average Equity Portfolio	-	-	-	1.8	0.4	n.a.	2.7	3.1	7.0	4.8	3.0	6.6	4.3	3.5	3.8
(f) Administrative Costs															
14. Administrative Costs as % of Average Total Assets	0.6	0.7	0.7	0.8	0.7	0.6	1.4	1.1	0.9	0.7	0.9	1.5	0.5	0.4	0.4
(g) Reserves															
15. Reserves (including retained earnings) plus Provisions as % of Year-end Portfolio (Loans, Guarantees and Equity Investments)	6.3	5.5	5.5	4.3	3.8	4.2	6.7	5.6	4.9	5.1	7.0	8.4	7.5	6.1[7]	5.7
(h) Share Capital															
16. Book Value as % of Par Value	162.9	167.9	181.2	125.0[8]	132.6[8]	145.4[8]	107.4	108.0	111.3	109.5	109.1	112.4	115.3	115.3	115.6
(i) Dividend															
17. Dividends as % of Par Value of Share Capital	6.0	6.0	6.0	7.0[8]	7.0[8]	8.0[8]	3.0	4.0	5.0	-	-	2.5	6.4[9]	5.1[9]	4.9[9]
18. Dividends as % of Net Earnings (Pay-out Ratio)	42.6	104.9	98.3	63.2	91.1	67.8	76.4	80.6	75.8	-	-	35.8	76.1	77.8	67.0

General Note: For definition and implication of terms used, see Attachments 1 and 2.

1/ In counting year of operation, the first year is the first full or nearly full business year in which a development finance company actively operated.
2/ Unredeemed Series B share capital is treated as interest free Government loan to IFF.
3/ Due to substantial provisions and write-offs.
4/ Government-owned B Ordinary share capital and A Preference share capital are treated as debt, and dividend paid on these two types of shares are treated as interest payable on them.
5/ Including guarantees.
6/ All maturities of quasi-equity falling due prior to the estimated date of the last maturity of Bank loan are excluded from quasi-equity and included in non-current debt.
7/ Excluding business taxes.
8/ On Series A shares only.
9/ Average for all types of share capital.

ITEM I

Comparative Operational Ratios of Development Finance Companies, 1968, 1969 and 1970 (Cont'd)

	Europe, Middle East and North Africa (Cont'd)														
	BNDE (Morocco)			CIH (Morocco)			BANDESCO (Spain)			SNI (Tunisia)			TSKB (Turkey)		
	1968	1969	1970 2/	1968	1969	1970	1968	1969	1970	1968	1969	1970 2/	1968	1969	1970
Year of Operation 1/	9th	10th	11th	48th	49th	50th	5th	6th	7th	3rd	4th	5th	18th	19th	20th
Year-end total Assets (in millions of $)	42.4	44.8	51.6	40.2	52.9	65.2	64.5	73.1	102.8	14.5	21.1	28.5	129.3	147.0	137.6
(a) Ratios of Profitability															
1. Earnings before Interest, Provisions and Tax as % of Average Total Assets	5.5	5.6	5.9	7.0	7.2	7.2	6.8	7.6	7.5	4.4	5.4	4.7	8.2	7.8	8.1
2. Profit before Tax and Provisions as % of Average Total Assets	2.1	2.1	2.1	3.1	3.2	2.6	2.7	3.2	2.5	2.4	2.6	1.4	4.2	3.8	3.9
3. Profit Before Tax and Provisions as % of Average Equity	12.3	13.9	15.0	24.5	32.7	30.5	20.6	24.7	21.6	6.8	7.6	6.7	37.2	29.6	33.2
4. Profit after Tax as % of Year-end Share Capital	14.9	16.2	19.1	9.1	11.3	24.1	15.1	16.4	24.0	11.2	13.1	8.9	44.6	27.1	31.4
(b) Ratios of Structure															
5. Non-current Debt 3// Equity	5.5	5.4	5.6	7.6	9.9	10.2	6.5	6.8	8.2	1.6	2.3	3.1	7.5	6.3	9.0
6. Non-current Conventional Debt 3/ / Equity plus Quasi-equity 4/	2.6	2.7	3.1	7.6	9.9	10.2	6.5	6.8	8.2	1.2	2.0	2.7	1.5	2.1	3.5
(c) Average Rate of Growth (last 3 years)															
7. Average Annual Rate of Growth of Total Assets (%)	18.9	10.0	10.1	31.8	31.7	28.9	11.7	9.9	21.5	12.4	23.3	32.8	75.4	19.2	28.3
8. Average Annual Rate of Growth of Profit before Tax and Provisions (%)	13.1	13.8	17.1	10.7	24.2	17.3	47.6	15.1	11.0	27.5	17.1	3.0	39.8	13.9	20.6
(d) Portfolio															
9. Year-end Equity Portfolio as % of Year-end Total Equity and Term Loan Portfolio	10.1	9.6	9.1	-	-	-	4.8	3.2	5.8	29.8	26.4	17.0	9.1	9.9	6.0
(e) Financial Earnings & Margins															
10. Gross Income (including net capital gains before tax) less Direct Financial Costs as % of Average Total Assets	3.3	3.2	3.3	7.9	5.0	4.4	3.2	3.9	3.1	4.5	4.1	2.9	5.7	5.2	5.2
11. Income from Term Loans as % of Average Term Loan Portfolio	7.0	7.1	7.2	10.8	9.9	9.0	7.9 5/	8.5 5/	8.4 5/	9.7	9.6	8.3	8.4	8.1	9.0
12. Cost of Term Debt as % of Average Term Debt	4.6	4.2	4.4	4.8	4.7	5.4	4.9	4.9	5.6	4.6	4.9	5.4	4.8	4.9	5.1
13. Equity Income (including net capital gains before tax) as % of Average Equity Portfolio	2.2	3.0	3.9	-	-	-	0.4	21.8	6.1	2.9	3.2	2.7	18.3	16.9	8.8
(f) Administrative Costs															
14. Administrative Costs as % of Average Total Assets	1.2	1.2	1.1	1.9	1.7	1.8	0.2 6/	0.3 6/	0.5	2.0	1.5	1.3	1.1 7/8/	1.0 7/8/	0.9 7/
(g) Reserves															
15. Reserves (including retained earnings) plus Provisions as % of Year-end Portfolio (Loans, Guarantees and Equity Investments)	6.5	6.1	7.9	1.6	1.6	2.6	4.5	4.6	5.7	19.0	13.7	11.1	8.7	8.1	5.5
(h) Share Capital															
16. Book Value as % of Par Value	154.0	164.2	182.4	113.4	118.3	138.7	139.9	152.8	178.9	167.8	175.3	182.4	251.6 9/	216.8 9/	245.3 9/
(i) Dividend															
17. Dividends as % of Par Value of Share Capital	6.0	6.0	6.0	8.0	8.0	8.0	6.6	7.0	7.5	4.0	5.0	6.0	12.0	12.0	12.0
18. Dividends as % of Net Earnings (Pay-out Ratio)	40.4	85.4	31.5	88.0	71.1	33.2	43.4	42.7	31.1	35.8	37.6	67.4	31.2	32.8	49.0

General Note: For definition and implication of terms used, see Attachments 1 and 2.

1/ In counting year of operation, the first year is the first full or nearly full business year in which a development finance company actively operated. For SNI the first year is taken to be the first full business year after its reorganization.
2/ On the basis of unaudited financial statements.
3/ Including guarantees.
4/ All maturities of quasi-equity falling due prior to the estimated date of the last maturity of Bank loan are excluded from quasi-equity and included in non-current debt.
5/ Including rediscounted loans.
6/ Excluding directors' fees.
7/ Total assets include public funds entrusted to TSKB for their management.
8/ Excluding business taxes.
9/ Adjusted value to reflect stock dividends on original equity investments.

Comparative Operational Ratios of Development Finance Companies, 1968, 1969 and 1970

	Latin America and Caribbean														
	BNB (Brazil)			Caldas (Colombia)			Colombiana (Colombia)			Nacional (Colombia)			Norte (Colombia)		
Year of Operation[1]	1968 15th	1969 16th	1970 17th	1968 7th	1969 8th	1970[2] 9th	1968 9th	1969 10th	1970[2] 11th	1968 9th	1969 10th	1970 11th	1968 5th	1969 6th	1970 7th
Year-end Total Assets (in millions of $)	323.1	350.8	388.0	18.3	20.6	22.5	48.6	50.1	57.9	27.3	30.7	34.8	9.7	13.2	14.0
(a) Ratios of Profitability															
1. Earnings before Interest, Provisions and Tax as % of Average Total Assets	4.7	6.9	9.2	8.4	8.1	7.7	8.6	9.4	9.8	11.4	12.0	13.1	9.4	9.9	13.2
2. Profit before Tax and Provisions as % of Average Total Assets	4.1	6.5	8.7	3.5[3]	2.8[3]	0.9	3.6	3.9	4.2	6.6	6.4	6.9	4.7	4.5	4.8
3. Profit before Tax and Provisions as % of Average Equity	28.0	36.6	45.4	10.4[3]	9.2[3]	3.4	14.3	16.6	19.5	21.7	23.7	26.4	20.1	20.3	21.5
4. Profit after Tax as % of Year-end Share Capital	82.0	50.2	77.4	8.3	9.9	4.0	13.9	17.7	20.2	21.4	23.8	26.3	15.9	14.1	17.7
(b) Ratios of Structure															
5. Non-current Debt[4]/ Equity	4.5[5]	3.9[5]	3.8[5]	2.3[5]	2.8[5]	3.2[5]	3.5[5]	3.5[5]	3.8[5]	2.3[5]	2.6[5]	2.6[5]	3.7[5]	3.2[5]	3.3[5]
6. Non-current Conventional Debt[4]/ Equity plus Quasi-Equity[6]	4.5[5]	3.9[5]	3.8[5]	2.3[5]	2.8[5]	3.2[5]	3.5[5]	3.5[5]	3.8[5]	2.3[5]	2.6[5]	2.6[5]	3.7[5]	3.2[5]	3.3[5]
(c) Average Rate of Growth (last 3 years)															
7. Average Annual Rate of Growth of Total Assets (%)	62.5	39.3	32.3	22.9	16.2	18.4	4.8	8.8	15.8	10.4	15.0	21.0	34.6	41.3	33.5
8. Average Annual Rate of Growth of Profit before Tax and Provisions (%)	108.5	41.9	65.1	0.6	-3.6	24.5	5.3	5.5	22.4	13.3	22.2	26.0	39.2	40.1	43.0
(d) Portfolio															
9. Year-end Equity Portfolio as % of Year-end Total Equity and Term Loan Portfolio	-	-	-	26.6	30.6	34.6	20.9	18.8	17.7	18.2	17.3	15.1	6.5	8.1	8.1
(e) Financial Earnings & Margins															
10. Gross Income (including net capital gains before tax) less Direct Financial Costs as % of Average Total Assets	11.8	12.4	13.9	7.1	6.1	4.8	5.4	5.5	5.8	8.1	7.9	8.1	7.5	6.7	7.2
11. Income from term Loans as % of Average Term Loan Portfolio	15.0	16.1[7]	17.3[7]	12.6	14.3	17.2	13.3	13.7	13.1	13.0	14.0	14.5	13.1	12.7	16.8
12. Cost of Term Debt as % of Average Term Debt	0.7[5]	0.6[5]	0.6[5]	7.8	8.8	10.7	7.3[5]	7.9[5]	8.2[5]	7.7	9.1	9.5	10.1	10.7	14.3
13. Equity Income (including net capital gains before tax) as % of Average Equity Portfolio	-	-	-	4.7[8/9]	4.8[8/9]	6.2[9]	-0.5[9]	1.9[9]	1.7[9]	6.3[9]	7.6[9]	11.6[9]	1.7	8.5	4.5
(f) Administrative Costs															
14. Administrative Costs as % of Average Total Assets	6.8	4.9	5.0	3.1	3.0	4.0	1.6	1.5	5.6	1.2	1.1	1.0	2.8	2.1	2.4
(g) Reserves															
15. Reserves (including retained earnings) plus Provisions as % of Year-end Portfolio (Loans, Guarantees and Equity Investments)	17.0	15.6	18.8	5.6	1.6	2.3	8.4	8.3	8.5	8.9	7.3	9.1	5.4	4.6	5.5
(h) Share Capital															
16. Book Value as % of Par Value	385.4	207.5	265.0	156.7[10]	144.3[10]	146.2[10]	166.0[10]	165.9[10]	174.0[10]	143.3	143.4	148.7	134.2	124.2	127.8
(i) Dividend															
17. Dividends as % of Par Value of Share Capital	12.0[11]	12.0[11]	12.0[11]	8.0	8.0	-	8.0	10.0	12.0	14.4	14.4	17.6	10.0	10.0	12.1
18. Dividends as % of Net Earnings (Pay-out Ratio)	4.3[11]	13.6[11]	4.2[11]	96.1	80.4	-	57.6	56.7	59.6	61.5	60.5	67.0	63.0	70.8	68.3

General Note: For definition and implication of terms used, see Attachments 1 and 2.

1/ In counting year of operation, the first year is the first full or nearly full business year in which a development finance company actively operated.
2/ On the basis of unaudited financial statements.
3/ Assuming that 1% optional cash dividend is paid-out in cash.
4/ Including guarantees.
5/ Debt includes short term.
6/ All maturities of quasi-equity falling due prior to the estimated date of the last maturity of Bank loan are excluded from quasi-equity and included in non-current debt.
7/ Loan include short-term.
8/ Including promotion fees received for a company which was promoted by Caldas.
9/ Including stock dividends received.
10/ Adjusted value to reflect stock dividends on original equity.
11/ Dividends paid to private shareholders.

Comparative Operational Ratios of Development Finance Companies, 1968, 1969 and 1970 (Cont'd)

Latin America and Caribbean (Cont'd)

	Valle (Colombia) 1968	Valle (Colombia) 1969	Valle (Colombia) 1970	CFN (Ecuador) 1968	CFN (Ecuador) 1969	CFN (Ecuador) 1970	COFIEC (Ecuador) 1968	COFIEC (Ecuador) 1969	COFIEC (Ecuador) 1970	CAVENDES (Venezuela) 1968	CAVENDES (Venezuela) 1969	CAVENDES (Venezuela) 1970	ADELA (Regional) 1968	ADELA (Regional) 1969	ADELA (Regional) 1970
Year of Operation[1]	7th	8th	9th	20th	21st	22nd	3rd	4th	5th	5th	6th	7th	4th	5th	6th
Year-end Total Assets (in millions of $)	20.4	25.0	32.4	34.1	38.6	34.9	11.2	12.2	12.4	21.6	24.7	31.5	71.9	136.3	217.6
(a) Ratios of Profitability															
1. Earnings before Interest, Provisions and Tax as % of Average Total Assets	10.5	11.0	13.2	5.1	6.1	5.7	6.8	7.3	5.4	8.0	9.0	9.4	4.9	6.5	8.1
2. Profit before Tax and Provisions as % of Average Total Assets	5.7	5.5	6.2	4.5	5.2	4.5	3.7[2]	3.7[2]	3.4	4.8	5.0	4.6	2.6	2.7	2.3
3. Profit before Tax and Provisions as % of Average Equity	23.2	24.4	27.2	6.9	8.2	7.1	15.4	16.0	14.4	9.6	11.0	12.0	3.9	6.0	7.4
4. Profit after Tax as % of Year-end Share Capital	17.5	17.6	22.6	7.2	9.0	7.9	15.3	13.1	10.5	8.5	9.5	11.0	1.7	4.7	7.4
(b) Ratios of Structure															
5. Non-current Debt[3]/Equity	3.8[5]	3.0[5]	3.3[5]	0.5[5]	0.5[5]	0.5[5]	3.3[5]	5.0[5]	7.0[5]	1.0[5]	1.3[5]	2.0[5]	0.6[5]	1.4[5]	2.8[5]
6. Non-current Conventional Debt[3]/Equity plus Quasi-Equity[4]	3.8[5]	3.0[5]	3.3[5]	0.5[5]	0.5[5]	0.5[5]	3.3[5]	5.0[5]	7.0[5]	1.0[5]	1.3[5]	2.0[5]	0.6[5]	1.4[5]	2.8[5]
(c) Average Rate of Growth (last 3 years)															
7. Average Annual Rate of Growth of Total Assets (%)	48.5	39.7	46.6	6.1	6.4	10.8	184.9[6]	122.4	45.2	29.7	17.7	18.2	31.1	56.3	66.2
8. Average Annual Rate of Growth of Profit before Tax and Provisions (%)	34.2	44.9	41.7	5.1	5.4	6.6	8,545.9[6]	5,709.2	69.8	23.4	16.7	20.6	40.0	38.9	52.1
(d) Portfolio															
9. Year-end Equity Portfolio as % of Year-end Total Equity and Term Loan Portfolio	7.7	8.1	5.7	2.2	2.9	6.1	2.8	4.0	6.8	1.2	3.5	5.4	22.5	20.3	17.8
(e) Financial Earnings & Margins															
10. Gross Income (including net capital gains before tax) less Direct Financial Costs as % of Average Total Assets	7.5	7.2	7.8	6.1	6.8	6.7	7.5	7.6	7.6	6.6	6.5	6.2	5.4	5.1	4.4
11. Income from term Loans as % of Average Term Loan Portfolio	13.9[7]	14.0[7]	12.2[7]	6.7	9.6	9.2	11.8[7][8]	13.1[7][8]	11.9[7][8]	9.3[7]	10.9[7]	11.0[7]	10.1[7]	10.9[7]	10.1[7]
12. Cost of Term Debt as % of Average Term Debt	7.4[4]	8.2[4]	8.1[4]	2.1	3.0	3.6	4.7[5]	5.9[5]	3.6[5]	6.9[5]	7.9[5]	8.3	7.6[5]	7.4[5]	6.1[5]
13. Equity Income (including net capital gains before tax) as % of Average Equity Portfolio	4.6	5.5	10.5	-	-	6.7	3.4[9]	2.4[9]	5.3[9]	3.9[9]	3.8	3.1	1.8	3.2	2.4
(f) Administrative Costs															
14. Administrative Costs as % of Average Total Assets	1.9	1.6	1.5	1.6	1.6	2.2	3.9[2]	3.9[2]	4.1[2]	1.8	1.6	1.6	2.9	2.4	2.1
(g) Reserves															
15. Reserves (Including retained earnings) plus Provisions as % of Year-end Portfolio (Loans, Guarantees and Equity Investments)	5.7	5.5	6.3	12.4	7.6	14.6	1.8	2.8	0.8	8.2	7.9	7.5	5.6	3.7	2.7
(h) Share Capital															
16. Book Value as % of Par Value	134.5	130.0	138.7	108.9	112.9	115.9	115.9[10]	115.9[10]	106.5[10]	116.1	119.6	124.5	105.0	104.7	105.7
(i) Dividend															
17. Dividends as % of Par Value of Share Capital	8.0	10.0	12.0	-	-	-	8.0	20.0	10.0	5.0	6.0	6.0	-	4.0	5.0
18. Dividends as % of Net Earnings (Pay-out Ratio)	35.8	57.9	53.3	-	-	-	52.5	136.8	95.5	46.9	63.3	54.8	-	85.3	68.5

General Note: For definition and implication of terms used, see Attachments 1 and 2.

1/ In counting year of operation, the first year is the first full or nearly full business year in which a development finance company actively operated.
2/ 10% employees' profit participation under law was treated as part of administrative expenses.
3/ Including guarantees.
4/ All maturities of quasi-equity falling due prior to the estimated date of the last maturity of Bank loan are excluded from quasi-equity and included in non-current debt.
5/ Debt includes short-term.
6/ Two-year average.
7/ Loans include short-term.
8/ Includes income from guarantees.
9/ Represents all income from security investments.
10/ Adjusted value to reflect stock dividends on original equity investment.

IBRD/DFC

July 29, 1971

To: RM

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Messrs. J.P. Hayes & P.D. ~~Henderson~~

DATE: October 5, 1971

FROM: Hollis B. Chenery

SUBJECT: Follow up on McNamara's Statement of Bank Policy

1. McNamara would like to follow the LDC's progress in relation to the major objectives stated in his address to the Governors and to establish a program of Bank action related to them. None of the topics discussed is an easy area for Bank lending and on some topics there may be no appropriate Bank involvement at all. He would like us to consider possible actions and means of keeping abreast with the situation in each area.

2. Topics to be covered are the principal subjects discussed in the annual address:

A. Population

B. Employment

C. Income Distribution

D. Nutrition

E. Agriculture and Rural Development

F. Exports (primary products and industrial)

G. Aid Flows

These may be broken down or consolidated as you prefer.

3. We discussed the following kinds of action, which are by no means comprehensive:

(a) Improved data collection (e.g. income distribution).

(b) Research and dissemination of research findings (e.g. employment).

(c) Comparative evaluation of policy in different countries (e.g. population, nutrition).

(d) Institution building (e.g. rural credit, better use of DFC's for export promotion).

(e) Financing of pilot projects (e.g. nutrition, rural development).

Global analysis

(f) Coverage in Bank basic reports and special studies.

(g) Cooperation with other agencies (e.g. ILO, FAO, UNIDO, etc.).

(h) Improvement of procedures for project selection and evaluation (e.g. to reflect effects on employment or income distribution).

4. McNamara would like our initial reactions before he goes on his next trip at the beginning of November. I wish you would consider how to handle this assignment in your two departments, and we might then get together on Thursday or Friday of this week to discuss it.

cc: Messrs. King, Haq
Lerdau, Stevenson
Hawkins
Reutlinger
Saxe
E. Stern (A.I.D.)
Goreux

Messrs. P.D. Henderson & J.P. Hayes　　　　October 4, 1971

Hollis B. Chenery

President's Council Meeting of October 4, 1971

The following points of interest were raised:

1. Rural Development

It was agreed that the Bank is not effective in the area of rural development and that a study should be made of ways of improving its effectiveness. One possibility would be the creation of a new projects department in this area. Demuth volunteered to undertake the study and will form a working group to consult with him. I will suggest to him that Henderson be the CES member of this group (at least initially).

2. Expansion of Bank Lending

Mr. McNamara had some discussion with the French and others on this subject but did not make use of the EPD paper. He has decided that it should not go to the Board until Adler's study of borrowing is completed. Adler's draft should be ready by October 8. Hayes should discuss with Adler the interconnections between the two studies. In the meantime, I requested members of the President's Council to give us any reactions to the present EPD draft.

3. The Fourth IDA Replenishment

Denis Rickett was asked to do a preliminary assessment of alternative forms of financing IDA or other sources of soft loans, including the SDR link and the Horowitz Plan. Hayes and I should discuss with him this week the form of our participation.

4. Expansion of Overseas Missions

The President's Council will discuss the memoranda by Demuth and Shoaib on this subject on Friday, October 8. I would appreciate having your reactions to the Demuth proposals and will supply copies of the memoranda if you do not already have them. (I have asked Chaffey to reschedule the Senior Staff meeting Friday to accommodate this meeting.)

Messrs. J.P. Hayes & P.D. Henderson September 28, 1971

Hollis B. Chenery

Mr. Robert S. McNamara's Address to the Board of Governors

Mr. McNamara has asked me to express his appreciation to you and the members of your staff who prepared material for his address. This effort provided the main ideas in the final version. In his view this was an excellent piece of staff work and he would like to follow this procedure in future years.

Mr. McNamara also asked that we consider the extent to which the new style of economic reports or other special studies will be able to provide information on progress on the principal aspects of development. He has in mind particularly such questions as employment, trade, nutrition and other questions that he stressed in his address. I will discuss this question with you in further detail.

Messrs. Hayes, Henderson &
Stevenson
Hollis B. Chenery

September 14, 1971

Discussion at the President's Council, Monday, September 13.

The meeting this morning covered several items that you should be aware of.

1. Effect of Exchange Rate Changes on the Bank. Gabriel has been charged with preparing a study of ways to reduce the risk to borrowers of exchange fluctuations, and of possible actions that the Bank may have to take as a result of the prospective changes in parities and exchange rates. Hayes might wish to speak to him about the study and offer assistance if it is wanted.

2. Resident Missions. The memoranda that Demuth and Shoaib wrote on this subject last spring will be discussed by the President's Council early in October. Copies are available if you have not seen them. I would like to have any reactions that you may have before this discussion.

3. Economic work of the ADB and IDB. There is some unhappiness in the ADB about their relations to Bank economic work, and they apparently are in favor of producing independent economic reports. Demuth will take this up with Goodman, and will ask Hayes to participate in the discussion.

4. Policy Papers. I reported on the main points of our forthcoming paper by Haq on the policy discussion group, which I also went over briefly with McNamara last Friday. There was no dissent from the general lines that we will be proposing.

RM - Sept 10

Hendersons - communication problem -

Islam - a) Notes to Govt
b) Reply Aug 4 -
c) Islam relieved? Need to verify.
d) Will proceed -

Hays Paper - Exec Committee Thursday, McNamara Tues or Sunday
a) IBRD Lewis?
b) Redraft to Board level - eliminate technical terms, etc.
c) Draft by Meeting - (Sept 27.)
add option of Fr.1 constant.

Implications of Currency Crisis - talk to Pdah.