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Pearson Commission Recommendations - Correspondence - Volume 2

OFFICE MEMORANDUM

TO: Mr. McNamara

FROM: Richard H. Demuth *RHD*

SUBJECT: Pearson Commission Recommendations

1/5 to Mr. Demuth
Approved as modified.
DATE: December 31, 1969
7 11/5/13 RHD

Attached is a draft memorandum transmitting to the Board another group of Pearson Commission papers. I am sending it to you for review now so that, assuming that Burke, Siem and Irving have no difficulty with the papers, they can be distributed while you are away.

I think you will agree that the papers should be scheduled for discussion by the Executive Directors, as the draft transmittal memorandum contemplates. However, you may want to consider whether (a) a date for discussion should be fixed at the time the papers are sent to the Board rather than later, and (b) whether the discussion should be in the forum of the Committee of the Whole rather than of the Board or should perhaps be scheduled on a "seminar" basis. Whatever decision you make for the present group of papers would presumably apply as well to papers to be distributed subsequently, many of which will, I fear, have to be scheduled for Board discussion.

DRAFT
December 31, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: PEARSON COMMISSION RECOMMENDATIONS
RELATING TO THE WORLD BANK GROUP

Attached is the second group of memoranda analyzing Pearson Commission recommendations. This group deals with the following recommendations:

- Recommendation No. 12: Aid Coordination
- Recommendation No. 25: Population Problems
- Recommendation No. 26: Education
- Recommendation No. 28: Country Economic Reports
- Recommendation No. 29: Blending of Loans and Credits for
Single Projects and Programs

The numbers assigned to the recommendations are those which appear in the list of 33 recommendations relating directly to the activities or policies of the Bank Group set forth in SecM69-472, dated October 10, 1969.

~~Since~~ Some of these memoranda, ~~unlike those distributed in December,~~ raise issues of ^{and} substance, ^{therefore,} I propose ^{secretly} to schedule them for discussion at an early date.

Robert S. McNamara

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Lined

DRAFT
December 23, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 26 Concerning Education

This recommendation is in two parts; they are discussed separately below:

Recommendation 26(a)

"We recommend greater resources for: (a) research and experimentation with new techniques, including television and programmed learning; . . .

"1/

Background

This recommendation is meant to apply to research and experimentation within individual developing countries, not to abstract or general studies.^{2/} It reflects a belief among educators that a change from existing practices (rote learning, stereotyped teacher-student combinations, and so on) to new techniques would greatly improve the quality of education and, per unit of expenditure, would produce a greater number of graduates and a higher level of educational attainment in the developing countries.

As indicated in the Report,^{3/} the Commission envisaged that research and experimentation might be the first of three stages in projects of

^{1/} Report, page 201.

^{2/} The recommendation is somewhat ambiguous. The member of the Commission's staff concerned with education confirmed the interpretation given to the recommendation in this memorandum.

^{3/} Report, page 201.

educational reform. Second would come pilot projects, in which the results of research would be applied on a small scale, and finally would come projects in which the lessons learned would be applied full scale.

The Commission believed that Bank Group support for the first two stages should come from IDA rather than the Bank. Since research and experimentation may be somewhat speculative, the Commission felt that they should be financed on easier than conventional terms. We understand that it also felt that developing countries, since they often are quite conservative in their views about education, might need the incentive of concessional terms to interest them in more modern and innovative educational practices.

Analysis

I fully share the Commission's views about the desirability of modernizing education and training in the developing countries,

The process of devising and applying new techniques embraces a number of elements: the development of new course content, preferably through research and experimentation; the devising of new teaching methods, often in experimental classrooms or experimental schools; the development or choice of instructional materials (which may range from books and tapes to television and computers); the training or re-training of teachers (and school inspectors) to handle the new elements; and the preparation of building designs and construction standards appropriate for the new techniques. These activities may be carried on singly or in various combinations (as, for example, in educational institutes). Bank Group financing of these kinds of activities can and will be much intensified.

I do not agree, however, that, within the Bank Group, IDA should invariably be the source of finance for research and experimentation. Clearly, much of the developmental work the Commission had in mind will be done in countries which receive assistance from IDA. But the purpose of IDA's preferential terms is to assist governments which have balance of payments or resource mobilization problems, not to support particular kinds of projects. Developmental work is such an integral part of, and so necessary to, any educational system that it should be financed in accordance with the normal budgetary and financial practices in the country concerned, and should therefore be treated as appropriate for Bank financing in countries which are not eligible to receive assistance from IDA.

The argument that special terms may be needed as an incentive is likewise difficult to accept as a generality. Countries which need such incentives are likely to lack a fundamental commitment to educational reform; the record unfortunately shows many examples of experiments which were continued so long as they were financed on easy terms but which recipient countries made no effort to follow up or to apply on a wider scale. The willingness of the Bank or IDA to finance research and experimentation would, in itself, usually imply a willingness to finance the larger project that would be the sequel, so that it should not be necessary to offer an additional incentive.

Recommendation 26(b)

"We recommend greater resources for: . . . (b) a systematic analysis of the entire learning process as it applies to developing countries."^{1/}

^{1/} Report, page 201.

Background

Like recommendation (a), this recommendation was intended to apply to specific analyses within individual developing countries, not to analyses in general. By "the entire learning process" the Commission meant both formal and informal education; we have been advised by the Commission's staff that the phrase was used in an effort to escape from stereotyped thinking about traditional educational structures.

Analysis

The Bank and IDA do, of course, base their education lending within a country on an analysis of the educational situation of the country. These analyses are often made, in the first instance, by Unesco under the cooperative agreement between Unesco and the Bank; and they have developed in the direction recommended by the Commission.

When the cooperative agreement took effect five years ago, the missions dispatched by Unesco were intended to identify projects suitable for Bank Group financing and, to the extent necessary, to help in the preparation of these projects for consideration by the Bank. This procedure would have been satisfactory had there existed, in every country where educational development was of potential interest to the Bank Group, adequate information concerning the educational effort as a whole and an adequate plan of educational development, to provide the basis for evaluating needs and selecting projects for financing. In fact, these two conditions often are not fully met.

In recognition of this fact, we have suggested to Unesco, and Unesco has agreed, that in the future the work undertaken by both Unesco and Bank missions should extend over a considerably broader area. It will be directed toward producing basic sector studies as well as specific projects, and these sector

studies will become a regular part of the work done by or for the Bank Group preparatory to a loan or credit. At the same time, the studies are expected to take a broader view of the educational process: to pay less attention to traditional levels and formalized structures, and to survey not only formal education systems but also the benefits that may be had from adult education and other activities outside the formal systems. Identification and programming of preinvestment studies and projects will also be a part of the sector studies.

In my opinion, a further step remains to be taken. The shortcomings of educational planning in the less developed countries continue to be ^a major obstacle to the improvement of education; the additional information and a wider perspective to be expected from the new approach being taken by missions in the field will not produce their full benefit unless they serve to bring about better plans of educational development in the less developed countries. At the present time, educational planning is not embraced by the Bank/Unesco agreement. I believe that it should be, for the purpose of strengthening the assistance that the Bank and Unesco can give in this respect. In the next several months, I expect to make detailed recommendations on this matter to the Executive Directors.

Conclusion

I think that we should accept the Commission's recommendations that increased Bank Group financing should be made available for research and experimentation in new techniques of education, and for systematic analyses of the entire learning process in developing countries. As a foundation for this expanded program, work undertaken by Bank and Unesco education missions should

be directed toward producing basic sector studies as well as specific projects. Further, I believe that we should propose to Unesco that the terms of the Bank/Unesco cooperative agreement be broadened to bring educational planning in the developing countries, within the scope of inquiry of missions sent out under that program. If Unesco agrees with this proposal, I shall submit specific recommendations for changes in the cooperative agreement for the consideration of the Executive Directors.

Robert S. McNamara

Dec. 19(?) Comm
marked up by MCH No. 26.
7/1/5/18

educational reform. Second would come pilot projects, in which the results of research would be applied on a small scale, and finally would come projects in which the lessons learned would be applied full scale.

The Commission believed that Bank Group support for the first two stages should come from IDA rather than the Bank. Since research and experimentation may be somewhat speculative, the Commission felt that they should be financed on easier than conventional terms. We understand that it also felt that developing countries, since they often are quite conservative in their views about education, might need the incentive of concessional terms to interest them in more modern and innovative educational practices.

Analysis

I fully share the Commission's views about the desirability of modernizing education and training in the developing countries. ~~Projects to improve the quality of teaching have been an important part of Bank/IDA financing virtually from the beginning of the Bank Group's operations in education. As our experience has grown, the Bank Group has become progressively more interested in supporting the use of new techniques.~~

The process of devising and applying new techniques embraces a number of elements: the development of new course content, preferably through research and experimentation; the devising of new teaching methods, often in experimental classrooms or experimental schools; the development or choice of instructional materials (which may range from books and tapes to television and computers); the training or re-training of teachers (and school inspectors) to handle the new elements; and the preparation of building designs and construction standards appropriate for the new techniques. These activities may

be carried on singly or in various combinations (as, for example, in educational institutes). ←

Bank Group financing, in one project or another, already has supported many of these kinds of activity, but ^{if these kinds of activities can} such support could and will be much intensified.

I do not agree, however, that, within the Bank Group, IDA should invariably be the source of finance for research and experimentation. Clearly, much of the developmental work the Commission had in mind will be done in countries which receive assistance from IDA. But the purpose of IDA's preferential terms is to assist governments which have balance of payments or resource mobilization problems, not to support particular kinds of projects. Developmental work is such an integral part of, and so necessary to, any educational system that it should be financed in accordance with the normal budgetary and financial practices in the country concerned, and should therefore be treated as appropriate for Bank financing in countries which are not eligible to receive assistance from IDA.

The argument that special terms may be needed as an incentive is likewise difficult to accept as a generality. Countries which need such incentives are likely to lack a fundamental commitment to educational reform; the record unfortunately shows many examples of experiments which were continued so long as they were financed on easy terms but which recipient countries made no effort to follow up or to apply on a wider scale. The willingness of the Bank or IDA to finance research and experimentation would, in itself, usually imply a willingness to finance the larger project that would be the sequel, so that it should not be necessary to offer an additional incentive.

An argument for special assistance might be made for research which, while conducted within one country, was designed to have wider application so that other countries might benefit. Each such case should, I believe, be considered on its merits to determine whether some special concessional treatment, through an extraordinary allocation of IDA funds or otherwise, is warranted.

Recommendation 26(b)

"We recommend greater resources for: . . . (b) a systematic analysis of the entire learning process as it applies to developing countries."^{1/}

Background

Like recommendation (a), this recommendation was intended to apply to specific analyses within individual developing countries, not to analyses in general. By "the entire learning process" the Commission meant both formal and informal education; we have been advised by the Commission's staff that the phrase was used in an effort to escape from stereotyped thinking about traditional educational structures.

Analysis

The Bank and IDA do, of course, base their education lending within a country on an analysis of the educational situation of the country. These analyses are often made, in the first instance, by Unesco under the cooperative agreement between Unesco and the Bank; and they have developed in the direction recommended by the Commission.

When the cooperative agreement took effect five years ago, the missions dispatched by Unesco were intended to identify projects suitable for Bank

^{1/} Report, page 201.

Group financing and, to the extent necessary, to help in the preparation of these projects for consideration by the Bank. This procedure would have been satisfactory had there existed, in every country where educational development was of potential interest to the Bank Group, adequate information concerning the educational effort as a whole and an adequate plan of educational development, to provide the basis for evaluating needs and selecting projects for financing. In fact, these two conditions often are not fully met.

In recognition of this fact, we have suggested to Unesco, and Unesco has agreed, that ^{in the formal} the work undertaken by ^{with} Unesco ^{and Bank} missions should extend over a considerably broader area. ~~In pilot cases, it is now to be directed toward producing basic sector studies rather than being pointed primarily at project identification; and as time and Bank/Unesco manpower permit,~~ ^{I will} these sector studies will become a regular part of the work done by or for the Bank Group preparatory to a loan or credit. At the same time, the studies are expected to take a broader view of the educational process: to pay less attention to traditional levels and formalized structures, and to survey not only formal education systems but also the benefits that may be had from adult education and other activities outside the formal systems. Identification and programming of preinvestment studies and projects will also be a part of the sector studies. ^{as well as "specific"}

In my opinion, a further step remains to be taken. The shortcomings of educational planning in the less developed countries continue to be a major obstacle to the improvement of education; the additional information and a wider perspective to be expected from the new approach being taken by missions in the field will not produce their full benefit unless they serve to

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As a foundation for this expanded program, work undertaken by Bank and Unesco education missions should be directed toward producing basic sector studies as well as specific projects. Further, . .

bring about better plans of educational development in the less developed countries. At the present time, educational planning is not embraced by the Bank/Unesco agreement. I believe that it should be, for the purpose of strengthening the assistance that the Bank and Unesco can give in this respect. In the next several months, I expect to make detailed recommendations on this matter to the Executive Directors.

Conclusion

I think that we should accept the Commission's recommendations that increased Bank Group financing should be made available for research and experimentation in new techniques of education, and for systematic analyses of the entire learning process in developing countries, although I would not agree ~~that the funds should invariably be provided by IDA.~~ I believe that we should propose to Unesco that the terms of the Bank/Unesco cooperative agreement be broadened to bring educational planning in the developing countries within the scope of inquiry of missions sent out under that program. If Unesco agrees with this proposal, I shall submit specific recommendations for changes in the cooperative agreement for the consideration of the Executive Directors.

Robert S. McNamara

As a foundation for this expanded program, work undertaken by Bank and Unesco missions should be directed toward producing basic sector studies as well as specific projects - Further,

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DRAFT
December 23, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 25 Concerning
Population Problems

Recommendation

"We recommend that bilateral and international agencies press in aid negotiations for adequate analysis of population problems and of the bearing of these problems on development programs."^{1/}

Background

This recommendation is one of several concerned with population. The Commission comments that, although many of the developing countries are now convinced of the need for population policies to bring down birth rates, only a genuine conviction on the part of governments can produce the strong political support and determined leadership which family planning programs and population policy require. It therefore recommends that developing countries identify their population problem, recognize the relevance of population growth to their social and economic planning, and adopt appropriate programs.

The Commission urges energetic support for those countries which have already taken steps to bring down their birth rates, adding that "aid givers cannot be indifferent to [the question] whether population problems receive the attention they require."^{2/} The Commission also urges the developed countries to give firm support to a larger role by international organizations in helping the developing countries with population problems; up to now, the Commission believes, the international organizations have been held

^{1/} Report, page 195.

^{2/} Report, page 20.

back to a considerable extent by the "ambivalence and confusion of the industrialized member countries".^{1/}

Analysis

Insofar as the recommendation urges the Bank, as an agency providing development finance, to emphasize the implications of the population problem for the productivity of all development efforts, I am clear that the Bank should accept it. My first address as President of the Bank, at the Annual Meeting in 1968, identified the population problem as one of three requiring special attention by the Bank Group. It noted that the Bank was concerned above all with economic development, and that the rapid growth of population was one of the greatest barriers to the economic growth and social well-being of its members. I proposed that the Bank should, among other things, take steps to let the developing countries know the extent to which rapid population growth slows down their potential development, and that we should look for opportunities to provide^{advisory} to assistance^{to} and finance facilities required by member countries to carry out family planning programs.

As the Directors know, a Population Projects Department and a Population Studies Division have been established, and we are prepared, as our professional staff in the relevant disciplines is built up, to offer technical advice to governments in need of it.^{2/} We are also willing to offer financing where feasible, although the immediate need appears to be more for counsel than for funds. Further, each of our country economic missions to a country experiencing an excessive

^{1/} Report, page 196.

^{2/} We are cooperating with the UNDP, the United Nations and the World Health Organization in this area.

rate of population growth will include in its report an analysis of the problem and a candid discussion of the government's action or inaction in endeavouring to meet it.

The Commission also recommended that the implications of population growth for all aspects of economic development be brought home to the developing countries "in aid negotiations". Presumably the reference to "aid negotiations", in its application to the Bank Group, need not be literally construed to mean the actual negotiation of loans or credits. The approach we have followed, which I believe we should continue to follow, is to take account of population growth as one element, albeit one deserving of special attention, affecting development potential and performance, which we evaluate in the course of a continuing dialogue with the member concerned on economic policies, the direction of the development effort and the flow of development finance.

Some of our developing country members do not yet accept the thesis that high rates of population growth inhibit their development prospects; others, while recognizing the problem, have not yet adopted a policy to deal with it; others have adopted official family planning programs, although in many of these countries the will and the organizational measures needed to carry out such programs are lacking. Our role and our action in each case must be adapted to the particular circumstances of the country concerned, with due regard to the religious, political and cultural sensitivities involved.

The Bank Group's involvement in population programs, while recent, already has taken quite varied forms. The first Bank mission sent anywhere to appraise a specific proposal for the financing of a family-planning project went to Jamaica toward the end of 1969, after two earlier missions had helped the Government consider how to enlarge and organize its family-planning activities; an

expert later went to Mauritius to help the Government in its consideration of whether and how its present support of private family-planning organizations might evolve into an enlarged, official program; at the end of last year a special mission was sent to help Tunisian authorities design an enlarged family-planning program; and a Bank team has been selected which will visit Pakistan in the first part of 1970 to try to estimate the current and possible future impact of family-planning activities on population trends in that country.

In Indonesia, the Bank has been engaged in a cooperative effort along with the UNDP, the United Nations and the World Health Organization: together with them, it has sent a mission to assist the Government in the preparation of a large-scale family-planning program and in the identification of projects which ultimately may prove suitable for external financing. In India, the Bank has been assisting in an effort to encourage and coordinate external aid to a population program: the Bank helped to prepare the way for a U.N. mission which visited India early in 1969 to make an analysis of the organization and effectiveness of the Indian program; and in November 1969, in Stockholm, the Bank chaired a consortium meeting devoted entirely to the program and means of supporting it.

Conclusion

I agree fully with the Commission's emphasis on the implications, for economic development generally, of the population problem and on the importance of action by governments to overcome it. I believe that the Bank's present and planned approach to population questions, in the context of its continuing relationship with its developing country members, is fully in accord with the

spirit of the Commission's recommendation. We shall increasingly bring to governments' attention the importance of adequately analyzing and dealing with the population problem as it manifests itself in their countries. As our experience and capacity develop, we shall hope to proceed beyond the stage of economic analysis to assistance in policy formulation, in program development and, where necessary, in financing.

Robert S. McNamara

back to a considerable extent by the "ambivalence and confusion of the industrialized member countries".^{1/}

Analysis

Insofar as the recommendation urges the Bank, as an agency providing development finance, to emphasize the implications of the population problem for the productivity of all development efforts, I am clear that the Bank should accept it. My first address as President of the Bank, at the Annual Meeting in 1968, identified the population problem as one of three requiring special attention by the Bank Group. It noted that the Bank was concerned above all with economic development, and that the rapid growth of population was one of the greatest barriers to the economic growth and social well-being of its members. I proposed that the Bank should, among other things, take steps to let the developing countries know the extent to which rapid population growth slows down their potential development, and that we should look for opportunities to ^{provide assistance and} finance facilities required by member countries to carry out family planning programs.

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Special*

As the Directors know, a Population Projects Department and a Population Studies Division ~~within the Economics Department~~ have been established, and we are prepared, as our professional staff in the relevant disciplines is built up, to offer technical advice to governments ^{in need of} requesting it.^{2/} We are also willing to offer financing where feasible, although the immediate need appears to be more for counsel than for funds. Further, each of our country

1/ Report, page 196.

2/ We are cooperating with the United Nations, the UNDP and the World Health Organization in this area.

experiencing an excessive rate of population growth

economic mission reports on a country facing a population problem is instructed to include in its report, a candid discussion of the government's action or inaction in endeavouring to meet that problem.

The Commission also recommended that the implications of population growth for all aspects of economic development be brought home to the developing countries "in aid negotiations". Clearly the Commission did not mean, in saying this, that the availability of development finance should be conditioned upon the adoption of population policies since the report adds that this would be "particularly unwise". Presumably the reference to "aid negotiations", in its application to the Bank Group, need not be literally construed to mean the actual negotiation of loans or credits. The approach we have followed, which I believe we should continue to follow, is to take account of population growth as one element, albeit one deserving of special attention, affecting development potential and performance, which we evaluate in the course of a continuing dialogue with the member concerned on economic policies, the direction of the development effort and the flow of development finance.

Some of our developing country members do not yet accept the thesis that high rates of population growth inhibit their development prospects; others, while recognizing the problem, have not yet adopted a policy to deal with it; others have adopted official family planning programs, although in many of these countries the will and the organizational measures needed to carry out such programs are lacking. Our role and our action in each case must be adapted to the particular circumstances of the country concerned, with due regard to the religious, political and cultural sensitivities involved.

The Bank Group's involvement in population programs, while recent, already has taken quite varied forms. ~~Bank activity is farthest advanced in Jamaica.~~ The first Bank mission sent anywhere to appraise a specific proposal for the financing of a family-planning project went to Jamaica toward the end of 1969, after two earlier missions had helped the Government consider how to enlarge and organize its family-planning activities; ~~Matters are at a much earlier stage in Mauritius:~~ ^{later visit to Mauritius} an expert [^] was sent there to help the Government in its consideration of whether and how its present support of private family-planning organizations might evolve into an enlarged, official program; ~~In two other cases, further activity has followed discussions arising from the Bank's regular economic missions:~~ a special mission went to Tunisia at the end of last year ^{a special mission was sent} [^] to help Tunisian authorities design an enlarged family-planning program; and a Bank team has been selected which will visit Pakistan in the first part of 1970 to try to estimate the current and possible future impact of family-planning activities on population trends in that country.

In Indonesia, the Bank has been engaged in a cooperative effort along with the UNDP, the United Nations and the World Health Organization: together with them, it has sent a mission to assist the Government in the preparation of a large-scale family-planning program and in the identification of projects which ultimately may prove suitable for external financing. In India, the Bank has been assisting in an effort to encourage and coordinate external aid to a population program: the Bank helped to prepare the way for a ^{U.N.} ~~UN~~ mission which visited India early in 1969 to make an analysis of the organization and effectiveness of the Indian program; and in November 1969, in Stockholm, the Bank chaired a

consortium meeting devoted entirely to the program and means of supporting it.

Conclusion

I agree fully with the Commission's emphasis on the implications, for economic development generally, of the population problem and on the importance of ^{action} ~~an adequate analysis of the problem~~ by governments, ^{to overcome it.} ~~On the assumption that the Commission's reference to "aid negotiations" need not be narrowly construed,~~ I believe that the Bank's present and planned approach to population questions, in the context of its continuing relationship with its developing country members, is fully in accord with the spirit of the Commission's recommendation. We shall ^{increasingly} ~~continue to~~ bring to governments' attention the importance of adequately analyzing and dealing with the population problem as it manifests itself in their countries. As ^{our experience and capacity develops,} ~~and to the extent appropriate,~~ we shall hope to proceed beyond the stage of economic analysis to assistance in policy formulation, in program development and, where necessary, in financing.

Robert S. McNamara

711/5/10²⁸

DRAFT
December 22, 1969

note changes on pgs 2, 3 + 4. Rinal

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 28 Concerning Country Economic Reports

Recommendation

"The World Bank should continue to assume responsibility for such country economic reports for major recipients and accept reporting responsibility where it is requested to do so by the new multilateral groupings recommended in Chapter 6. For some of the smaller countries, however, the Bank's responsibility for economic reporting might well be passed to regional banks as their capacity grows."^{1/}

Background

This recommendation appears in the context of the Commission's consideration of ways to improve the multilateral aid machinery. It also appears in substantially the same form in that portion of the report devoted to aid coordination, where the Commission recommends the creation of new multilateral groupings, preferably on a regional basis.^{2/} There the Commission, noting that it would be possible for the new groupings to have their own reporting staff, says that on balance it would be preferable to take advantage of the Bank's experience and the fact that it must continue to engage in economic reporting for purposes of its own work. The Commission comments in passing that, although Bank economic mission reports "have set a high standard of data presentation and analysis", nonetheless, because the reports are based on brief visits, "they are often felt to do less than justice to the underlying problems of development". At the same

^{1/} Report, page 219.

^{2/} Report, page 131.

time, the Commission expresses concern that because of the Bank's "prestige, experience and proven managerial capacity", it will be given too many diverse tasks to permit it to discharge all of them effectively. Accordingly, the Commission suggests the desirability of a policy under which the Bank would divest itself of some activities after their initial launching and would assign high priority to helping other agencies develop a capacity to take over these activities. ^{1/}

Analysis

^{My}
The memorandum analyzing the Commission's Recommendation No. 12, on aid coordination, outlines the scope of the Bank's expanded country economic reporting program and of the information and judgments which the economic reports are to provide. The program is designed to produce reports which are not only more regularly scheduled but ^{also} more comprehensive than they were in the past. ~~The Bank will make the reports~~
[^] While, as the Commission notes, these reports are prepared in the first instance for purposes of our own work, we make them available to the various consortia and consultative groups, ^{2/} and ^{we} I would expect to make them available to any new multilateral groupings which may be formed. I see no difficulty, therefore, in the Commission's proposal that the Bank accept reporting responsibility for such new groupings, if it is asked to do so.

^{1/} Report, page 219.

^{2/} In addition, country economic reports are received by the members of the Bank through the Executive Directors, and are also routinely sent to the United Nations, the UN Development Programme and the UNDP Resident Representative concerned, the appropriate ^{or regional economic commission} regional bank, the relevant specialized agencies and the UN regional economic commission.

I think we ought also to accept the Commission's implicit suggestion that we should respond positively to any opportunities to help the regional banks to develop their capacity for economic reporting. In addition to our present practice of making our economic reports available to the regional banks, I think that we should also, in appropriate cases, invite the regional banks to designate staff members to participate in our economic missions, and that Bank missions should, as a regular practice give high priority to consultations and exchange of views with regional bank headquarters. Moreover, where a regional bank has developed a special competence in or knowledge of a particular subject, we should draw upon it. The Inter-American Development Bank, for example, has done considerable work on regional economic integration problems, and has pioneered in refinancing export credits, subjects likely to be of interest to our economic missions. I have, accordingly, instructed the respective Area Departments and the Economics Department to keep in mind the desirability of taking action along the foregoing lines.

I do not believe that it is necessary or desirable to take any position now with respect to the commission's suggestion that reporting responsibility for some of the smaller countries might eventually be passed to the regional banks. This matter should, I believe, be explored at some later stage. The questions which would then need examination would include the receptivity of the regional banks themselves to the

I think we ought also to accept the Commission's implicit suggestion that we should ^{respond positively to any opportunities to} help the regional banks to develop their capacity for economic reporting, ~~assuming, of course, that the banks themselves wish such help.~~ In addition to our present practice of making our economic reports available to the regional banks, I think that we should also, in appropriate cases, invite the regional banks to participate ^{to designate staff members} in our economic missions, and that Bank missions should, as a regular practice, ^{give high priority to} ~~and not merely sporadically,~~ call in at ^{with regional bank headquarters} ~~regional bank headquarters~~ for consultations and exchange of views. Moreover, where a regional bank has developed a special competence in or knowledge of a particular ^{subject} sector, we should draw upon it. The Inter-American Development Bank, for example, has done considerable work on regional economic integration problems, and has pioneered in ~~financing housing and in refinancing~~ export credits, ^{subjects likely to be related to our economic missions} ~~all areas to which we have been turning our attention recently.~~ I have, accordingly, instructed the respective Area Departments and the Economics Department to keep in mind the desirability, ~~consistent with maintaining our own standards of quality and meeting our own schedules,~~ of taking action along the foregoing lines.

I do not believe that it is necessary or desirable to take any position now with respect to the Commission's suggestion that reporting responsibility for some of the smaller countries might eventually be passed to the regional banks. This matter should, I believe, be explored at some later stage ~~when the regional banks produce economic reports which will serve the purposes that our economic reports now serve.~~ The questions which would then need examination would include the receptivity of the regional banks themselves to the

assumption of this responsibility and the attitude of the developing countries involved and of any coordinating groups concerned with those countries..

Conclusion

I believe that we should accept the Commission's proposal that the Bank initially undertake to provide reporting services for any new multilateral groupings which may be created, assuming that we are asked to do so. We should also, I think, do what we can, ~~consistent with our own needs,~~ to assist the regional banks ^{when requested} to increase their capacity for economic reporting, ~~assuming that they wish us to do so.~~

Robert S. McNamara

- 4 -

and

assumption of this responsibility, the attitude of the developing countries involved and of any coordinating groups concerned with those countries, ~~and finally, whether the size of the country is the best criterion for determining the division of labor between our Bank and the regional banks.~~

Conclusion

I believe that we should accept the Commission's proposal that the Bank initially undertake to provide reporting services for any new multilateral groupings which may be created, assuming that we are asked to do so. We should also, I think, do what we can, consistent with our own needs, to assist the regional banks to increase their capacity for economic reporting, assuming that they wish us to do so. Finally, I believe that we should defer consideration of the question whether the regional banks should eventually assume reporting responsibility for some of the smaller countries.

Robert S. McNamara

4/24

Mr. Knapp

I don't quite know what happened on this one. Dick clearly thought that the Apr. 22 inserts represented what the three of you agreed on Monday. A.S.M. however wants no suggestion, or suggestion that Person suggested, that Dick should participate in rescheduling. ~~for~~ He would like to talk to you as soon as you have considered his changes and without waiting for Dick to return.

MICHAEL L. HOFFMAN

Edwin White
7/17/5/19

DRAFT
December 22, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 14 Concerning Debt Relief Operations

4/24
Approved as modified Subject to Dick + Bank's comments in my changes
Shan
4/27
OK with Bank's corrections
Pearson

Recommendation

"We recommend that debt relief operations avoid the need for repeated reschedulings and seek to re-establish a realistic basis for development finance. The World Bank and the IMF, as important providers of long-term and short-term finance respectively, must of course participate in rescheduling discussions."^{1/}

Background

In the Commission's judgment, the procedures and principles for debt relief operations in recent years have often been inadequate. The report points out that the debt problem of developing countries cannot be looked at in isolation from the over-all problem of economic growth or the need for future foreign assistance. Nonetheless, the Commission found, "[t]he emphasis has usually been placed on speedy resumption of debt service payments rather than on re-establishing [a] financial framework for orderly growth."^{2/}

While the Commission believed that debt relief should not be provided "irrespective of the policy performance of the debtor country" and that

^{1/} Report, p. 157

^{2/} Ibid., p. 157

debt relief is not justified "i/f a debt crisis is patently the result of mismanagement and there is no reasonable hope for a change of policy," it also stressed that "the accumulation of excessive debt is usually the combined result of errors of borrower governments and of their foreign creditors."^{1/}

The Commission found that, in several instances, debt had been rescheduled on the basis of short-run accommodation which failed to ensure an orderly resumption of normal financial relations and had to be followed soon thereafter by further rescheduling operations. This "short leash" approach, in the Commission's view, creates undesirable uncertainty and hampers the efforts of the debtor to formulate the long-term plans and policies necessary to ensure renewed growth of the economy. The Commission concluded, therefore, that, when debt relief is justified, it should be given for "an adequate period to avoid a rapid succession of debt relief negotiations." It added that debt problems should, preferably, be considered in "consortia or consultative groups where the accent of the discussion is placed on development problems and policies."^{2/}

~~The Commission's report recommends participation by the Bank and the Fund "in rescheduling discussions." [The report is ambiguous as to whether the Commission intended such participation to be in an advisory capacity or to include financial participation in debt relief operations; the Commission's staff has advised that the intention was to recommend both. Accordingly, both forms of participation by the Bank are examined below.]~~

Analysis

- 9 ~~a) Participation in debt relief discussions~~
In the last 10 years,
/the Bank has attended the discussions for all but one debt relief operation

^{1/} Ibid., p. 156

^{2/} Report, p. 157

for its member countries, ~~generally as an observer.~~ In all these discussions, Bank staff, together with staff of the IMF, has provided technical information and advice on the economic condition and prospects of the debtor country. The Bank has been particularly concerned to stress the implications for long-term growth in the debtor country of alternative solutions to the immediate debt problem.

I share the Commission's view that "there is a close connection between debt difficulties and the need for future foreign assistance."^{1/} I therefore agree that, ~~when requested to do so,~~ the Bank--in close cooperation with the Fund--should actively participate in the discussions between the creditor countries and a debtor country which is experiencing a debt crisis; and that, in such discussions, the Bank staff should continue to pay particular attention to the probable effects of any proposed relief on the future development of the debtor.

[I do not believe, however, that it would be feasible or desirable to establish specific ground rules as to the type of debt relief which should be generally provided and which Bank staff should advocate in discussions. Each debt crisis differs in some degree from others, both in its origins and in the circumstances that surround it; its solution depends to a large extent on the past and present political relations and patterns of trade between the debtor country and its creditors, the degree of confidence which the creditors have in the government of the debtor country, and the financial and balance-of-payments positions of the individual creditor countries. Internal institutional constraints in particular creditor countries also influence the possible terms of a debt relief operation.]

^{1/} Report, p. 157

page

[Moreover, the views of developing and developed countries on debt relief operations in general are still far apart. While UNCTAD II advocated that, as a matter of generally accepted policy, where debt difficulties do arise, creditor countries should stand ready to deal reasonably with them within the framework of an appropriate forum, creditor countries have insisted that debt relief, at least in the form of debt rescheduling or consolidation, should continue to be considered as an exceptional course of action and no institutional arrangements should be contemplated to deal with such exceptional circumstances.]

9) Further
~~In the circumstances, I believe that the Bank should maintain its case-by-case approach to the solution of debt crises and should continue to stress the need for preventive measures designed to avoid, to the extent possible, the precipitation of ~~such~~ ^{debt} crises. To this end, (i) improved and intensified economic reporting and analysis, (ii) an improved system of external debt reporting, including the joint Bank-OECD arrangements, (iii) increased assistance and advice by the Fund or Bank on external debt management, and (iv) intensified coordination of external aid, including careful consideration of the terms of such aid, should help in identifying debt difficulties in advance and in indicating what measures, domestic and external, may be necessary to mitigate or avoid them.~~

b) Financial participation in debt relief operations

In spite of the efforts of all concerned, debt crises are still likely to occur in the future, often for reasons beyond the control of the debtor country. The Bank, as a major creditor, will have to consider in each case whether and to what extent it should participate financially in the solution of a particular crisis.

There is a provision in the Bank's Articles of Agreement (Article IV, Section 4(c)) expressly permitting relaxation of the terms of Bank loans upon application of a member,^{1/} and the Bank, as a lending institution, has legal capacity in any event to modify the repayment terms of its loans if this is in the interests of the Bank and of the member concerned.^{2/} Nevertheless, the Bank has in practice agreed only exceptionally to participate financially in general debt rescheduling exercises.^{3/} For a number of reasons, the Bank's position differs from that of governments which have extended or guaranteed loans. First, the Bank's loans are all long-term and extended only for productive projects; they are in a different category, therefore, from medium- or short-term export credits extended or guaranteed by governments. Yet it has

1/ "If a member suffers from an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payment. If the Bank is satisfied that some relaxation is in the interests of the particular member and of the operations of the Bank and of its members as a whole, it may take action under either, or both, of the following paragraphs with respect to the whole, or part, of the annual service:

- (i) The Bank may, in its discretion, make arrangements with the member concerned to accept service payments on the loan in the member's currency for periods not to exceed three years upon appropriate terms regarding the use of such currency and the maintenance of its foreign exchange value; and for the repurchase of such currency on appropriate terms.
- (ii) The Bank may modify the terms of amortization or extend the life of the loan, or both."

2/ See R68-39.

3/ The Bank's attitude has not been based on legal considerations, since apart from its general powers as a creditor to relax loan terms, the Articles expressly contemplate debt rescheduling for balance of payments reasons (Article IV, Section 4(c)).

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Marginal note

When the memo is circulated, show the original text and Broches' revision herein indicated in pencil -- also attach a copy of Broches' memo.

Footnote 3

The Bank's attitude has not been based on legal considerations, since apart from its general powers as a creditor to relax loan terms, the Articles expressly contemplate debt rescheduling for balance of payments reasons (Art. IV, Section 4(c)).

[There is a provision in the Bank's Articles of Agreement (Article IV, Section 4(c)) expressly permitting relaxation of the terms of Bank loans upon application of a member ^{1/}, and the Bank, as a lending institution, has legal capacity in any event to modify the repayment terms of its loans if this is in the interests of the Bank and of the member concerned ^{2/}. Nevertheless,] the Bank has in practice agreed only exceptionally to participate financially in general debt rescheduling exercises. ^{3/} For a number of reasons, the Bank's position differs from that of governments which have extended or guaranteed loans. First, the Bank's loans are all long-term and extended only for productive projects; they are in a different category, therefore, from medium- or short-term export credits extended or guaranteed by governments.

Yet it has been an excessive use of such export credits, sometimes for purposes of questionable priority, which has most frequently caused debt difficulties.

1/ "If a member suffers from an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payment. If the Bank is satisfied that some relaxation is in the interests of the particular member and of the operations of the Bank and of its members as a whole, it may take action under either, or both, of the following paragraphs with respect to the whole, or part, of the annual service:

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- (ii) The Bank may modify the terms of amortization or extend the life of the loan, or both."

2/ See R68-39.

3/ The Bank's attitude has not been based on legal considerations, since apart from its general position as a creditor to relax loan terms. The Articles of Agreement contemplate debt rescheduling for individual payments season start II, section 4(c).

When the member is concerned, show the original text of Articles provision. Several indicated in heretofore attached do attach a

April 22, 1970

- 6 -

been an excessive use of such export credits, sometimes for purposes of questionable priority, which has most frequently caused debt difficulties. Second, because the Bank, unlike governments, has no taxing powers, it must rely on market borrowings for the major part of its resources; accordingly, maintenance of a sound financial position and its credit standing are of fundamental importance to it. Both might be adversely affected by the Bank's participation in extensive debt reschedulings. Third, the Bank needs an assured flow of income from its loans in order to meet interest requirements on its obligations; it would be difficult, therefore, for the Bank to join in debt reschedulings involving substantial waivers or even deferments of interest payments.

This "special position" of the Bank has been recognized by the principal creditor countries, which have agreed to extend debt relief in most cases without expecting that the terms of existing Bank loans to the debtor country^{would} also be rescheduled. In my judgment, this position represents the proper posture for the Bank and should be maintained.^{1/} The Bank Group can make its most effective contribution in situations of debt crisis by providing new funds on appropriate terms to help carry forward development programs.

^{1/} The report to the President of the United States from the Task Force on International Development (the Peterson Report), "U.S. Foreign Assistance in the 1970s: a New Approach", dated March 4, 1970, in recommending joint action by the lending countries, the international lending institutions and the developing countries concerned to devise a comprehensive strategy for dealing with debt problems, proposes that bilateral governments and government-guaranteed credits should be rescheduled over a long term but that "The international lending institutions, however, should not be required to reschedule their outstanding loans. Rescheduling their loans would endanger the ability of international institutions to continue borrowing in capital markets."

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This "special position" of the Bank has been recognized by the principal creditor countries, which have agreed to extend debt relief in most cases without ^{expecting} urging that the terms of Bank loans to the debtor country ^{would} also be rescheduled. In my judgment, this position represents the proper posture for the Bank and should be maintained.

This does not mean, however, that the Bank should never participate in a debt relief operation. There may well be cases where, by reason of special circumstances, financial participation by the Bank in such an operation would be warranted. An example is the Indian debt rescheduling operation of 1968. The Indian debt problems did not arise from an accumulation of short-term credits but rather from the totality of external debt, much of which was the result of aid extended through the Indian Consortium chaired by the Bank. The principal problems were, in the short run, to reduce the call on India's limited free foreign exchange by postponing debt payments and, in the longer run, to make the terms of official aid more compatible with India's needs. The rescheduling discussions were held within the framework of the Consortium. Financial participation by the Bank, itself a large creditor, was considered by the other creditors

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Conclusion

The Bank should continue to pay close attention to the increasing debt burden of the developing countries and the danger of debt crises and, in close cooperation with the IMF, to recommend to debtor countries and their creditors, preferably within the framework of aid-coordinating groups, suitable

to be, if not an essential, at least an important element in reaching agreement. Under these circumstances, the Bank agreed to reschedule some of the maturities on its loans. Some other creditors not only rescheduled maturities but waived interest on those maturities for 10 years. Because of the Bank's special position, it did not waive ^{or defer} interest payments on the maturities it rescheduled, but it agreed, in compensation, to reschedule a larger percentage of the maturities owing to it.

[Other serious debt crises may well arise in the future of such a nature that solution of the problem depends upon, or at least justifies, financial participation by the Bank, despite its special position. Precisely what circumstances would constitute such a justification cannot be defined in advance since, as already pointed out, each debt crisis is to a significant extent unique. I believe, therefore, that determination of the Bank's position on financial participation, as well as on the nature and extent of such participation if in fact it decides to participate, should continue to be made in the light of the particular facts of each case, using as a guiding principle the policy embodied in the Articles that rescheduling should be undertaken if, but only if, "the Bank is satisfied that some relaxation of the conditions of payment is in the interests of the particular member and of the operations of the Bank and of its members as a whole."]

Conclusion

The Bank should continue to pay close attention to the increasing debt burden of the developing countries and the danger of debt crises and, in close cooperation with the IMF, to recommend to debtor countries and their creditors,

*Dick when
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We can discuss
then
your
original
text of my
modification.*

Erwin

April 22, 1970

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✓ policies and measures to prevent such crises. In its operations, particularly in determining the blend of IDA and Bank funds in countries eligible for IDA assistance and in setting the terms of Bank loans, the Bank Group should continue to pay particular attention to the effects that its financing will have on the external debt burden of its borrowers. Where, in spite of the efforts of the debtor country and its creditors, a general restructuring of the external debt of that country becomes necessary, the Bank should, ~~when~~ *be prepared to* ~~requested~~, participate in an advisory capacity in the rescheduling discussions. Because of its special position as a creditor, the Bank should not be expected to participate financially in debt reschedulings.

*Deleted
paragraph p.3*

Robert S. McNamara

preferably within the framework of aid-coordinating groups, suitable policies and measures to prevent such crises. In its operations, particularly in determining the blend of IDA and Bank funds in countries eligible for IDA assistance and in setting the terms of Bank loans, the Bank Group should continue to pay particular attention to the effects that its financing will have on the external debt burden of its borrowers. Where, in spite of the efforts of the debtor country and its creditors, a general restructuring of the external debt of that country becomes necessary, the Bank should, when requested, participate in an advisory capacity in the rescheduling discussions. Because of its special position as a creditor, the Bank should not participate financially in debt reschedulings [as a matter of course. It should be willing to participate financially, however, whenever the circumstances are such that solution of the debt crisis depends upon, or at least justifies, relaxation of the terms of the Bank's loans. Each case must be examined on its own merits to determine whether and to what extent any such relaxation is justified as being not only in the interests of the debtor country but also in the interests "of the operations of the Bank and of its members as a whole."]

Robert S. McNamara

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

December 17, 1969

NAME

ROOM NO.

Mr. McNamara

*Note the changes I have made.
If you, Burke, Irving & I can
induce release for distribution
to the Board. Please*

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

Attached is a revised ^{and shortened} version of the memorandum analyzing the Pearson Commission recommendation on blending. The earlier text has been refocussed in the light of our conversation.

The figures in brackets, on page 2 of the memorandum, are being checked.

From

Richard H. Demuth

711/517

December 17, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 29 Concerning Blending of Loans and Credits for Single Projects and Programs

Recommendation

"We ... suggest that the blending technique for single projects or programs be used more frequently".^{1/}

Background

The recommendation is preceded in the report by a discussion of the high cost of Bank loans. The Commission refers to the technique of blending Bank loans and IDA credits as a means of reducing the average rate on financing from the Bank Group as a whole, and notes that "sometimes a single project is financed by such a blend". There follows the recommendation quoted above, without any explanation of why blending on a project or program basis, in contrast to blending achieved by separate Bank and IDA operations in the same country, was considered desirable. However, the Commission's staff has told us that what was in mind in the formulation of this recommendation was the case of projects which would not ^{be} viable at the current cost of borrowing from the Bank but which would be viable with financing at a lower rate; ~~an~~ ^{accordingly, in the opinion of the Commission} appropriate mix of Bank and IDA funds would, ~~accordingly,~~ enable such projects to go forward. This was regarded as particularly important for projects in some of the least developed countries, e.g., some of the smaller African countries.

1/ Report, page 222.

The Commission
apparently felt
that

Analysis

The concessional terms of IDA credits are not intended to provide financial subsidies to the projects financed. Projects are recommended for Bank or IDA financing only if they yield an acceptable economic return and the rate of return required for approval of a particular project is not affected by whether the funds originate with the Bank or IDA or both.

Analysis

The concessional terms of IDA credits are not intended to provide financial subsidies to the projects financed. ^{are} ~~Bank policy has consistently permitted only the government of the borrowing country to receive the benefit of IDA's concessional terms; the government then relends the proceeds for the project on terms customary within the country. This "two-step" lending device assures that the project is financed on conventional terms, whether the funds originate with the Bank or IDA or both.~~ *Projects will be recommended for Bank or IDA financing only if they will yield an acceptable economic return and the rate of return required for approval of a particular project is not affected by*

This policy, in my judgment, is entirely sound and should be maintained. Indeed, IDA would not be complying with the requirement of its charter that it provide financing only for "purposes which ... are of high developmental priority" if it supported projects which would be economically or financially justified only on the basis of a substantial subsidy. During the past fiscal year, no project financed by the Bank or IDA had an economic return estimated at less than ^{9%} ~~12%~~; on average, the estimated economic return was ^{about 15%} ~~over 12%~~. Such projects do not need subsidized financing. ~~On the other hand,~~ ^{To} finance projects providing a return so low that they require concessional terms to be viable would constitute a misuse of scarce development resources and might well result in distorting the borrowing country's investment pattern.

Accordingly, I do not believe that we should accept the rationale on which the recommendation was based, or that we should, as the recommendation proposes, adopt a policy of emphasizing blending on a single project basis in contrast to Bank and IDA financing of separate projects in a single country. We have in fact engaged in a significant amount of single project blending over

a wide ~~range~~ of projects.^{1/} This primarily reflects the difficulty, in the various countries concerned, of achieving the desired blend over a reasonable period of time by allocating Bank and IDA funds to separate projects. No doubt there will be cases in the future in which similar considerations make joint Bank/IDA financing of a single project desirable. However, since blending on a project basis is administratively more cumbersome than blending on a country basis, I do not believe that we should make project blending a preferred approach as a matter of policy.

Having said this, I nonetheless entirely agree with the feeling which underlies the Commission's recommendation, i.e., that the terms of Bank Group lending are too hard for many of our members. We ought to do more blending, whether through joint Bank/IDA lending for a single project or through Bank and IDA financing of separate projects. We ought also to blend Bank and IDA funds in more countries. The over-all amount of blending operations in which we can engage depends, of course, upon the adequacy of IDA funds. The Commission itself has proposed a substantial increase in IDA's resources.^{1/ 2/} As the Executive Directors know, I hope that by June 30, 1970, the Part I countries will have agreed upon the arrangements which they will propose to IDA for a Third Replenishment for a period beginning July 1, 1971. Assuming that these arrangements contemplate a significant increase in the level of IDA resources, they

^{1/} As of September 30, 1969, 22 projects had been financed simultaneously by a loan and a credit, in an aggregate amount equivalent to \$528.94 million.

^{2/} Report, page 224.

would enable us to do more blending, on a broader geographic basis, than is projected for the balance of the Second Replenishment period.

Conclusion

I believe that we should continue the present Bank Group policy of financing only those projects and programs which promise a satisfactory economic and financial return, whether the funds are provided by the Bank or by IDA or by both institutions jointly. Accordingly, there is no reason to adopt a policy of deliberately emphasizing blending on a single project basis, as recommended by the Commission. However, to the extent that the availability of IDA funds permits, and where creditworthiness considerations suggest that it would be desirable, we should increase the over-all amount of Bank/IDA blending, on a country or project basis as appropriate, and extend the blending technique to a larger number of countries.

Robert S. McNamara

To men
Dec 8

December 2, 1969

711/516

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 12 Concerning
Aid Coordination

Recommendation

"We therefore recommend that preparations begin at the earliest possible moment for establishment, where necessary, of new multi-lateral groupings which provide for annual reviews of the development performance of recipients and the discharge of aid and related commitments by donors. The World Bank and the regional development banks should take the lead in discussions to this end, and the World Bank, or another appropriate existing agency, should provide the necessary reporting services for such groups."^{1/}

Background

This recommendation reflects the Commission's concern about the extent to which development assistance is still uncoordinated, unrelated to any agreed set of priorities in the economies of recipient countries, and insufficiently guided by and responsive to "development performance" as contrasted to other considerations, such as historical relationships between donors and recipients and political objectives of donor governments. The Commission considered that the Bank's activities in the field of aid coordination, particularly its sponsorship of coordination machinery such as consortia and consultative groups, and its staff support of aid coordination exercises

^{1/} Report, page 131.

sponsored by others, have made an important contribution to the solution of this range of problems. The recommendation, in effect, is that these efforts should be pursued and, where appropriate, expanded to cover additional developing countries. But the Commission also proposed that coordinating efforts be deepened and strengthened in various ways, e.g., by extending them to technical assistance and by giving the coordinating groups responsibility for reviewing not only recipient country performance but also the extent to which donor countries' aid and related commitments towards recipients have been discharged. The Commission further suggested that, for at least some of the proposed new groupings, coordination might be effected through regional arrangements. It believed that the participation of other developing countries in addition to the recipient would be particularly useful, citing as a precedent the reviews conducted by the Inter-American Committee for the Alliance for Progress (CIAP). Finally, it proposed, with respect to the regional development banks, that they should play some role in initiating discussions looking to the creation of new groupings, and might eventually, as and when they develop the capacity to do so, provide some of the requisite reporting services for the new groups.^{1/}

Analysis

As the Executive Directors know, we are expanding our program of economic missions. Annual reviews of development ^{programs and} performance will be prepared for 32 countries: all ~~IDA Part II~~ ^{developing member} countries with a population of more than 10 million, plus a few others which have active development programs with which the Bank Group is closely associated. Reports on the other developing

^{1/} Ibid., pages 130-13.

member countries will also be prepared, although less frequently, i.e., on a biennial or triennial basis. Economic reports will therefore be undertaken on a more regular schedule than has generally been the case in the past. In addition, they will be more comprehensive. They are intended to provide, ~~over time.~~

- (a) an evaluation of the situation and prospects of the economy;
- (b) an analysis of the country's development objectives and of the major development obstacles and assets of the economy;
- (c) an informed judgment concerning the appropriate development strategy to be pursued by the government concerned and the likelihood that it will take the action required to carry out that strategy;
- (d) an assessment of domestic and external financing requirements and of the possibilities of meeting them;
- (e) an analysis of the principal pre-investment surveys and studies required to carry out the development program and of the relative priorities of those requirements;
- (f) an appraisal of the available machinery for planning and for the formulation of economic and financial policy; and
- (g) an analysis of the problems of investment and resource mobilization and allocation within the economy and among sectors, of external debt prospects, of appropriate borrowing terms, and of creditworthiness.

The Bank's experience indicates that the most important element in promoting coordination for any developing country, whether or not a formal aid coordination group exists, is the provision to all interested donor

governments and institutions of objective, comprehensive and up-to-date reports of this kind. Such reports are necessary to provide guidance for those who make decisions about aid programs, help all concerned to proceed on the basis of a common understanding concerning the critical development problems facing each country, indicate priority sectors for financial and technical assistance and, to an increasing extent, outline development strategies agreed between the country in question and the Bank as being both reasonable and worthy of international support.

rewrote

7) *During the past year approximately*
~~Twenty-two~~ of the 32 countries which we plan to review annually are

the object of attention by some form of "multilateral groupings", which review both the development performance of the country in question and the development assistance activities, in that country, of interested donor governments. ~~Aid to these 22 countries accounted, in 1967, for about 45% of the total net~~

script collection

~~official bilateral flow of development assistance.~~ The Bank takes principal responsibility for ~~14~~ of these ~~22~~ groups: the India and Pakistan Consortia, the Consultative Groups for Colombia, ~~East Africa~~ Kenya, Tanzania, Uganda and the East African Community, Ghana, Korea, ~~Malaysia~~, Morocco, ~~Nigeria~~, Peru, Sudan, Thailand and Tunisia, and the Ceylon Aid Group. ~~Several of these Consultative Groups are inactive at present for reasons beyond the control of the Bank.~~

8) The Bank also provides economic reports which serve as the basis, or one of the bases, for the deliberations of coordination and review groups covering ~~another six of the 32 countries~~: the Inter-Governmental Group for Indonesia (chaired by the Government of the Netherlands); the Turkey Consortium (sponsored by the Organisation for Economic Co-operation and Development with an independent chairman); and the Inter-American Committee for the Alliance for Progress (CIAP) reviews of *selected Latin American countries*: ~~Argentina, Brazil, Chile and Mexico.~~

In addition, the Bank has provided analytical reports for the informal, although quite active, aid coordination group convened by the Government of Guyana, and has participated in the discussions of that group. In the past some of these ^{coordinating} groups, such as the India and Pakistan Consortia, the coordinating groups for Ceylon, Ghana and Indonesia, and the ^{certain} CIAP group, have met regularly on an annual ~~(and sometimes more frequent)~~ basis, while others, for a variety of reasons, have met irregularly. For the future, however, I would expect that all the groups for which the Bank takes principal responsibility, ~~with the exception of those which are inactive for reasons beyond our control,~~ will meet regularly; this will be facilitated by the expanded system of economic reporting which will generate, on a regular basis, the documentation needed. Meetings are planned during 1970 for the India and Pakistan Consortia and for the groups for Ceylon, Colombia, East Africa, Ghana, Korea, Morocco and Tunisia. I am informed that the groups for Guyana, Indonesia and Turkey will also meet in 1970, and that there will be CIAP reviews of Argentina, Brazil, Chile and Mexico in that year.

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we will take initiative to organize groups for all 32 countries.

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As the Commission recognizes, a great deal has already been achieved, through coordination, to make aid more effective. But the inherent difficulty of the coordination process should not be minimized. Effective coordination of the aid programs of a number of donors, whose objectives and motivations may not be identical and whose approaches and systems of administration are likely to differ one from another, is a task both complex and delicate. ~~Moreover, our own efforts have been constrained by staff limitations.~~ I am confident that our general approach to the problem is sound, but I know that we have much to learn about the coordination process. We have tried to maintain a flexible attitude, and to adapt the format and the emphasis of the groupings under our chairmanship to the circumstances and needs of the particular recipient country and to the positions of donors.

characteristically receive financial assistance from only a few sources but technical assistance from many, the principal need for coordination is usually in the latter field. In any event, in each case action by the Bank, as the Commission has recognized, is dependent upon the agreement of the recipient country as well as of donor governments and agencies.

I am somewhat doubtful about the Commission's proposal that the groups, both new and existing, should engage in "explicit and formal" review of donor aid policies and procedures, as well as of the performance of the recipient country. Although the Bank has reviewed the terms of aid offered by the members of its consultative groups, and although participation in such a group leads obviously to comparisons of donor performance, no group has thus far served as a forum for donor performance reviews. Indeed, whenever this question has been raised in the context of particular consultative groups, the members have been overwhelmingly opposed to any moves in that direction. The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development does serve as such a forum, and also establishes general standards for the volume and terms of aid. I am not sure that it would add much to the DAC review and evaluation process if each aid coordinating group were also to be used as a forum for reviewing the donor members' performance with respect to the recipient country concerned. Indeed, the result of such an effort might well be to make creation of additional coordinating groups more difficult.

State we are not now prepared to comment on this point

The Commission's proposal that some of the new coordinating groups should be regional in scope has attractions, particularly for areas where a number of smaller countries are seeking to develop their economies within the framework of a regional market. We have in fact organized one coordinating exercise on a regional basis: the Consultative Group for East Africa,



covering Kenya, Tanzania, Uganda and the East African Community. The three countries and their Community have many common ties and, in some respects, are operating as an economic region, so that a regional mechanism seemed entirely appropriate. However, in practice, it has proved necessary to conduct the activities of the consultative group for the most part on a country, rather than a regional, basis. Although this experience points up the practical difficulties of the regional approach, I do not believe that it should deter us from creating or supporting other regional coordinating groups in appropriate circumstances.

The Commission saw as a particular advantage of regional groupings that they permit the membership of a number of developing countries, all of which would participate when the performance of each developing member was under examination. This is the case, for example, with CIAP. While I see some benefits from the wider participation of the developing countries, I am not convinced that the CIAP formula has been more effective than that of the Bank's consultative groups, or that any of those groups should be replaced by a regional grouping. The Bank's approach permits coordination meetings to be compact, frank and businesslike in discussing the problems, performance and capital needs of any given country. I doubt that this would be equally true of meetings in which a large number of developing nations participated as members, most of which would not be directly involved in the development efforts of the country under review. Accordingly, I believe that, in connection with coordinating groups to be created in the future, the Bank should continue to favor the single recipient country approach for the larger nations and to reserve the regional approach for smaller countries, particularly those trying to develop within the framework of an economic region.

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The Commission's suggestion that the regional development banks should eventually take the lead in organizing, or providing the reporting needed for, coordination exercises for some of the smaller countries is worth consideration. ~~In at least two of the three regional banks majority ownership is in the hands of borrowers and potential borrowers; it remains to be seen whether donor countries will accept the views of such banks on matters such as performance, external capital needs, etc., which are an essential part of a coordination exercise. The one experiment to date by a regional bank in this field was not successful. In any event, as far as the World Bank is concerned, we already send our country economic reports to the regional banks, and we would certainly be prepared, upon request, to make them available to, and to consider participation in, any aid coordination groups which these banks might organize.~~

Conclusion

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We intend ~~to continue~~ ^{to} our efforts to ~~expand and improve our~~ aid coordination activities. In the process of our review of the development prospects of each developing country, we shall consider whether and what kind of "new multilateral groupings" are desirable. We also intend, ^{as} in the past, to review periodically with the principal interested governments the experience we gain in coordinating groups, with the object of continuing efforts to improve their effectiveness. No immediate action by the Executive Directors is required.

Robert S. McNamara

1/ The role of the regional banks in country economic reporting is considered in another in this series of analytical memoranda.