THIS FILE IS CLOSED AS OF MARCH 31, 1970

FOR FURTHER CORRESPONDENCE PLEASE SEE Vol. III
Mr. Robert S. McNamara

Michael L. Hoffman

Pearson Commission Recommendation No. 11 "Early Warning"

You will recall that we had sent the draft memorandum to the Executive Directors on this subject to Ed Martin for comment. In his note to you of March 26, Mr. Demuth said that we would let you know if Ed suggested any substantive changes.

I now have the attached letter from Ed which, despite its length, seems to me to contain only one point that we should add to our paper — namely, the frequent lack of control by political authorities in creditor countries of their export financing institutions and DAC’s continuing role in trying to improve creditor coordination in the face of this situation.

To take care of this point I suggest inserting the following paragraph in the draft sent you on March 26, of which I attach another copy for your convenience. The following would come after the paragraph ending at the top of page 4:

The problem is complicated by the fact that within governments of countries which are the principal sources of export credits there is often little control by the political organs responsible for general financial and aid policies over more or less autonomous institutions which actually grant or guarantee export credits. There is always pressure on such institutions by exporters to make credits easily available without reference to the position of borrowing countries. This whole range of problems is under continual review in the Development Assistance Committee of the OECD. The regular exchange of information and views among members of the DAC can greatly assist governments of creditor countries to identify difficult debt situations and to plan timely remedial action.

Before circulating the Board paper we will attach an up-dated table and make the consequent slight changes in the wording of the Annex.
Mr. Broches

Michael L. Hoffman

Pearson Commission Recommendation No. 3 Concerning Buffer Stocks

Please note Mr. McNamara's marginal comments and his deletion of the paragraph on page 13. Do you want to take this up with him? If not, how do you suggest that we should proceed?
Mrs. Shirley Boskey

March 26, 1970

William S. Gaud

Pearson Commission Recommendation No. 5

Moeen Qureshi, IFC's Economic Adviser, has spent considerable time looking into this question of financing export credits of the LDC's. For this reason I asked him to take a look at the proposed Recommendation No. 5 when you sent it to me. Attached is a copy of his comments. I hope you will find them useful.

Don't hesitate to get in touch with me -- or with him directly -- if you have any questions.

Attachment

Memo of March 25, 1970 to
Mrs. Boskey from Mr. Qureshi

cc - Mr. Qureshi
In regard to your draft note on the Pearson Commission's recommendation No. 5, which was sent to Mr. Gaud, I should like to draw your attention to the following points: First, the last paragraph of page 3 conveys the impression that the regional banks in Asia and Africa are actively considering undertaking refinancing of export credits and might soon be moving in this direction. My impression on the other hand has been that both these banks had tentatively concluded that, for the time being, they were not in a position to do much in this area. I could well be wrong but it would be well to check this matter further because it would affect the general orientation of this note. Second, the U.N. Secretariat is actively studying the problem of export insurance facilities in developing countries and is likely to submit a report containing some specific recommendations within a fortnight or so. Consequently, it would not be correct to state, as is done on page 4, that no detailed analysis of this problem has been made so far. Third, I would agree that if the regional banks were eager to take a lead in the field of export refinancing, the World Bank group should envisage only a "last resort" or "supplemental" role for itself in this area. However, if this is not the case, there might well be some justification for the World Bank group to do something specific with a few countries outside Latin America which request such assistance, have clearly a need for it, and are willing to establish the institutional arrangements that would facilitate the provision of such assistance. One can also envisage the possibility of some IFC role in this field since it could provide a link between export refinancing and international capital markets by marketing some of the paper to financial institutions.

Suggestions for Rephrasing:

1. If my impression in regard to the attitude of the Asian and African regional banks is correct, then I would suggest the following rephrasing at the bottom of page 3 and top of page 4:

   Page 3, last paragraph: replace lines 8-13 by: "I am informed that the Asian Development Bank and the African Development Bank are also studying the possibility of taking some action in the area of refinancing export credits granted by their member countries."

   Page 4, first paragraph: replace first sentence by "If the regional development banks were prepared to take a lead in this area of financing, the World Bank group should be ready to offer them its assistance in any way that the regional banks feel would be useful."
First paragraph, page 4, replace last sentence by: "The other regional banks have sufficient financial resources to create similar facilities for their members and since neither we nor they have yet acquired expertise in this field of financing, it would not be appropriate for us to seek to develop it if they were prepared to do so."

2. Page 4, second paragraph: The possibility of World Bank financing should not be confined to the existence of a national export credit institution. I would therefore suggest that the first sentence of the paragraph be replaced by "Having said that, however, I would not preclude the possibility that one or more of our developing member countries might apply to the Bank group for assistance in financing some appropriate institutional mechanism designed to facilitate export sales of capital goods produced within the country."

3. To take account of the U.N. Secretariat’s work in the insurance field, I would suggest modifications of second sentence of the last paragraph on page 4 as follows: "The U.N. Secretariat has surveyed existing insurance facilities and is now studying what additional action might be required to supplement existing national insurance facilities and protect exports more adequately against the risk of loss on export credits."

4. Some change of emphasis would be desirable in the conclusion, perhaps as follows: "If, in accordance with the Commission’s recommendations, the regional development banks decide to take the lead in providing facilities for refinancing export credits extended by the developing countries, the World Bank should offer to collaborate in such efforts and should assist in appropriate ways which the regional banks feel would be useful. I believe, further, that, in appropriate cases if the need cannot be satisfied by a regional bank or there are special circumstances which justify the assistance of the World Bank group, the World Bank group should itself be prepared to consider providing finance directly to export financing institutions established by its developing member countries."
Mr. Moeen A. Qureshi

William S. Gaud

Pearson Commission Recommendation No. 5

March 23, 1970

I would appreciate it if you would look over the attached paper. It is a draft of a paper to be submitted to the Board by Mr. McNamara -- being one of a series of papers each of which deals with a recommendation of the Pearson Commission.

This draft will be discussed at a meeting in Dick Demuth's office on some unascertained date in the future.

Have you any suggestions as to changes? If so, we might take them up directly with Mrs. Boskey instead of waiting for the meeting.

Attachment.

WSGaud:jm
March 16, 1970

Mr. Stephen Macdonald
Secretary
Action for World Development
69 Victoria Street
London, S.W. 1
United Kingdom.

Dear Stephen:

It was a pleasant surprise to receive your letter yesterday seeking clarification of the Pearson Report's target for official development assistance.

My reply may be a little disappointing to you in the sense that there is no justification for such a figure as "the" required level of official aid. Since most economists are increasingly unhappy about long-term estimates of "capital required" to meet specified growth targets, that should hardly be surprising.

Rather the Commission arrived at its target in something like the following way:

(a) The traditional 1% target has little operational significance for donor governments because many of its components are only indirectly subject to government decision.

(b) The capacity of developing countries to use external capital effectively for development is now significantly larger than any level of aid likely to be attained in the foreseeable future. (The staff did some work of its own in this field and also drew upon the conclusions of a number of other studies in the field.)

(c) Because the investment program of most developing countries must inevitably place heavy stress on sectors whose direct contribution to the balance of payments is limited (such as education, power, and telecommunications), it is critically important, if the financial viability of the recipient countries is to be maintained, that external capital be made available on highly concessional terms.
These basic propositions suggested the need for a target for official development assistance and the need to raise it significantly above the 0.38% of GNP achieved by DAC countries in 1968. Some of the Commission staff were of the opinion that 0.70% was too low but that was the target eventually settled upon as "simple, attainable, and adequate" (page 148 of the Report). Though the Report does not say so explicitly, I think the 0.70% target has to be thought of in the same light as the 1% target, that is as a minimum.

Incidentally, you no doubt know that the Tinbergen Report on the Second Development Decade suggests a target of 0.75% of GNP for official aid by 1972.

With best wishes,

Yours sincerely,

Donald T. Brash

cc and cleared with: Mr. William Clark

D7Brash:mtb
March 10, 1970

Mr. Almon C. Greenman
Director of Business Research
Cargill
Cargill Building
Minneapolis
Minnesota 55402.

Dear Mr. Greenman:

Mr. Peter Kilburn, Executive Assistant to the President of the Canadian International Development Agency, has referred your enquiry of February 27 to me for reply.

You are quite correct in suspecting an error in the figure shown for foreign direct investment by DAC countries in the petroleum sector of developing countries in 1966, on p. 375 of "Partners in Development".

I have checked the figure to which you refer, and also those for the other years shown in that table. Unfortunately, the figures for both 1965 and 1966 are incorrect as printed: instead of $1,795 million and $1,751 million respectively, they should read $907 million and $604 million respectively. At one stage, we intended to show totals for both "petroleum" and "non-petroleum" investment, and as you will see there was clearly a transposition of the two figures for those years in the typing process.

I sincerely regret any inconvenience this has caused you.

Sincerely yours,

Donald T. Brash

cc: Mr. Edward Hamilton
    Mr. Peter Kilburn
    Miss Ferron
March 6, 1970

Alexander Stevenson

Comments on Pearson Commission Recommendation No. 8

I have only a few comments of detail on the February 26 draft.

Page 3, end of first paragraph: I see no reason for including the "leverage" idea, unless you mean that there would be little scope or use for the Bank's giving advice.

Following paragraph: I would suggest the following redraft:

At the same time, we can continue to make developing countries aware of the real cost of export credits and of ways of assessing these costs. And we can help them make better use of the export credit facilities available to them, e.g. by attacking the problem at an earlier stage, that of project preparation, which is in any case more closely related to our own lending operations.

Page 4, line 3: "work" is redundant.

" line 5: for "will" substitute "should".

" line 9: for "less experienced" substitute "less developed."

AStevenson:js
FROM: The Secretary

March 6, 1970

PEARSON COMMISSION RECOMMENDATIONS

In pursuance of the procedure indicated in the President's Memorandum dated October 10, 1969 (SecM69-472), there are attached hereto analytical memoranda dealing with Recommendation Nos. 19 and 22 and a memorandum dealing jointly with Recommendation Nos. 24 and 27.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
Subject: Pearson Commission Recommendation No. 19 Concerning Integration of Technical and Capital Assistance

Recommendation

"Multilateral and bilateral technical assistance should be more closely integrated with capital assistance." 1/

Background

This recommendation appears in the context of the Commission's consideration of ways to make aid more effective, and is one of several proposals concerned with technical assistance. 2/ The Commission comments that technical assistance "often develops a life of its own, little related either in donor or recipient countries to national or global development objectives". It adds that technical assistance "should form part of any development aid program both at the sectoral level and at the project level", that it is "often necessary in advance of project selection to ensure that the right choices are made and that necessary preparations take place", and that it "must often continue throughout the construction stage and well beyond in order to ensure that the investment comes to full fruition." 3/

Analysis

I agree completely with the Commission's view of the importance of assuring a proper relationship between technical and financial assistance. Most of the technical assistance which the Bank provides is given in the normal course of its financing activity and is accordingly completely integrated with capital assistance. We consider all aspects of a project -- economic, technical, managerial, organizational, commercial, financial --

1/ Report, page 190.
2/ See also the memoranda analyzing Recommendations Nos. 20, 21 and 22.
in the course of appraising it for possible Bank Group support, and make suggestions, where this seems indicated, for improvements of the initial plans in any of these respects. And, as the Executive Directors are well aware, it is our standard practice to do all we can to ensure that the projects we finance are properly carried out. This is accomplished through periodic visits to the project by the Bank staff, periodic reporting by the borrower, and frequent consultations to anticipate problems or to work out solutions when problems nevertheless arise.

In the last few years we have given increased emphasis to the formulation, and to the earlier step of identification, of projects suitable for financing by the Bank or IDA. We are doing this through the work of our own staff, including economic missions; through the cooperative programs with Unesco and FAO; by allocating part of a project loan or credit for studies designed to identify other projects which the Bank Group might finance; through loans or credits for sector and feasibility studies,1/ carried out generally by consultants whose services include training of local personnel; through grants, of up to $200,000, for smaller preinvestment studies. It is our practice, unless the circumstances are exceptional, to finance only those studies which appear likely, if the conclusion is affirmative, to lead to Bank Group financing. We have also stationed staff members in developing countries with responsibility for providing assistance to governments in project identification and preparation, i.e., the Permanent Missions in Eastern and Western Africa, and the Resident Staff in Indonesia. Similar activities are carried out in the framework of our agricultural and water development program for East Pakistan.

The U. N. Development Programme (UNDP) asks the Bank to comment on all requests from governments for UNDP financing of preinvestment studies and other technical assistance, and takes the Bank's comments into account in determining its response to the requests. Applicants for UNDP assistance are asked to indicate, among other things, how the development of the economic sector involved fits into present or proposed Bank Group operations and how the specific study or other activity for which UNDP assistance is sought fits into that sector. The Bank, in providing the UNDP with information relevant to the latter's evaluation of the request, typically also deals with this issue.

As the Executive Directors know, the Bank itself has served as Executing Agency for UNDP-financed preinvestment studies, 10 of which have already led to Bank Group project financing of about $719 million. Normally, our willingness to serve as Executing Agency depends upon the extent of our

1/ A "sector study" is the analysis of a particular sector of the economy looking to the preparation of a coordinated investment program for the sector and the identification of projects within it. A "feasibility study" determines whether projects already identified are economically justified and technically feasible.
operational interest in the country or program for which UNDP assistance is sought, and upon the availability within the Bank of the knowledge and technical competence required to organize and supervise the particular study. Where there is a reasonable prospect that a UNDP-financed study will lead to a project suitable for Bank Group financing, but where it is unlikely that the Bank will be Executing Agency, we express "special interest" in the proposed study when responding to the UNDP request for comments. The UNDP will then instruct the Executing Agency to consult with us during the preparation and execution of the project, to submit draft terms of reference for the study and the plan of operation for Bank review, and to provide the Bank with copies of all reports pertaining to the study. The purpose of these arrangements is to help to assure that our criteria for project identification and preparation will be met by the Executing Agency and accordingly to facilitate and expedite the possibility of Bank Group project financing.

As the Executive Directors know, we are expanding the scope of inquiry of our comprehensive country economic missions to include pre-investment surveys and studies required to carry out the development program of each developing country and of the relative priority of those requirements. The reports of these missions will be made available to other international institutions, to governments and to the coordinating groups for which the Bank provides economic reporting services. They should, we believe, help to insure preparation of an integrated country development program, including both preinvestment and investment projects, for consideration by not only the Bank Group but other sources of finance, bilateral as well as multilateral. In this work we have enlisted the cooperation of the U. N. Development Programme, whose Resident Representatives will be associated with the missions and will play a central role in formulating technical assistance and preinvestment programs, and of the specialized agencies particularly concerned with the Bank's operations - FAO, ILO, Unesco and WHO.

Conclusion

I agree with the Commission that the coordination of technical and financial assistance is an essential element in achieving the greatest possible developmental effectiveness of capital assistance. I believe that present Bank policy and practice, as well as the directions we plan for the future, are fully consistent with the Commission's recommendation.

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1/ See the memorandum analyzing Recommendation No. 12, on aid coordination.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 22 Concerning Creation of International Technical Assistance Corps

Recommendation

"International technical assistance should be strengthened by the creation of national and international corps of technical assistance personnel with adequate career opportunities."1/

Background

The recommendation appears in the context of the Commission's consideration of ways to increase the effectiveness of development aid. The Commission believes that some redirection of technical assistance is called for and makes a number of suggestions to that end. It notes that, although it is reasonable to look forward to increases in the developing countries' supply of trained manpower -- scientific, technical, administrative and educational personnel -- the indications are that these countries' requirements cannot for some time be met entirely from their own populations. At the same time, it adds, the supply in donor countries of persons competent to provide technical assistance overseas is limited, and competition for their services is keen; in consequence, the average quality of those offering their services "has tended to deteriorate".2/ The Commission also comments that the short-term employment contracts offered to experts recruited for field work by U. N. agencies often fail to attract qualified personnel and, in any event, serve to deprive the organization of the benefits of continuity.3/ One of several measures which the Commission proposes as a means of reversing this trend is the recommendation to which this memorandum is addressed. The Commission points out that a permanent corps of development personnel with adequate career opportunities

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1/ Report, page 190.
would offer the elements of continuity and commitment; it might therefore succeed in attracting greater numbers of qualified personnel. Moreover, the corps itself, together with cooperating "national teams", could accelerate the integration of multilateral, technical and capital assistance, an objective which the Commission also endorses.1/

Analysis

This recommendation is not explicitly directed to the Bank; the Commission does not propose that the Bank take the initiative to establish an international technical assistance corps. In fact, it appears from the papers prepared by the Commission's staff that the U. N. Development Programme (UNDP) may have been envisaged as the most appropriate situs. In his study of the "capacity" of the United Nations system, submitted to the Administrator of the UNDP in September 1969, Sir Robert Jackson likewise proposed that a "career service" be established for the permanent staff engaged in planning and administering the "development cooperation" activities within the U. N. system, and that the UNDP take the initiative in establishing it.2/

Our experience confirms both the Commission's view of the importance of competent technical assistance and its appraisal of the supply situation in developing and developed countries. We have consistently emphasized to our borrowers that sound management is essential to the success of a project. We have normally considered a "management" position to be one which, if unfilled or filled by an unsuitable individual, would have a significantly adverse effect on the outcome or objectives of a project.3/

1/ See Recommendation No. 19, the subject of a separate memorandum.


3/ Thus, the term is viewed as including either an individual or a team, and such functions as the chief executive of a power authority, the director of a highway department or other transport entity, a technical or engineering director, a financial manager, managers or advisers of development finance companies, a chief accounting officer, specialists in agricultural credit or livestock management, educators or educational administrators, sector economists, architect-administrators, commercial or marketing specialists, superintendents of highway maintenance, and the like.
unacceptable in practice for political considerations. As for the international program, both OPAS and its predecessor have been subject to a number of limitations, including in particular the fact that they have not been able to offer career opportunities.

Because of the difficulties encountered in finding qualified managers, particularly for the agricultural projects which play such a large role in the economies of developing countries, the Bank itself set up an Agricultural Development Service (ADS) in 1966 to provide or retain managers, through secondment, for agricultural projects in East Africa,1/ and subsequently itself employed and seconded managers for several livestock projects in Latin America and Africa where there appeared to be no suitable alternative. In addition, the Bank has on occasion seconded advisors or managers to development finance companies. In planning prospective Bank Group operations for the next several years, the Projects Departments reviewed the need for managers to operate the projects scheduled in the program, and concluded that for a large number of positions no qualified local managers would be available. There is some reason to believe that, for one or another of the reasons identified by the Commission, it may not be possible to fill all these positions with qualified expatriates, whether through direct employment by the prospective borrower or through the existing bilateral or international programs. The projected shortage of managerial talent might well impede the successful implementation of our lending program in a number of countries. To avert this danger, we have under review within the staff the desirability of establishing, on an experimental basis, a program (additional to the ADS) under which the Bank would hire and second, on an ad hoc basis, a limited number of managers for Bank-financed projects. Should we conclude that this would be advisable, I shall put a proposal to the Executive Directors for approval.

The existence of a corps of technical assistance personnel such as the Commission recommends might well have obviated the need for the Bank to consider taking such a step. I believe that it would be feasible to create such a corps and that the career opportunities it would provide would serve, perhaps not immediately, but over time, to attract the wide range of competence for which there is need. I have no doubt that there would be occasion for the Bank Group, among others, to draw upon a soundly organized corps.

Conclusion

I fully agree with the Commission that the availability of an international corps with career possibilities could significantly improve the effectiveness of technical assistance. I believe that the Bank should encourage creation of such a corps under the auspices of the U. N. Development Programme.

1/ See SecM65-170.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendations Nos. 24 and 27 Concerning Research

Recommendations

"Multilateral lending agencies also will need to finance research and development projects on a larger scale than before. The World Bank Group, as well as the Regional Banks, should pay greater attention to problems of research and development in their country studies and should themselves identify needs for scientific and technological research."\(^1\)

"Regional or national laboratories and research institutes should be established to study techniques of natural resource utilization and to improve industrial product design and production techniques ... Industrialized countries should assist in the establishment of international and regional centers for scientific and technological research in developing countries, designed to serve the community of developing countries and specializing in distinct fields of research and their application."\(^2\)

Background

These recommendations appear in the context of a strong plea by the Commission for greater support, by all sources of development assistance, multilateral and bilateral, for research activities focused on development problems. Research in new techniques of education and in human reproduction and fertility control are specifically proposed for financial support by the Bank Group.\(^3\) The portion of the

\(^1\) Report, page 205.

\(^2\) Report, page 207.

\(^3\) The recommendation for support of research in education (Recommendation No. 26) is the subject of a separate memorandum. The recommendation for support of research in human reproduction and fertility control (Recommendation No. 23) will also be separately analyzed.
report concerning assistance to research in general, in which the recommenda-
tions quoted above are found, suggests several other areas as deserving
of investigation (e.g., tropical agriculture, housing and urban planning,
utilization of natural resources, improved design of industrial products,
weather control), but adds that it is not possible at this point to identify
the specific subjects that might most usefully be studied.

Noting that a considerable, but insufficient, amount of external
assistance has been devoted to research in the past (especially in agricul-
ture and medicine by former colonial governments and by private founda-
tions), the Commission takes the view that not enough thought has been given
to getting the most out of this total international effort. Research
efforts in the developing countries have too often been imitative of re-
search done in wealthier countries; too often their budgetary support has
been wholly insufficient; and too often limited funds and research staff
have been scattered too thinly over too wide a set of activities. Also,
too few resources have been devoted to social science research. To overcome
these many deficiencies, the Commission recommends that developing countries
establish top policy-making bodies to guide scientific and technological
research activities and to link the nation's scientific community to plan-
ing authorities. Activities regarded as "scientific" should be linked to
universities; activities to promote technological change should be assisted
by the establishment of regional or national laboratories and research in-
stitutes. 1/ Although there is no formal recommendation by the Commission
that the Bank should finance the establishment of such technology-changing
institutions or that it should assist in the establishment of international
research centers designed to serve the needs of several countries, the text
makes clear that the Commission believed that the Bank should do so.

Analysis

The Commission's emphasis on the need for more research on applied
development technology and for its necessary scientific infrastructure is
surely correct. We can, I believe, accept the recommendation that we
broaden our country study work to include consideration of scientific and
technological policies and institutions. I am instructing the Area Depart-
ments to arrange for coverage of this topic in country economic reports when
in their judgment it would be both practicable and important from the stand-
point of the country concerned to do so. I am also instructing those
Departments to place the topic on the agenda of meetings of Bank-sponsored
aid coordinating groups when they consider that it would be appropriate and
useful to have it discussed by donors.

In the past, the Bank Group has been more concerned with the transfer
of existing technology to the developing countries than with the adaptation
of technology or the development of new scientific and technological knowl-
edge. Occasionally we have supported research and development-oriented ac-
tivities and institutions when these were integrated into projects: for

1/ Report, page 203.
example, we have helped to finance agricultural research activities as an aspect of an agricultural college or a multipurpose water-use project. But we have not directly financed activities and institutions which are primarily research and development-oriented.

I believe that we should accept in principle the Commission's view that the Bank Group should be prepared to finance the establishment of national and international research and development institutions. Indeed, as the Executive Directors will recall, their report on "Stabilization of Prices of Primary Products," which I transmitted to the Board of Governors on June 25, 1969, stated that the Bank Group would be prepared to "participate in financing agricultural and other research having high priority in developing countries, as much as possible in cooperation with other national and international institutions."

The record of technological and research institutes is not everywhere favorable. Frequently they have functioned without any clear set of national policies, with wholly inadequate budgetary support and a consequent inability to attract competent staff; often they have failed to establish effective relationships with the productive sectors they are intended to serve. On the other hand, there are a number of successful research and development institutions, both national and international, which demonstrate the extraordinarily high productivity which these activities can attain if properly organized, financed and staffed. It would be important, I believe, that we limit our support to institutions operating in fields in which we possess the expertise necessary to evaluate performance or where we can ally ourselves with a technical partner competent to provide it. This suggests that for the present we should concentrate primarily on the fields of agriculture, industry, education and population, in all of which, as the Commission suggests, there is need for a great deal more research. We would of course wish to be sure that the particular institute proposed for Bank Group financing was soundly organized and managed or, in the case of a proposed new institute, that the contemplated arrangements are satisfactory.

The financing of national institutions presents no particular problems. They may appropriately be financed by a loan or a credit to the government concerned. Some financing of local currency expenditures may be required.2/

International institutes are in a different category since their activities are designed for the benefit of a number of countries, not merely for the country in which they are located. Always assuming they are soundly organized and managed, institutes of this type are, I believe, particularly worthy of our support. An international institute can expedite the establishment of, strengthen, and provide guidance to, national institutes and programs, which can benefit from and adapt to their own

1/ R69-144/1, June 24, 1969.

2/ See the memorandum analyzing Recommendation No. 17, on financing of local currency expenditures.
requirements the work done at the international center. The teams of scientists assembled at an international institute can provide training of scientists and technicians to staff national institutes and may be called upon by the latter for advice and technical assistance. Through them, programs carried on in individual developing countries can be linked together. The International Rice Research Institute in the Philippines and the Center for the Improvement of Maize and Wheat in Mexico are outstanding examples of what can be accomplished.

In October 1969 I invited the U.N. Development Programme (UNDP) and the Food and Agriculture Organization of the United Nations (FAO) to join with the Bank in exploring the possibility of mobilizing long-term financial support from international agencies, governments and private sources to supplement present arrangements for financing existing international agricultural research institutes and, over time, a number of new ones. The UNDP and FAO have both expressed interest in cooperating with us in this matter. If, as I hope, the exploratory discussions prove promising, I shall make specific proposals to the Board with respect to the Bank's participation.

At present we do not have any clear idea of the order of magnitude of financial support which could usefully and appropriately be provided. I believe, therefore, that, while accepting the policy of Bank Group support for research, we should proceed on a pragmatic basis, starting with the initiative relating to international agricultural research institutes mentioned above.

Conclusion

The Commission's recommendation that our country economic reports take explicit account of problems of research and development, including, where feasible, the identification of need for scientific and technological research, should be accepted. We should also accept, in principle, the recommendation for Bank Group support of national and international research and development institutions which satisfy our normal project criteria. We should confine ourselves initially to research institutes in the fields of agriculture, industry, education and population. If the initiative already put in train to mobilize long-term financial support for international agricultural research institutes proves successful, I expect to present specific proposals for Bank Group participation to the Executive Directors for approval.
Mr. Robert S. MacNamara,
President,
International Bank for Reconstruction
and Development,
WASHINGTON, D.C. 20433
U.S.A.

Dear Mr. MacNamara,

I have the pleasure of informing you that the African Development Bank (ADB) has had the opportunity of examining the Pearson Commission's Report on International Development. For this purpose, we have also made use of the services of a number of distinguished African Economists.

In forwarding herewith ADB's comments which were greatly assisted by the deliberations of the African experts, I would like to pay tribute to the excellent work of the Right Honourable Lester Pearson and the members of his Commission.

I hope these comments will be helpful to the common objective to which we are all striving; which is, the promotion of social and economic development and towards genuine partnership in development.

With best personal regards,

Yours sincerely,

Mamoun Beheiry
President
Best, Mr. MacManus,

I have pleasure of informing you that the African Development Bank (AFDB) has had the opportunity of examining the precautionary measures adopted by the African states in order to prevent the spread of the disease. In this regard, it is seen that the excellent work of the Commission in transforming the perspective of the Commission, which more than others, has been helping to the Commission.

I hope these comments will be helpful to the Commission.

Yours sincerely,

[Signature]

Received

19/02/85 AM 9:03

SECTION

COMMUNICATIONS
The African Development Bank would like to pay a tribute to the Pearson Commission for its valuable contribution to an analysis of the problems of development and of the role of external aid and trade in such development. Although many of the problems of development aid and trade were well-known, it nevertheless required such a high level body as the Pearson Commission to state them with authority and conviction. The Bank would like to lend its support to many of the recommendations of the Commission even though it may have a divergent point of view on some of them.

The Commission has pointed out how, in recent years, the volume of aid has stagnated, terms have hardened and conditions have become more restrictive and has emphasized the need for an increase in the volume and an improvement in the terms of aid. It has explained that the aid-givers restrictions on the use of their aid create problems which are often mistaken for inadequate absorptive capacity and that the tying of aid to purchases in donor countries imposes both direct and indirect costs on aid receivers and distorts the channels of world trade. It has stressed the desirability of channeling increasing amounts of aid through international agencies. It has emphasized the importance of official aid and has explained that, in spite of the many contributions of private foreign investment, the latter does not constitute an alternative to aid. It has also explained how excessive extension of export credits to developing countries has in some cases given rise to acute debt crises. It has made numerous positive suggestions in the fields of aid and trade including
growth target of the CNP of the developing countries during the 1970's; proportion of official assistance to the total flow of resources; progressive untying of aid; terms of official assistance; debt relief; programme lending; strengthening of regional development banks; removal of quantitative restrictions on the import of manufactures and semi-manufactures by the developed countries; establishment by the developed countries of a generalized non-reciprocal scheme of preferences for manufactured and semi-manufactured products and processed goods from the developing countries; and financial support to development banks and clearing and payments unions for promoting trade among developing countries on a regional scale. The Bank's comments on some of the other numerous recommendations are given in the following paragraphs.

1. The Aid Target

As regards aid, the Pearson Commission has endorsed the target of 1% of the GNP (at market prices) of the developed countries and has suggested 1975 as the date by which this target must be achieved. The aid is not an end in itself but is a means for the achievement of another and more important objective, namely, the 6% rate of growth of the developing countries. It is understood that the achievement of the latter objective is possible only on the assumption that the domestic savings of the developing countries are supplemented by a flow of resources from abroad equivalent to 1% of the developed countries' GNP. The fixation of 1975 as the date for the achievement of the aid target implies that the flow of external resources to the developing world would be less than 1% of GNP in the period before 1975. This would, in turn, mean that the economic growth objective would not be reached till after 1975, which would seriously jeopardise the objectives of the Second Development Decade.
The aid target is within relatively easy reach. What is lacking is not so much the resources as the political will on the part of the developed countries. If the developed countries can be convinced about the importance of the mutually beneficial development objectives to themselves and to the low income countries, the increase in the flow of resources to the developing world can be accelerated. It should then be possible to reach the aid target much earlier than 1975.

2. Growth Target and Allocation of Aid

The Commission has suggested 6% as the minimum rate of growth of the national product of the developing countries. It is necessary to emphasize that it is the minimum and not the average rate of growth, for any region or country having a rate of growth less than this would not be able to achieve an appreciable improvement in its per capita income or have any prospect of reaching a stage of self-sustaining growth in the foreseeable future. So all efforts, including the provision of external aid, should be directed to the achievement of this minimum rate of growth for every region in the world. The criteria for the allocation of aid should, therefore, be so conceived that each region or country should receive aid in accordance with its requirements for the achievement of the above-mentioned growth target.

The Commission has suggested "performance" as the principal criterion for the allocation of additional aid. Performance has been defined by the Commission as "movement toward financial independence" of which there are "only two direct manifestations, namely, adequate and sustained increases in the ratio of domestic savings to national income and in the ratio of exports to imports". This criterion for aid allocation is
heavily weighted against the least developed countries in the developing world. These countries have inherited weak administrations and deficient educational and health facilities from their colonial rulers. Even if they make an extraordinary effort to increase their tax revenues, the bulk of these revenues is likely to be used up in strengthening the administrative machinery and improving the educational, health and other social services. As the recurring expenditure on administration and social services is not regarded as saving, there may be little or no increase in public savings. In the absence of an entrepreneurial class, a substantial increase in private savings is doubtful. Thus there may be no increase in the overall saving ratio. Again a country's development effort is usually reflected in an increase in imports, to provide the import component of development. So the greater the development effort, the greater would be the increase in the import bill. It is, therefore, clear that even if a country is successful in increasing its exports, the ratio of exports to imports may not improve or may even decline, because of the increase in development imports.

A more objective criterion would be that of "need". An estimate of the resources required for the achievement of the 6% growth target may be prepared for each region and country. The country concerned should be expected to make a determined effort to mobilize its own savings for development and the difference between the resources required to reach the growth target and the resources to be mobilized by the country should be provided as aid.

The rate of growth in the African region has been the lowest in the world - 4% as against 5% in the developing world as a whole - during the 1960's. It is the considered opinion of ADB that Africa can achieve a 6% growth rate in 1970's. But this would require proportionately much greater effort than
in the rest of the developing world.

The Commission envisages the doubling of aid to Africa by 1975 on the basis of its absorptive capacity. This rate of increase in aid is about the same as for the developing world as a whole, for, according to the Commission's calculations, the developing world, on the basis of 1% of the GNP target, should receive from the developed market economy countries $23 billion in 1975 as against $12.8 billion in 1968. The question arises whether the doubling of aid to Africa by 1975 would be adequate for the achievement of a growth rate of 6%. If the developing world needs a doubling of aid to increase its rate of growth from 5% to 6% - an increase of 20% - it is very doubtful that the same rate of increase in aid would enable Africa to increase its rate of growth from 4% to 6% - an increase of 50%. IBRD and IDA plan to increase their aid to Africa threefold during the next five years. Probably the same rate of increase would be more realistic for aid to Africa from other sources as well. It goes without saying that this aid would have to be on concessional terms.

In any case it is necessary that, in spite of the difficulties involved, a detailed study of the aid requirements of the African region should be undertaken and the aid to the region should be tailored accordingly.

3. Role of Developing Countries in the Decision making Process

For development to be meaningful it is necessary that the priorities for development should reflect the felt needs of the people.

Foreign aid plays a crucial role not only in filling the resources gap but also in providing foreign exchange which is essential for meeting the import component of development and without which even some of the potential domestic savings can be
frustrated. In view of this the purposes for which foreign aid becomes available determine the priorities for the aid receiving country. It, therefore, frequently happens that aid distorts the priorities for development. The relationship between the donor and the receiver is an unequal one, the latter being in a very weak position. He has to "take it or leave it". Beggars are no choosers.

Under the existing conditions the developing countries do not have an effective voice in the decision making process with regard to the provision of aid. Most of the aid giving agencies, bilateral as well as multi-lateral, are dominated by the developed countries. In spite of all good intentions, the developed countries are not in the best position to decide the order of priorities for the developing countries. But in fact they do so by deciding the purposes for which aid is to be provided. They are generally guided in their aid policies by a development philosophy which is frequently determined by their own historical background and which may not be based on a proper awareness of the social and cultural conditions and the aspirations of the people of the developing countries. Many of the social and political tensions prevailing in some of the developing countries at present can be traced to the unconscious imposition, through the aid mechanism, of the western development philosophy and values on these countries.

It is unfortunate that the Pearson Commission has not paid sufficient attention to this basic question. It is imperative that the developing countries should be free to determine their priorities for development through their own institutions. The aid-coordinating machinery proposed by the Commission should be charged to ensure this. Amongst the financial agencies, the developing countries have an effective voice in their regional
development banks. These banks should be represented in the aid-coordinating machinery and should be entrusted with the formulation of aid policies for their respective regions.

4. Private Foreign Investment

In the course of its discussion of private foreign investment, the Commission has referred to private bodies such as the ADELA group for Latin America and the recently formed Private Investment Company for Asia (PICA) and has suggested that such bodies can mobilise additional capital and acquaint a wider circle of investors with the possibility of profitable investment in developing countries. This is in conformity with the views of ADB which has already sponsored the establishment of a private multilateral finance company for Africa (SIFIDA). In this connection the Bank, during the last two years, contacted about 150 banks and industrial firms of international repute from fourteen countries, namely, Belgium, Canada, Denmark, Federal Republic of Germany, France, Japan, Italy, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom and U.S.A. and has had several meetings with the representatives of the prospective shareholders. Arrangements for the establishment of the Company are at an advanced stage and the Company is expected to come into being in July 1970.

5. Least Developed Countries

The Commission has rightly expressed great concern for the least developed amongst the developing countries. But, as has been explained earlier, these countries would not qualify for much additional aid, if the aid criterion as proposed by the Commission is adopted. A more positive approach is necessary for tackling the problems of such countries.

Many member countries of the African Development Bank are amongst the least developed. The Bank has been studying their problems since 1966 and has under consideration a
Special Programme for helping them. The economies of some of them are stagnant and are likely to remain so unless positive action is taken to tackle some of the basic causes of stagnation. The physical infrastructure is deficient and the administrative and technical resources are in short supply. In some cases the Government revenues are inadequate for maintaining an efficient administration, the resulting administrative weakness becoming another inhibiting factor for growth. Some of them are so small that individually they may not be able to provide a big enough market for minimum economic units in industrial and other fields. Their own resources for development are meagre and they are unable to secure external aid partly because they do not have well conceived development programmes or properly formulated aid-worthy projects. The Special Programme conceived by the Bank for these countries comprises an analysis of the causes of stagnation, the identification of strategic sectors the development of which can initiate the process of growth, and the formulation and implementation of the necessary programmes and projects. It is expected, that once the process of growth has been initiated and the first steps in overcoming the basic problems have been taken, development will gather momentum in due course.

The approach of the Special Programme will be both national and multinational. The economic problems and development potential at the national level would be studied. At the same time the possibilities of international cooperation, of which the costs and benefits are to be equitably shared amongst the participating countries, would be identified. The Bank would provide technical assistance for the formulation of programmes and policies and the preparation of feasibility studies for aid-worthy projects, thereby increasing the countries' absorptive capacity for aid. The Bank believes that the participation of the countries concerned in the Programme can be easily secured if it can provide
sufficient soft resources, which it lacks at present, to supplement
the resources mobilised by the countries, for implementing it. It is the considered opinion of the Bank that an approach somewhat
on the above lines would be necessary if the 6% growth target is
to be achieved by the African countries. It is implicit in
this approach that external aid on a larger scale
than the one envisaged by the Commission and on soft terms would
be required by the African countries.

6. **Role of the Regional Development Banks**

The Commission has suggested that the role of the
development banks should be strengthened.

These banks have intimate contacts with, and a proper
appreciation of the problems of their member countries. Besides,
the latter consider them to be their own institutions and discuss
their problems with them with much greater freedom and frankness
than with external agencies. Within the framework of an international
development strategy, these banks can make a useful contribution
by assisting their members in the formulation of development
programmes and policies; by undertaking pre-investment and
feasibility studies; by taking an initiative in identifying
and, where possible, financing programme of economic co-operation
and integration; by identifying areas of development requiring
programme aid and extending such aid; and by assisting the
relatively less developed countries in the formulation and
implementation of special programmes tailored to their requirements.
They can be an important means for channeling resources to the
developing countries on the basis of well conceived development
programmes and the felt needs of the people. Their expertise can
be utilized in the coordination and direction of aid at a global
level; in the co-ordination of technical assistance; and in the
review of the international development strategy. But all this
will be possible if they are provided with sufficient financial resources. A substantial amount of the increase in the official aid to be made available to multilateral agencies as proposed by the Commission, should be extended to them. Again if some portion of the SDRs is to be used for development, a part should be channeled through them.

The African Development Bank's own capital resources which have been subscribed by its member countries, and which represent a great effort at self-help on their part, are available for loans on conventional terms only. The Bank is, therefore, trying to establish an African Development Fund for providing soft resources to its member countries and has approached capital exporting countries for making contributions to the Fund. If the African countries' self-help efforts through the Bank are supported by adequate contributions to the Fund, it would go a long way in promoting social and economic development of the African countries.

7. **Co-ordinating Machinery for Aid**

The Commission has suggested the creation of a co-ordinating machinery for:

(i) relating aid and development policies to those concerned with trade monetary policy and private capital movements;

(ii) standardized assessment of performance of developing countries by generally accepted performance criteria;

(iii) clear, regular and reasonably authoritative estimates of development objectives and aid requirements;

(iv) balanced and impartial reviews of donor aid policies and programmes from the stand point of their contribution to development and the discharge of commitments undertaken.

The ADB supports this proposal and suggests that the proposed machinery should include the representatives of international agencies, including regional development banks, and of donors.
and recipients. The representation of the regional banks and the recipients at this coordinating machinery is essential to ensure that it is not donor-dominated and does not impose on the developing countries the donors' development philosophy unrelated to the conditions in the developing countries.

8. Commission's Recommendations to International Financing Agencies

The Commission has addressed some specific recommendations to the international financing agencies. The ADB's comments on such of these recommendations as are of interest to it are given below.

(i) Commission's Recommendation

"Financing of reasonable buffer stocks in support of well-conceived commodity agreements and policies should be recognized as a legitimate object of foreign aid" (Ch. 4, Rec. 4, p. 97).

ADB's Comments

The Bank has always kept in view the problems of primary commodities. In particular, it has participated in the discussions leading to the establishment of a coffee diversification fund. This is also an area in which the Regional Development Banks can play a leading role.

(ii) Commission's Recommendation

"Regional development banks in co-operation with other international agencies should take the lead in making available special funds for the re-financing of export credits granted by developing countries and to establish regional export credit insurance scheme" (Ch. 4 Rec. 10, p. 98).
**ADB's comments**

The ADB has been studying various possibilities for the provision of export credits to exporters in its member countries, including the possibility of ADB re-financing the export credits granted by its member countries. The Bank would take appropriate action depending upon the results of the study.

**(iii) Commission's recommendation**

"At the international level, talks leading to the establishment of a multilateral investment insurance scheme should be pursued vigorously". (Ch.5, text, p.109)

**ADB's Comments**

ADB would be willing to participate in talks with other agencies for the establishment of an international investment insurance scheme.

**(iv) Commission's Recommendation**

The Commission......"urges international institutions such as the World Bank to give suitable technical assistance to developing countries in their appraising the terms of export credits offered to them" (Ch.5, page 121)

**ADB's Comments**

It is the ADB's policy to assist its member countries, in appraising the terms of export credits offered to them. However, in the last analysis it is the capital exporting countries which will have to provide the solution to the problems created by export credits by refraining from offering such credits on onerous terms.

**(v) Commission's Recommendation**

"Preparations should begin at the earliest possible moment for establishment, where necessary, of new multilateral 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." (Ch.6, Rec. p.135).

**ADB's Comments**

ADB is already participating in some of the existing consultative groupings for African countries and would be prepared to participate in new multilateral groupings for annual reviews of the development performance of recipients and the discharge of aid and related commitments by donors. It would also welcome an opportunity to discuss with IBRD and other regional banks the arrangements for the necessary reporting services for such groupings.

(vi) **Commission's Recommendation**

"We recommend greater help to development banks and similar institutions in developing countries." (Ch.9, Text p.179).

**ADB's Comments**

As a matter of policy the ADB has been giving assistance to sub-regional and national development banks. The assistance provided by the Bank has taken many forms including the transfer of skills among African countries. The Bank has participated in the equity of a national and sub-regional development bank to enable them to mobilize additional funds from other sources. It has also provided lines of credit and granted technical assistance to development banks. It does also provide training for staff members of
these banks at its Headquarters in Abidjan as well as opportunities for the appraisal of specific projects which they may be considering for financing.

The ADB's investments in sub-regional and national development banks are temporary in the sense that as soon as these banks have reached a satisfactory level of performance, ADB would revolve its portfolio by making its shares available to indigenous bodies and persons.

On the occasion of the Fifth Annual Meeting of the Board of Governors in Freetown, Sierra Leone, in August 1969, ADB convened a meeting of the heads of African national development banks in order to get a more intimate understanding of their problems and better co-operation between them and the ADB. It was agreed that ADB should convene, some time in 1970, a conference of all national development banks and finance corporations in Africa to explore the possibility of the adoption of a common development strategy by the banks and to consider ADB's policy for assistance to them.

(vii) Commission's Recommendation

Multilateral agencies should extend the practice of joint or parallel financing of projects (Ch. 9 rec. 6, page 189).

ADB's Comments

The ADB is following a policy of joint or parallel financing of projects and has been initiating proposals for such financing. It has already participated in joint financing of projects with a bilateral donor and another international agency.
(viii) **Commission's Recommendation**

"Aid-givers should remove regulations which limit or prevent contributions to the local costs of projects, and make a greater effort to encourage local procurement wherever economically justified". (Ch. 9, rec. 10, page 190).

**ADB's Comments**

The Charter of ADB and its Loans and Investment Policy Statement provide the necessary latitude for the fulfilment of this objective. Indeed the Bank has provided funds for meeting a part of the local costs of some of the projects financed by it.

(ix) **Commission's Recommendation**

"Aid-givers should adapt the forms of aid to the needs and level of development of the receiving country and recognize the great value, in many cases, of more program aid".

**ADB's Comments**

The ADB firmly believes in the necessity for the adoption of the forms of aid to the needs and level of development of the receiving countries. One of the most important features of the ADB's proposed Special Programme for its relatively less developed member countries is that aid should be tailored to the needs and the stage of development of the countries concerned. It is based on a programme rather than project approach and would require, for its implementation, substantial amounts of programme aid in addition to project aid.

(x) **Commission's Recommendation**

"Multilateral and bilateral technical assistance should be more closely integrated with capital assistance". (Ch. 9 rec. 1, p. 190).
ADB's Comments

The ADB believes that technical assistance should be integrated with capital assistance, for, in the absence of a reasonable prospect of financing of the capital costs of a project, the provision of technical assistance becomes merely an academic exercise.

9. Invisibles

In the context of mobilization of resources the role of domestic savings cannot be over-emphasized. In this field, over the last two years the ADB has been engaged in the study of the possibility of instituting co-operation among African countries in the fields of insurance, reinsurance, and shipping at the national and sub-regional levels. The aim of the ADB is to evolve arrangements which will enable its member countries to retain within Africa the greatest part of the insurance and reinsurance premium and shipping revenues which at present flow abroad. As is well known, such invisible outflows contribute substantially to the drain of the local resources that are badly needed for development of African countries.
**Routing Slip**

**Office of the President**

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**Remarks**

Received in Mr. Shoaib's absence. A copy has been sent to Mr. Shoaib but no acknowledgment has been made.

Marcelle Dery

**From**

If we ever sent an acknowledgment of the copy of this which we had?
Mr. Mohamed Shoaib,
Vice-President,
International Bank for Reconstruction and Development,
1818 H Street N.W.,
WASHINGTON, D.C. 20433
U.S.A.

Dear Mr. Shoaib,

I have pleasure of informing you that the African Development Bank (ADB) has had the opportunity of examining the Pearson Commission's Report on International Development. For this purpose, we have also made use of the services of a number of distinguished African Economists.

In forwarding herewith ADB's comments which were greatly assisted by the deliberations of the African experts, I would like to pay tribute to the excellent work of the Right Honourable Lester Pearson and the members of his Commission.

I hope these comments will be helpful to the common objective to which we are all striving; which is, the promotion of social and economic development and towards genuine partnership in development.

With best personal regards,

Yours sincerely,

Mamoun Beheiry
President

Encl:
TO: DUNKERLEY
ERAWAN HOTEL
BANGKOK

DATE: FEBRUARY 13, 1970

CLASS OF SERVICE: LT

COUNTRY: (THAILAND)

TEXT:
Cable No.: ONE

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AUTHORIZED BY:
NAME: Benjamin B. King
Economic Adviser
DEPT: Special Projects

SIGNATURE: (Signature of Individual Authorized to Approve)
BBKing/hb

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For Use By Communications Section
February 11, 1970

Mr. Arthur Karasz
Director
European Office
International Bank for Reconstruction and Development
4 Avenue d'Iena
Paris 16e, France

Dear Arthur:

With reference to the letter to you from Mr. Siotis concerning the May seminar for African diplomats to discuss the Pearson and Jackson Reports, I note that you think you might have some difficulty keeping the date. Dick has asked if I would like to do it. If I can arrange one or two other things about that time, I think I would like to go to Bellagio. However, I did not have a chance to talk to him about this before he left for the Caribbean over the week-end. Could you please just tell Siotis that we expect to be able to offer a staff member and will let him know within a few weeks who it will be.

Sincerely,

Michael L. Hoffman
Associate Director
Development Services Department

MLHoffman/pnn
dated 2/3/70
(Incoming temporarily retained in DSD)
Messrs. Isaiah Frank, Louis Goreux, Irving Friedman  February 11, 1970

Michael L. Hoffman

Pearson Commission Recommendations

The draft memorandum on Pearson Commission Recommendation No. 1 raises one question that is probably not adequately covered by the language at the end of (a) on page 5. There are by now quite a number of inter-governmental groups which do in effect establish strategies or programs for commodities. These range from study groups to the Coffee Council. Have we thought through sufficiently the relationship between the proposed Bank action and the work of these groups?

MLH/maj

cc: Mr. Demuth
    Mrs. Boskey
February 4, 1970

Lady Jackson
Albert Schweitzer Professor in
International Economic Development
Columbia University
622 West 113 Street
New York, N. Y. 10025

Dear Lady Jackson:

Thank you for inviting me to the Conference on the Pearson report. I shall be glad to attend the meetings scheduled for February 20 and 21 in New York. My colleague William Clark has already indicated to you that I shall make my own arrangements for travel and hotel accommodations.

Sincerely yours,

John H. Adler
Director
Programming and Budgeting Department

Enclosures
PEARSON COMMISSION RECOMMENDATIONS

In pursuance of the procedure indicated in the President's Memorandum dated October 10, 1969 (SecM69-172), there are attached hereto analytical memoranda dealing with Recommendation Nos. 12, 25, 26, 28 and 29 in the list set out in the attachment to the memorandum of October 10.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
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.

Some of these memoranda raise issues of substance and I propose, therefore, to schedule several of them for discussion at an early date.

[Signature]

February 3, 1970
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 12 Concerning Aid Coordination

Recommendation

"Preparations should begin at the earliest possible moment for establishment, where necessary, of new multilateral 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 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 substantially expanding our program of economic missions. Annual reviews of development programs and performance will be prepared for all developing member countries with a population of more than 10 million (these approximately 30 countries account for over 80% of the total population of developing member countries). Reports on the other developing member countries will also be prepared on a regularly scheduled basis, biennially or triennially. Economic reports will not only be undertaken on a more frequent and more regular schedule than has been the case in the past but, in addition, they will be far more comprehensive. They will provide:

(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 preinvestment 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;

(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;

(h) an evaluation of the country's population problem and program; and

(i) an appraisal of the "quality" as well as the "quantity" of economic development, e.g., they will discuss income distribution, literacy levels, life expectancy, trends in unemployment, etc.

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.

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 from one another, is a delicate and complex task, the difficulty of which should not be underestimated. While we have been making progress in this task in some countries, as the Commission recognized, I fully agree with the Commission's view that not nearly enough has been done. During the past year, for example, only 12 of the approximately 30 countries to which we plan to send annual review missions were the object of attention by multilateral meetings reviewing both the development performance of the country in question and the development assistance activities in that country of interested donor governments and international agencies. I am convinced that most, if not all, of the 30 countries, and others as well, could benefit from regular aid coordination exercises.

As of now, the Bank takes principal responsibility for 9 of the 12 coordinating groups referred to above: the India and Pakistan Consortia, the Consultative Groups for Colombia, East Africa (Kenya, Tanzania, Uganda and the East African Community), Ghana, Korea, Morocco, Tunisia, and Ceylon. The Bank also provides economic reports which serve as the basis, or one of the bases, for the deliberations of the following coordination and review groups: 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. 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 the coordinating groups, such as the India and Pakistan Consortia, the coordinating groups for Ceylon, Ghana and Indonesia, and the CIAP groups, have met regularly on an annual basis, while others, for a variety of reasons, have met irregularly. For the future, however, I intend to recommend that all the groups for which the Bank takes principal responsibility should 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.
for other "annual economic review" countries, I am informed that the groups for Indonesia and Turkey will also meet in 1970, and that there will be CIAP reviews of Argentina, Brazil, Chile and Mexico during the year.

I do not believe that this over-all effort is nearly good enough. In my view, the Bank should take the initiative in seeking to organize, at the earliest appropriate time, coordinating groups for most, if not all, of the 30 "annual economic review" countries for which such groups do not now exist. Consultations will be required with the governments concerned and with potential participants in such groups. In some cases relatively simple and informal coordinating machinery will suffice. In other cases, more formal consultative groups will be needed.

In addition, I believe that the existing Bank-sponsored coordinating groups can and should be strengthened. Our new program of more intensive and more regular economic reports is one step in this direction. In particular, we intend that these groups should concern themselves more than in the past with development strategy and with the coordination of major technical assistance activities, a field in which we have thus far made only a modest start. As noted above, our economic missions will be seeking to determine priorities for preinvestment as well as investment activities. The United Nations Development Programme (UNDP) has agreed to cooperate with these missions by associating the UNDP Resident Representatives with their work, especially with respect to the technical assistance and preinvestment aspects. We have also asked for and are receiving the cooperation of FAO, ILO, Unesco and WHO in providing information and, in some cases, appropriate technical staff to assist these Bank missions. I am hopeful that this will contribute to better coordination of the international aid effort, to the importance of which the Commission has called attention.

I am not prepared at this time to comment on the Commission's recommendation that aid coordinating groups should engage in "explicit and formal" reviews of donors' aid policies and procedures. This recommendation raises questions which affect other international organizations and which are slated for extensive discussion later this year by those organizations in connection with the strategy for the Second Development Decade.

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

1/ Report, page 130.
approach, I do not believe that it should deter us from creating or supporting other regional coordinating groups in appropriate circumstances.

I do not believe that it is necessary or desirable to take any position now with respect to 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. The suggestion merits exploration after we have gained more experience as to the requirements for effective aid coordination.

Conclusion

I believe that the Bank should substantially expand its efforts to improve aid coordination activities, as recommended by the Commission. In particular, I believe that it should take the initiative in organizing some form of aid coordination for most, if not all, of the approximately 20 large countries for which no adequate coordinating machinery exists, and perhaps for some other countries as well. Moreover, I believe that we should intensify and expand the activities of the existing coordinating groups which we sponsor, particularly through convening more regular meetings and through devoting more attention to the discussion of development strategy and the coordination of major technical assistance requirements. We 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 our efforts to improve their effectiveness.

[Signature]
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 25 Concerning Population Problems

Recommendation

"Bilateral and international agencies should 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 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 back to a considerable extent by the "ambivalence and confusion of the industrialized member countries".3/

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 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. 1/ 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 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, is not to 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

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

"Greater resources for education should be made available 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 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

1/ Report, page 207.

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.

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 difficult 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 receiving 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)

"Greater resources for education should be made available for: ... (b) a systematic analysis of the entire learning process as it applies to developing countries".1/

1/ Report, page 207.
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.

[Signature]
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 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.3/

Analysis

My 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 these reports available to the various consortia and consultative groups,1/ and we 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.

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 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

1/ 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 U.N. Development Programme and the UNDP Resident Representative concerned, the appropriate U.N. regional economic commission and regional bank, and the relevant specialized agencies.
groupings which may be created, assuming that we are asked to do so. We should also, I think, do what we can to assist the regional banks, when requested, to increase their capacity for economic reporting.
Subject: Pearson Commission Recommendation No. 29 Concerning Blending of Loans and Credits for Single Projects and Programs

Recommendation

"A procedure, already in use, to reduce the effective rate of Bank loans is the practice of 'blending' IDA and Bank loans available to the borrower, thus reducing the average rate on loans from the World Bank Group as a whole. Sometimes a single project is financed by such a blend. We also 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 report does not explain why the Commission considered blending on a project or program basis, in contrast to blending achieved by separate Bank and IDA operations in the same country, 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; the Commission apparently felt that an appropriate mix of Bank and IDA funds would 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.

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 will yield an acceptable economic return and

1/ Report, page 222.
also, if the project is revenue-producing, a satisfactory financial return; 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.

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% on average; the estimated economic return was about 15%. Such projects do not need subsidized financing. 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.

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/ 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 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.

1/ Report, page 224.
Attached are six Pearson Commission papers which you have already reviewed but which have not yet gone to the Board.

The following three of these have been reviewed by Messrs. Knapp, Aldewereld and Friedman, as you requested, and are ready for submission to the Directors:

No. 25 - Population Problems
No. 26 - Education
No. 29 - Blending of Loans and Credits.

I have not circulated these to the Board because I wanted to include them in a package with the other three, which are much more substantive. On these other three, as you know, Burke has some changes to suggest which I hope we can discuss with you next Monday:

No. 12 - Aid Coordination
No. 14 - Debt Relief
No. 28 - Country Economic Reports.

For your information, I expect to have three or four additional memoranda in this series for your review next week. These will include Local Currency Financing, Program Loans, and Financing of Research.
Mr. Irving S. Friedman

Alexander Stevenson

Pearson Commission Recommendation for Aid Coordination
(Draft of January 6, 1970)

I find this draft extremely unsatisfactory, especially in that it proceeds by making a series of assertions with inadequate or no evidence to support them. It assumes, for example, that formal coordination is a good thing without any reference to the particular country involved or its circumstances.

The section in it entitled "Analysis" is not really a dispassionate analysis of the Commission's recommendations but very largely a series of assertions with incomplete or no evidence adduced to support them. For example, on page 3 the statement is made that not nearly enough has been done by way of "coordination exercises" and is followed by a listing of what is being done. The listing, of course, leaves out cases of consultative groups which either did not work or atrophied (e.g. Malaysia, Nigeria, Sudan) and does not discuss questions raised by, e.g. Brazil, a country which has not wanted to be coordinated.

On page 5, the paper recommends that all groups should meet regularly. Regularity is, for bureaucratic reasons at least, "a good thing," but it has disadvantages and costs. Anyone who has had to arrange a meeting on a fixed date when there is either nothing to discuss or the audience is wrong knows how frustrating an experience that can be. To be meaningful one has to be more specific.

On page 6, the statement is made that no comment will be made on that part of the recommendations relating to the reviews of donors' aid policies and procedures. The reason given for this is too esoteric for me, but in any case, I do not see how one can dismiss half of the Commission's recommendations in such a cavalier fashion. The Commission presumably thought of its recommendations as a package and if we are to reject or not pass on part of it, we should give a more convincing reason.

On page 8, it is asserted that it is not believed necessary or desirable to take any position with regard to the Commission's suggestion that regional banks should eventually take the lead in organizing coordination exercises for some of the smaller countries, on the grounds that this should be explored after we have "gained more experience as to the requirements for effective aid coordination." This again does not seem to be a good reason. If we have not already got sufficient experience with aid coordination I do not think we are in a position to make some of the more sweeping recommendations set out earlier in the paper.

Finally, nothing is said about possible staffing or budget implications of the Bank's organizing twenty more aid coordination groups.

As Stevenson: 83
In Mr. Broches' absence I have read the draft paper No. 19 and I have the following comments to make:

(i) The second paragraph on page 7 seems to indicate that, in recent years, the Bank has disregarded creditworthiness in determining the amount of Bank Group financing to be provided to a country. For non-IDA countries our Bank lending is still limited by creditworthiness; for the other countries by a combination of creditworthiness and availability of IDA funds.

(ii) In the analysis of the economic considerations bearing on a decision to provide program loans, I believe that at times the concept of "project lending" is limited to that of lending for the foreign exchange portion of projects. Also, I have difficulty in understanding why a program lending is needed in countries which have an investment program (which could be expressed in individual projects) whose cost exceeds the country's domestic savings. If any restriction on lending only for imports required for the investment program were lifted, external assistance could be provided in the form of project financing up to the amount required to cover the gap. In the example given on page 9 of a gap of 2% of GNP it seems to me to be immaterial whether imports amount to 20% or 6% of GNP. All that external aid has to cover is 2% of GNP and, as long as gross investment exceeds 2% GNP, local expenditure financing of specific projects is all that is needed.

(iii) I think that if a country, in the cases mentioned on page 10, has substantial capacity for production of capital equipment which could be used for their investment program but does not have sufficient foreign exchange to buy the imports required for the effective operation of such capital equipment, financing of the local production of capital equipment needed for specific projects would be as effective as financing the imports for the operation of the resulting projects. I believe this to have been the technique used in the Italian loans of 1951 and 1953 (but I do not wish to pass judgment on their effectiveness in that specific case).

(iv) On pages 10 and 11 reference is made to the use of IMF resources to remedy a temporary disequilibrium in the balance of payments. The implication is that program loans would be used to attempt to remedy a structural disequilibrium, but it might be well argued that an adjustment in the external value of the local currency would be a more orthodox remedy.

Mr. Broches will give you his comments directly.

cc: Mr. Broches

PSella/ar
13 January 1970

Mr. Richard H. Demuth  
Director, Development Services Dept.  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
U. S. A.

Dear Mr. Demuth:

Thank you for your letter of December 29th, concerning the ADB's activities with respect to the Pearson Commission Report. I think there was a slight misinterpretation of my informal remarks at the DAC meeting concerning this matter. There is no position paper at this stage - only a listing of apparently relevant recommendations. I am of course very interested in the recommendations of the Pearson Commission as they affect the ADB. The Bank staff has been exploring this and our Board discussed on informal basis various points in the Report. I look forward to discussing these with President McNamara at the forthcoming Columbia Conference and the Conference to be convened by the Canadian government in February.

My warm personal regards and best wishes for the New Year.

Sincerely yours,

Takeshi Watanabe  
President
Mr. J. Burke Knapp

S. R. Cope

January 9, 1970

Pearson Recommendation on Debt Relief

1. I agree with Messrs. Broches and Demuth that we should refer to Article IV, Section 4(c). An Executive Director is bound to raise the question even if we do not, and I think it is better to meet it in advance.

2. I do not think, however, that it is necessary to have the extensive footnotes proposed on page 5 of the draft dated December 22, 1969. I would suggest deleting the footnotes and inserting the following text to replace the first seven lines:

"Article IV, Section 4(c) of the Bank's Articles provides that a member may request, and the Bank may grant relaxation, as specified in that Section, of the term of its loans to or guaranteed by that member. Apart from this provision, however, the Bank has the general power as creditor to modify, with the borrower's and guarantor's agreement, any of the provisions of its loan contracts, and, in fact, in the few instances in which an amortization schedule of a Bank loan has been changed, it has been done under these general powers. The question is thus one of policy rather than of law.

"As to policy, the Bank has always taken the view that its..."
Area Directors

J. Burke Knapp

Pearson Commission Recommendations Nos. 12 and 28

January 8, 1970

I would like to obtain your views on the attached papers at our meeting on Monday, January 12th at 2:30 p.m.

These papers have been prepared by Mr. Demuth in close consultation with Mr. McNamara, and the President has approved them subject to further comments from Mr. Aldewereld, Mr. Friedman and myself. My comments are indicated by the pencilled changes.

cc: Mr. Cope

JBKnapp:ism
**File Title**  
Bank Administration and Policy: Pearson Commission General - 03

**Document Date**  
Jan 3, 1970

**Correspondents / Participants**  
A. Broches to Robert S. McNamara

**Subject / Title**  
Person Commission Recommendation No. 14 Concerning Debt Relief Operations

**Exception No(s).**  
4

**Reason for Removal**  
Attorney-Client Privilege

**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**  
Sherrine M. Thompson  
**Date**  
Nov 30, 2012

Archives 1 (May 2012)
Mrs. Shirley Boskey

William S. Gaud

Pearson Commission Recommendation No. 14

I have no comments on this paper provided one accepts its major premise to the effect that, for this purpose, the Bank is so different from other people. But I have not yet worked in this building long enough to feel easy about this premise.

It seems to me that the Bank's earnings are sufficiently large for it to be able to face such problems as these directly. It may be that there will be some situations -- or that the time will come -- when the Bank will not be able to participate fully. But I find it hard to accept the general proposition that the terms of Bank loans to debtor countries should not be rescheduled.

WSGaud: dbs
December 29, 1969

Mr. Takeshi Watanabe, President
Asian Development Bank
P.O. Box 126
Makati, Rizal
Philippines

Dear Mr. Watanabe:

In a report which I have just read about the DAC meeting on Southeast Asia, you are reported as having said that the Asian Development Bank has prepared a position paper on the recommendations of the Pearson Commission which are addressed to or affect your Bank. Assuming the report is correct, I would be very much interested in seeing a copy of the position paper since I have been charged by Mr. McNamara with preparing a similar analysis for him. If your own paper is not confidential, would it be possible for you to send me a copy?

Our own plan is to have a series of papers prepared for our Executive Directors, on the basis of which we expect to submit a report to our Board of Governors before their 1970 Annual Meeting.

With warm personal regards and all good wishes for the holiday season, I am,

Sincerely yours,

Richard H. Demuth
Director
Development Services Department

RHD:tf
December 23, 1969

Lady Jackson
Albert Schweitzer Professor of
International Economic Development
School of International Affairs
Columbia University
622 West 113th Street
New York, N.Y. 10025

Dear Barbara:

Thanks for your letter of December 12 asking me to attend the conference in New York on February 20 and 21. I will be glad to do it and am looking forward to it.

Merry Christmas!

Yours,

[Signature]

William S. Gaud
Executive Vice President

WSGaud:dbb

Questionnaire returned w/letter
Mr. William Clark

December 17, 1969

Mr. H. B. Dunkerley

Invitation for Mr. Forbes Watt to the Meeting on the Pearson Report

Mr. David Forbes Watt of the FAO/IBRD Program, Investment Centre called at my office yesterday to ask if there were any possibility of receiving an invitation for the meeting in February on the Pearson Commission Report at Colombia University organized by Lady Jackson. Having just returned from Brazil, he does not know whether other persons from the FAO have been invited, but feels that it would be useful if the Investment Centre were represented. He will in any case be in Washington from mid-January to mid-March.

I wonder if you could cope with this?

H.B. Dunkerley/hb
OFFICE MEMORANDUM

TO: Mr. McNamara
FROM: Richard H. Demuth
DATE: December 12, 1969

SUBJECT: Pearson Commission Recommendations No. 12 on Aid Coordination and No. 29 on Blending

1. Aid Coordination

I am returning herewith the draft memorandum to the Executive Directors on Recommendation No. 12 concerning aid coordination, together with two tables showing the meetings of aid coordination groups held or planned from FY 1966 through FY 1970. One table shows these meetings by fiscal years, the other by aid coordination groups. Please note also that I have made a change on page 8 of the memorandum by amending the reference to CIAP and adding a footnote thereto. This is because I discovered that, although the Commission cited CIAP as a precedent for the kind of multilateral groupings it had in mind, in which other developing countries would participate along with the recipient country, CIAP does not in fact conduct its country reviews in this manner.

2. Blending

As you requested, I asked Ed Hamilton what the Commission meant by Recommendation 29 concerning blending on a project basis. While Hamilton and I both agree that you are quite right that the basic issue is hard vs. soft terms, and not whether blending should be by project or by country, this particular recommendation was in fact meant, as its language indicates, to urge that the Bank Group finance single projects more often than it now does with a blend of Bank and IDA funds. The Commission had in mind that projects which would be viable if finance were available at, say, 4%, but which would not be viable at 7%, could go forward with a mix of Bank/IDA funds. This was regarded as particularly important for the least developed countries, such as some of the small ones in Africa. I have, accordingly, added to page 3 of the draft memorandum a paragraph which puts forward, and rejects, this suggestion. I am returning the paper to you with this change.
Dear Bill:

Columbia University in cooperation with the Albert Schweitzer Chair of International Economic Development is holding a Conference in New York on February 20 and 21, 1970 to provide a forum for the discussion of development strategy in the Seventies. In particular, it will respond to the recommendations and analyses of the Report Partners in Development issued by the Commission on International Development under the chairmanship of the Right Honorable Lester Pearson.

This Report is one of a number of major evaluations of the development effort which include the Jackson Report, the Prebisch Report and the work of the Tinbergen Commission for the United Nations Second Committee. All these analyses point to the need for new direction and new policies in the coming decade. All made specific recommendations. All demand a certain measure of coordination. It seems, therefore, opportune to invite a group of leaders in development, directly responsible for decision in this field, to meet together with a group of other development experts and discuss possible ways in which governments and multi-lateral agencies can together respond to the new needs of the Seventies.

We are, therefore, inviting to this meeting Ministers of Development, Heads of International Agencies and Presidents of Regional Development banks as well as economists and experts from a wide variety of countries and disciplines. Among those who have agreed to participate are: U Thant, Pierre-Paul Schweitzer, Robert MacNamara, Felipe Herrera, Lester Pearson, Sir Arthur Lewis, Maurice Strong, Saburo Okita, André Philip, Edward Mason, Hollis Chenery, Paul Streeten, Max Millikan, Dudley Seers, I.G. Patel, Mahbub ul Haq, Philip Ndegwa and E.N. Omoboe.

We very much hope you will be able to join us for these discussions. We believe that the evolving of a strategy for development for the rest of this century is the international community's first order of business. We hope, therefore, that this opportunity for leaders to meet together and discuss the issues raised by the various Reports will both increase public interest in development and also provide a forum where those directly engaged in the process can discuss the problems of organization and coordination involved.

Yours sincerely,

Mr. William Gaud
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Lady Jackson
Albert Schweitzer Professor of International Economic Development
Richard H. Desmuth

December 12, 1969

Pearson Commission Recommendations No. 12 on Aid Coordination and No. 29 on Blending

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RHD:tf
FROM: The Secretary

December 12, 1969

PEARSON COMMISSION RECOMMENDATIONS

Attached hereto for information is a copy of a summary analysis of the kinds of joint financing arrangements in which the Bank or IDA has been involved through 1968. This document is referred to in the President's memorandum of December 11 on Recommendation no. 16 distributed under report no. R69-232.

Distribution:
Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
**Type of Project**

**Agreement Date**

**Total Loan**

**Point of Exchange Covenant**

**Bank/IMF - Loan/Credit**

<table>
<thead>
<tr>
<th><strong>BIRD/IAF Joint Financed Operations with U.S.</strong></th>
<th>**U.S. $/AI$</th>
<th><strong>(Millions U.S. Equivalent)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BIRD Loan 111 BE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Center-Facing Irrigation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April 5, 1995</td>
<td>$246.6</td>
<td></td>
</tr>
<tr>
<td>Bank Loan: $18.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For 25 yrs., including 5 yrs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>grace at 4.5% percent interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BIRD Loan 116 BE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway Maintenance and Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 20, 1997</td>
<td>$23.0</td>
<td></td>
</tr>
<tr>
<td>Revised to $23.1</td>
<td>$23.0</td>
<td></td>
</tr>
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<td></td>
</tr>
<tr>
<td>Road Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 7, 1995</td>
<td>$20.5</td>
<td></td>
</tr>
<tr>
<td>$5.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BIRD Loan 129 BD</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial and Mining Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Iran (IMDB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 23, 1995</td>
<td>$16.7</td>
<td></td>
</tr>
<tr>
<td>For 15 yrs., including 5 yrs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>grace at 5.5% percent interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BIRD Loan 128</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Implementation Phase</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Industrial and Mining Development**

**Bank of Iran (IMDB)**

Joint financing is a result of Bank of Iran's early role as advisor to the Government and private U.S. sponsors on the establishment of IMDB and request for Government to ELF for additional foreign currency financing.

**U.S.A. ELF: $5.2 for 15 yrs., including 3 yrs.**

**U.S. $/AI$**

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<td><strong>BIRD Loan 111 BE</strong></td>
<td>Project 1 - Loan to Government</td>
</tr>
<tr>
<td>Center-Facing Irrigation</td>
<td>$250.0</td>
</tr>
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<td>April 5, 1995</td>
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<td>May 7, 1995</td>
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<td><strong>BIRD Loan 129 BD</strong></td>
<td>Project 4 - Loan to Government</td>
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**BIRD/IAF Joint Financed Operations with U.S.**

**U.S.A. ELF: $5.2 for 15 yrs., including 3 yrs.**

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</table>
IBRD Loan 295 Wd
Río Tuma Hydroelectric Project
June 27, 1960
$20.8
$16.5
IBRD Loan: $14.5 for 25 yrs., including 5 yrs. grace at 6 percent interest.

IBRD Loan 326 HD
Conservation Hydroelectric Project
June 29, 1960
$11.6
$7.6
IBRD Loan: $8.8 for 25 yrs., including 5 yrs. grace at 6 percent interest.

IBRD Loan 331 PM
Second road project. Construction of feeder roads.
August 13, 1960
$11.6
$7.6
IBRD Loan: $7.2 for 15 yrs., including 1 yr. grace at 5.3/4 percent interest.

IBRD Loan 271 FK
Aquuario-Pantalía Road construction and reconstruction
December 19, 1960
$13.0
$8.0
IBRD Loan: $8.5 for 15 yrs., including 1 yr. grace at 5.3/4 percent interest.

Documentation as in IBRD Loan 295 Wd, except that DLF disbursement not parallel to Government disbursement, and that the following functions: 1) review of contracts and approval of contracts (see LO 111); 2) approval of consulting engineers and terms of employment (see LO 111); 3) approval of management agreements (see LO 111).
IREX Loan 289 AR
Road reconstruction and improvement
June 30, 1961
Original Amount
$61.5
Interest Rate
3.60%
Loans: Originally $61.5 and net of cancellations: $51.0 for 25 yrs.
Including 6 yrs., grace at 5.5% percent interest.
Cancellations: July 26, 1965, $23.0

IREX Loan 290 GR
Road construction and maintenance project
October 13, 1961
Amount
$27.0
Interest Rate
5.5%
Loans: Originally $27.0 for 15 yrs., including 5.5% percent interest.
IDB Credit: $27.0, repayable on IDB terms. Cancellation: September 29, 1968, $27.0

IREX Loan 307 HN
Development Corporation Project
February 15, 1963
IDB Loan
$25.0
Cancellations: 0.12
Under Loan agreement: amortization schedule and interest rates were to be agreed upon between Bank and Borrower at the Loan amount was credited, with stipulation that final payment was not to be later than January 1, 1978.

IREX Loan 50701T
Road Project
September 10, 1968
Total Program
$57.5
Including operation, port, railway and township
Project loan: $30.0
Port, railway, township and road financing 82.0
24.5 for 28 yrs., including 6 yrs., grace at 6% percent interest.

IREX Loan 55011T
Road Project
August 10, 1968
Total Program
$90.0
Including operation, port, railway and township
Project loan: $57.5
Port, railway, township and road financing 32.5
24.5 for 28 yrs., including 6 yrs., grace at 6% percent interest.

Republic of Argentina
Joint financing a result of Government and private sector negotiations under the loan agreement. Government's contribution after IBD Loan ($28.0) billion equals $28.0 billion. Project is to be implemented by the Government of Argentina. Date and IDB were financing 100% of all project costs.

Republic of Costa Rica
Joint financing a result of deteriorating Government financial situation and request to IDB for assistance in financing 100% of the local currency component of the Bank project. IDB contribution part of IDB loan. Average interest on IDB loan was 5.5%.

Philippine National Bank (PNB)
Guarantor: Republic of Philippines
Joint financing a result of Government request for 100% Government foreign exchange requirements for setting up a private development corporation in the Philippines.

Bank Project: B30T
IDB Loan: $23.0 to cover local currency requirements, (30% of proceeds of IDB Loan) $23.0 for 25 yrs., 1% interest.
Source of IDB funds to be used for capital costs of the Bank Project.

Bank Project: R65.0
IDB Loan: $10.0 to cover local currency requirements. $1.0% for 25 yrs., 1% interest.
Source of IDB funds to be used for capital costs of the Bank Project.

NOTES:
For additional Bank/IDB joint financing operations involving the B30T/R65.0 project, see the following lines:
Under "IREX/IDB Joint Financing Operations with U.S. Export Credit Agency" (IDB 30T/90 IDB 90; 179 90/91 EC; 909 907 106 50; 406 507 70).
Under "IREX/IDB Joint Financing Operations with EC" (IDB 30T/90 IDB 90; 179 90/91 EC; 909 907 106 50; 406 507 70).
Under "IREX/IDB Joint Financing Operations with JAPAN's Credit Arrangements": $50.0
Under "IREX/IDB Joint Financing Operations with FAC" (IDB 30T/90 IDB 90; 179 90/91 EC; 909 907 106 50; 406 507 70).
Under "IREX/IDB Joint Financing Operations with IDB's Credit Arrangements": $50.0

SPECIAL PROVISIONS IN LONG-TERM INSTALLMENT INTER-AGENCY AGREEMENTS

1. No cross-conditionality of effectiveness or default.
2. No Memorandum of Understanding, but close working relationship with IDB.
3. No Bank representation and disbursement against the same list of goods on a percentage basis (IDB representing the assistance to the project).
4. No coverage of the cost of works completed, but in the interest of efficiency, agreement to utilize Bank system of disbursements directly to contractors rather than through the Central Bank of Argentina, as was the usual practice.

Separate, normal loan/credit documentation between the Bank/IDB and the Borrower. Separate loan documentation between IDB and Borrower with respect to all components of effectiveness or default. Agreement signed until July 23, 1963.

Normal Bank/IDB documentation in accordance with the above procedures.

Separate, normal loan/credit documentation between the Bank/IDB and the Borrower. Separate loan documentation between IDB and Borrower with respect to all components of effectiveness or default. Agreement signed until July 23, 1963.

Normal Bank/IDB documentation in accordance with the above procedures.

Bank disbursement against a list of goods for contractual construction on a percentage basis: 60%, representing the estimated foreign currency component. Where IDB participation was involved, they financed 50% of the contract for the local currency component. (IDB financing was subordinated to IDB/IDB bank project.)

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<table>
<thead>
<tr>
<th>TYPE OF PROJECT</th>
<th>AGREEMENT DATE</th>
<th>TOTAL COST</th>
<th>FOREIGN EXCHANGE COMPONENT</th>
<th>RATE/IDA - IDA/CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway Rehabilitation</td>
<td>March 13, 1963</td>
<td>$21.5</td>
<td>$1.5 disbursed under 1962 line of credit</td>
<td>$21.3</td>
</tr>
</tbody>
</table>

**PERU**

**IBRD Loan:** 3½% for 7 yrs. (no grace period) at 5.75% percent interest, plus 5.5% disbursed under 1962 line of credit which supported first year of four year program.

**Foreign Exchange Component:** Guarantor: Republic of Peru

**Joint Financing Agreement:** 1963 Agreement with U.S. to finance the foreign exchange component of the four-year railway rehabilitation program.

**IBRD** Loan to Peru, Corporation Limited U.S. Eximbank.

**Guarantor:** Republic of Peru which supported first year of four year required security program in form of mortgage agreement on receivables and inventories for 1963 agreement for financing of the foreign exchange component of the four-year railway rehabilitation program.

**Guarantor Contribution:** 5.5%.

**IBRD** Loan, 3% for 15 yrs., including 5 yr. grace at 7% percent interest. Less subject to reduction corresponding to the amount the Corporation can generate in excess of its working capital requirements.

**IBRD** Loan, 1½% for 15 yrs., including 5 yr. grace at 7% percent interest. Less subject to reduction corresponding to the amount the Corporation can generate in excess of its working capital requirements.

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**IBRD Loan 151 IN**

Air-India International Corporation

Guarantor: India

Joint financing resulted in additional financing and subsequent Bank involvement that if India could arrange financing for two-thirds of the cost, the Bank would provide the remaining one-third, with subsequent increase in the size of the original project.

**IBRD Loan 272 JA**

Third Kawasaki Project

Japan Development Bank (JDB) for purchasing Kawasaki Steel Corporation.

Guarantors: Japan, 24 April 1967

Amendment provided for JDB to be in full control of the Borrower and Japan to be no longer responsible under the Guarantee Agreement of December 20, 1960.

Joint financing originated from the result of (a) the successful experience of the JDB in financing the Kobe Power Project (IBRD Loan 220 JA) by the utilization of a Bank and a Public Issue floated in the U.S. through the First Boston Corporation and (b) desire to strengthen the JDB to enable it to obtain the capital requirements on the World capital market.

**IBRD Loan 273 JA**

Second Suntomo Project

Japan Development Bank with lending to Suntomo Metal Industries

Guarantors: Japan, 24 April 1967

Amendment provided for JDB to be in full control of the Borrower and Japan to be no longer responsible under the Guarantee Agreement of December 20, 1960.

Origin of joint financing: See IBRD Loan 272 JA.

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>IBRD Joint Financing Operations with U.S. Commercial Banks and U.S. Private Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL CRED</strong></td>
<td><strong>FOREIGN EXCHANGE COMPONENT</strong></td>
</tr>
<tr>
<td>IBRD Loan 151 IN</td>
<td>Air-India Project</td>
</tr>
<tr>
<td>IBRD Loan 272 JA</td>
<td>Third Kawasaki Project</td>
</tr>
<tr>
<td>IBRD Loan 273 JA</td>
<td>Second Suntomo Project</td>
</tr>
</tbody>
</table>

**IBRD LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS**

First National City Bank of New York: $2.5

Bank of America N.Y. and S.A.: $2.5

Irving Trust Company: $2.5

The First National Bank of Boston: $1.2

Total: $13.0

*Note: Figures are in million U.S. dollars.

**SPECIFIC PROVISIONS IN LOAN/AGREEMENT**

**JUDICIAL AND OTHER AGREEMENTS**

**MANNER OF PROCUREMENT**

Normal, separate loan documentation between Bank and Borrower and between U.S. commercial banks and Borrower with cross-conditions of effectiveness and default. A default under the Credit Agreement with the Bank, any change in the Agreement without prior agreement of the Bank, or any failure to discharge the loan provided for in the Agreement were also stipulated as cases of default.

Credit Agreement also conditional on IBRD making a loan on a "first in and last out" basis.

No Memorandum of Understanding between Bank and other Lenders.

Promissory note negotiated due to limited source of supply, otherwise normal Bank procedures with disbursement against separate list of goods, with other Lenders following their own procedures of disbursement.

Normal, separate loan documentation between the Bank and Borrower and Guarantor and between the Kawasaki and private investors, including cross-conditions of effectiveness. Provisions for repayment of Bank loan if Kawasaki repays JDB.

Subsidiary Loan Agreement between JDB and Kawasaki was also included with condition of effectiveness of the Bank loan and any default under it would be a default under the Loan Agreement. This Agreement remained in effect under the Amendment of 1967.

Bank procurement on the basis of international competitive bidding where imported equipment was competitive.

Bank disbursement against separate list of goods for 10% of the cost of equipment retroactive to July 1, 1967. (a) 100% of the reasonable cost of imported goods made or to be made in Japan, (b) amounts including local expenditures, which have been otherwise expended, or which are to be expended on the Project, in each currency and at each time, as shall be agreed upon between the Bank and the Borrower.

Disbursement by other co-lenders according to our procedures.

**IBRD Loan 272 JA**

U.S. Private Placement: $4.0 for 10 years including 3 years grace at 7.5 percent interest.

U.S. Revolver: $2.0 for 5 years including 3 years grace at 6.1/2 percent interest.

Domestic mortgage debentures: $6.0 for 7 years including 2 years grace at 7.5 percent interest.

Internal cash generation: $9.0

**IBRD Loan 273 JA**

U.S. Private Placement: $5.0 for 14 years, including 3 years grace at 7.1/2 percent interest.

Loan from Manufacturers Trust Co. of N.Y.: $5.6 for 3 years at 6.1/2 percent interest.

Domestic Loans: $6.1 for 10 years including 1.1/2 years grace at 6.5 percent interest.

Domestic mortgage debentures: $5.5 for 7 years including 2 years grace at 7.5 percent interest.

Retained earnings and depreciation: $56.0

OSB IBRD Loan: $0.18 at initial $23.0

Share issue: $9.9

Total: $16.1
June 30, 1959

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $36.9 for 15 yrs., including 5 yr. grace at 6 percent interest for mine, railroad, port and general services.

IRD Loan 718 AL

Iron Ore Project

May 13, 1960

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $200.2 for 12 yrs., including 5 yr. grace at 9 percent interest.

IRD Loan 212 AL

Magnesium Project

June 30, 1959

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $95.9 for 15 yrs., including 6 yr. grace at 3 percent interest.

IRD Loan 859 AL

Iron Ore Project

March 17, 1960

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $66.6 for 15 yrs., including 5 yr. grace at 6 percent interest for mine, railroad and port.

IRD Loan 852 AL

Liquidified Gas Project

November 15, 1960

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $220.4 for 12 yrs., including 5 yr. grace at 6 percent interest.

IRD Loan 804 AL

Iron Ore Project

March 17, 1960

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $151.3 for 15 yrs., including 5 yr. grace at 3 percent interest.

IRD Loan 707 AL

Magnesium Project

November 15, 1960

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $249.2 for 15 yrs., including 5 yr. grace at 3 percent interest.

IRD Loan 741 AL

Liquified Gas Project

May 13, 1960

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $205.8 for 12 yrs., including 5 yr. grace at 5 percent interest.

IRD Loan 851 AL

Magnesium Project

June 30, 1959

No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs.

IRD Loan: $252.3 for 15 yrs., including 5 yr. grace at 3 percent interest.
## IDA Credit 126 CG

### Electric Education Project
- **Country:** Republic of Chad
- **Amount:** $8.95 million
- **Terms:** 20 years, with a 6-year grace period
- **Funds:**
  - $7.50 million from IDA
  - $1.45 million from the Government of Chad
- **Purpose:** To provide technical assistance for the design and engineering of a national electricity grid.

### IBRD Loan: $13.12 million
- **Terms:** 26 years, with a 6-year grace period
- **Purpose:** To finance the design and construction of the electricity grid.

### Debt Service Payments
- **Interest Rates:** 9% per annum
- **Maturity:** 30 years

### Joint Financing
- **Partner:** Government of Chad
- **Project:** National Electricity Grid

## Proposed IDA Credit

### For Agricultural Development Project
- **Country:** Republic of Dahomey
- **Amount:** $6.0 million
- **Terms:** Normal, separated documentation expected, with information included in the joint IDA/Borrower documentation.

### Proposed IDA Credit

### For Telecommunications Project
- **Country:** Republic of Upper Volta
- **Amount:** $5.8 million
- **Terms:** Normal, separated documentation expected, with information included in the joint IDA/Borrower documentation.

---

### Notes
- Loan documentation not yet available, but will presumably be normal, separate agreements between IDA and Borrower, including cross-conditions of effectiveness and defaults.
- A Draft Memorandum of Understanding between IDA and FAC provides for each party to:
  - Exchange views on project implementation.
  - Exchange information on project progress.
  - Agreeing to changes in the loan agreement.
- Normal IBRD procurement and disbursement procedures.
- Normal, separate IDA/Borrower and FAC/Borrower documentation as in IDA Credit 126 CG with only an informal understanding governing the FAC contribution.
- Normal IBRD procurement and disbursement procedures.

---

### Special Provisions
- Normal IDA/Borrower documentation, no cross-conditions of effectiveness or defaults.
- No Memorandum of Understanding, but close cooperation with FAC for arrangements covering bilateral technical assistance.
- Normal Bank procurement and disbursement procedures.

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### Notes on Disbursement
- Normal, separate draft loan documentation between the Bank and the Borrower/Charter, including cross-conditions of effectiveness and defaults.
- Memorandum of Understanding between the Bank, FAC, and government for all remaining items to be procured under normal Bank procedures.
- Normal Bank procurement and disbursement procedures.

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Amount (Millions US$ equivalent)</th>
<th>Documentation</th>
<th>Method of Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed IBRD Loan/IDA Credit</td>
<td>Agricultural Credit Project in Senegal</td>
<td>Normal Loan/IDA documentation</td>
<td>Normal Loan/IDA procurement and disbursement procedures expected</td>
</tr>
<tr>
<td>Agric. Credit</td>
<td>Agricultura Credit Republic of Senegal</td>
<td>Normal Loan/IDA documentation</td>
<td>Normal Loan/IDA procurement and disbursement procedures expected</td>
</tr>
<tr>
<td>Senegal</td>
<td>Present project does not involve joint financing. Original Government request was for IDA assistance in financing the continuation of a five-year groundnut and millet improvement program involving a costly form of external technical assistance. Project was begun with the assistance of the European Economic Community (EEC), and was later financed on an interim basis by the EEC. Bank appraisal missions have assisted in streamlining and redefining the Bank project by separating certain elements for independent financing by EEC and IDA.</td>
<td>Normal Loan/IDA documentation</td>
<td>Normal Loan/IDA procurement and disbursement procedures expected</td>
</tr>
<tr>
<td>Senegal</td>
<td>Government contribution: $2.77 and re-lending of proceeds of loan/credit to IDA for 10 yrs., including 4 yr. grace at 6.5 percent interest.</td>
<td>Normal Loan/IDA documentation</td>
<td>Normal Loan/IDA procurement and disbursement procedures expected</td>
</tr>
<tr>
<td>Senegal</td>
<td>Bank Nationale de Development du Senegal (BNDS): $5.6 of its own resources and re-lending of proceeds of loan/credit received from the Government. BNDS re-lending through cooperatives to farmers expected to be at 5% to 8% percent interest over various time periods from 1 to 5 yrs., with no grace period.</td>
<td>Normal Loan/IDA documentation</td>
<td>Normal Loan/IDA procurement and disbursement procedures expected</td>
</tr>
<tr>
<td>Senegal</td>
<td>Farmers: $1.60</td>
<td>Normal Loan/IDA documentation</td>
<td>Normal Loan/IDA procurement and disbursement procedures expected</td>
</tr>
</tbody>
</table>

1/ Fonds d'Aide à la Coopération (FAC); Caisse Centrale de Coopération Economique (CCCE); Caisse d'Equiperment pour le Développement de l'Agriculture (CEEA).
<table>
<thead>
<tr>
<th>TYPE OF PROJECT</th>
<th>AMOUNT</th>
<th>PROJECT LOCATION</th>
<th>MEANING</th>
<th>DATE</th>
<th>CREDIT TERMS</th>
<th>OTHER FINANCING ARRANGEMENTS</th>
<th>SPECIAL PROVISIONS IN LOAN/AGREEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IBRD Loan</strong> 3,950</td>
<td>15 yrs</td>
<td>Republic of Sudan</td>
<td>Joint financing - result of government request to bank to examine the technical and economic aspects of the project, with the Bank subsequently initiating a joint financing program with the government to obtain additional financing for the project from countries interested in the development of the Sudan.</td>
<td>June 11, 1961</td>
<td>$18.5</td>
<td>Germany (KfW): $18.5 (unified) for 25 years including 7 years grace at 5.36 percent interest.</td>
<td>Normal separate loan documentation between the Bank and KfW and Borrower, including cross-condition of effectiveness and default.</td>
</tr>
<tr>
<td><strong>IBRD Loan</strong> 3,950</td>
<td>15 yrs</td>
<td>Republic of Afghanistan</td>
<td>Joint financing basis from UNESCO participation in appraisal mission and Germany's existing interest in providing technical assistance to Afghanistan.</td>
<td>November 23, 1964</td>
<td>$5.0</td>
<td>KfW grants $1.8</td>
<td>Normal credit documentation between the Bank and Borrower, including requirement that arrangements satisfactory to the Association be made for UNESCO/KfW and German grants before credit becomes effective.</td>
</tr>
</tbody>
</table>

**Notes:**
- The IBRD loan provided for the joint financing of the project with the government of Sudan to examine the technical and economic aspects of the project. The loan was for 15 years and included a grace period of 7 years at a 5.36 percent interest rate.
- The IBRD loan to Afghanistan was for joint financing based on UNESCO participation and Germany's existing interest in providing technical assistance. The loan was for 15 years and included a grace period of 7 years at a 5.36 percent interest rate.
- Special provisions in the loan agreement include normal separate loan documentation between the Bank and KfW and Borrower, including cross-condition of effectiveness and default.

The IBRD loan was intended to support the development of the Sudan and Afghanistan, with joint financing from Germany. The loans included special conditions to ensure effectiveness and prevent default.

**Key Points:**
- The joint financing agreements were intended to enhance the development projects in Sudan and Afghanistan.
- The loans included grace periods and interest rates designed to promote the economic viability of the projects.
- Normal separate loan documentation was required to ensure the effectiveness of the loans.
- The agreements also included provisions to prevent default and ensure the timely payment of principal and interest.
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Country</th>
<th>Amount</th>
<th>Terms</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 10, 1966</td>
<td>Food grains Storage Project - Government of Pakistan:</td>
<td>Islamic Republic of Pakistan</td>
<td>$1.65 (initial) for 20 yrs. including 5 yr. grace at 2 percent interest.</td>
<td>Swedish curre</td>
<td>Special arrangements for joint financing only. Government of Islamic Republic of Pakistan: Proceeds of IDA/Swedish Credits to be repaid to the Government of East Pakistan on IDA terms.</td>
</tr>
<tr>
<td>March 12, 1967</td>
<td>Lahore Water Supplies, Sewage and Drainage Project - Government of Pakistan</td>
<td>Islamic Republic of Pakistan</td>
<td>$1.75 (untied) for 20 yrs. including 5 yr. grace at 2 percent interest.</td>
<td>Swedish curre</td>
<td>Special arrangements for joint financing only. Government of Islamic Republic of Pakistan: Proceeds of IDA/Swedish Credits to be repaid to the Government of East Pakistan on IDA terms.</td>
</tr>
<tr>
<td>January 15, 1968</td>
<td>Livestock Development Project - Government of Kenya</td>
<td>Republic of Kenya</td>
<td>$7.50</td>
<td>Swedish curre</td>
<td>Special arrangements for joint financing only. Government of Islamic Republic of Pakistan: Proceeds of IDA/Swedish Credits to be repaid to the Government of East Pakistan on IDA terms.</td>
</tr>
<tr>
<td>June 21, 1968</td>
<td>Second Agricultural Development Bank (ADB) Project - Government of Pakistan</td>
<td>Islamic Republic of Pakistan</td>
<td>$15.00</td>
<td>Swedish curre</td>
<td>Special arrangements for joint financing only. Government of Islamic Republic of Pakistan: Proceeds of IDA/Swedish Credits to be repaid to the Government of East Pakistan on IDA terms.</td>
</tr>
<tr>
<td>September 26, 1968</td>
<td>First Agricultural Project - Government of Indonesia</td>
<td>Republic of Indonesia</td>
<td>$10.00</td>
<td>Swedish curre</td>
<td>Special arrangements for joint financing only. Government of Islamic Republic of Pakistan: Proceeds of IDA/Swedish Credits to be repaid to the Government of East Pakistan on IDA terms.</td>
</tr>
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**Notes:**
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<tr>
<th>TYPE OF PROJECT</th>
<th>AGREEMENT DATE</th>
<th>TOTAL COST</th>
<th>FOREIGN EXCHANGE COMPONENT</th>
<th>JOINED LOAN TERMS AND CONDITIONS</th>
<th>SPECIAL PROVISIONS IN LOAN/CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDB Loan Tunisian Water Supply Project</td>
<td>Negotiations completed, but no formal agreement on terms.</td>
<td>$131.2</td>
<td>$17.1</td>
<td>Proposed IDB loan: $15.0 for 5 yrs, including 5% yr. grace at 6% percent interest.</td>
<td>$1.5 (stated) on IDA terms. Sweden would lend directly to the Republic of Tunisia for on-lending to SONEDE on IDA terms. SONEDE: To provide balance of local currency financing. Prepared by World Bank in 1965.</td>
</tr>
<tr>
<td>IDB Loan Tanzania Second Highway Project (Dar-es-Salaam-Gongo section of Tanaa Highway)</td>
<td>Currently under consideration.</td>
<td>$82.0</td>
<td>$27.0</td>
<td>Financing still under consideration, but project appears suitable for external financing up to 50% of total cost, i.e., $32.0. Due to IDA-approval problems, project is still limited to $8.0 with Bank 1 $7.0.</td>
<td>Project represents a part of the sector program. List of goods will presumably identify part of the program to be included in the project, for which the foreign exchange component would be financed by Sweden 50%, and the remain 50%. Borrower preferred that the result of the project should not be subject to international competitive bidding in order to save time and to benefit from standardization.</td>
</tr>
<tr>
<td>Imperial Board of Telecommunications of Ethiopia (IBTE)</td>
<td>Ready for Loan Committee consideration.</td>
<td>$57.0</td>
<td>$26.0</td>
<td>Proposed IBTE Loan: $6.0 for 5 yrs, including 5% yr. grace at 6% percent interest.</td>
<td>Proposed Credit of $8.0 for 7 yrs, including 5% yr. grace at 7% percent interest.</td>
</tr>
</tbody>
</table>

**Sweden**

- Proposed Credit of $8.0 for 7 yrs, including 5% yr. grace at 7% percent interest.
- $8.0, 2 per cent interest.
- $7.5, subject to IDA Executive Directors' approval in principle of IDA refinancing Swedish supplementary credit to Tanzania if and when IDA replenishment is achieved.

**Republic of Tanzania**

- Government of Tanzania:
  - Government of Tanzania; $6.0.

**Joint Financing**

- $9.0.
- $1.5 (stated) on IDA terms. Sweden would lend directly to the Republic of Tunisia for on-lending to SONEDE on IDA terms. SONEDE: To provide balance of local currency financing. Prepared by World Bank in 1965.

**Cost, in dollars**

- $32.0.
- $27.0.
- $8.0.
- $7.0.

**Joint Financing Result of Request of Government and expressed interest by Sweden during normal discussions with IDA on project possibilities.**

- $7.0.
- $8.0, 2 per cent interest.
- $8.0.
- $8.0.
- $8.0.
- $8.0.

**Proposed Credit, $8.0, 2 per cent interest.**

- $8.0.
- $8.0.

**IDB Loan**

- Proposed IDB loan: $15.0 for 5 yrs, including 5% yr. grace at 6% percent interest.

**Proposed IDB Loan**

- Proposed IDB loan: $15.0 for 5 yrs, including 5% yr. grace at 6% percent interest.

**Joint Financing Result of Request of Government and expressed interest by Sweden during normal discussions with IDA on project possibilities.**

- $7.0.
- $8.0.
- $8.0.
- $8.0.

**Proposed Credit, $8.0, 2 per cent interest.**

- $8.0.
- $8.0.

**Proposed IDB Loan**

- Proposed IDB loan: $15.0 for 5 yrs, including 5% yr. grace at 6% percent interest.

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**Proposed IDB Loan**

- Proposed IDB loan: $15.0 for 5 yrs, including 5% yr. grace at 6% percent interest.
Guarantor: The United Kingdom until 1964, then the Federation of Rhodesia and Nyasaland.

Joint financing a result of request by the United Kingdom for assistance in financing the project.

Colombian Development Finance Company, Ltd.: $25.0 for 35 yrs., at 6.34% interest.

Government Loans to CEF: $12.2 for 40 yrs., at 5% interest, no grace period.

CFR contribution from earnings: $1.5

Bank required that CEF make firm arrangements for financing capital works of project not in project before negotiations were to begin. Subsequently, with bank representatives present, CEF and CEF (CDF) agreed in London in 1961 to:

a) that CDF would release immediately the charges it had on the assets of CEF to secure outstanding debts due in 1960 and 1961 totaling $19.82 in exchange for a Government Guarantee and
b) that CDF would make a fresh loan to CEF upon the CEF obtaining the debentures, in the same amount over 25 yrs. at 6.5% interest.

Balance of $5.7 was to be obtained from internal cash generation.

Central Electricity Board (CEB) of the Federation of Malaysia.
Guarantor: Federation of Malaysia.

Join financing a result of Government and CEF request for assistance in financing the foreign exchange component of the project and normal CDF and CDF operations in Malaysia.

Colombian Development Finance Company, Ltd.: $12.5 for 35 yrs., at 6.34% interest.

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b) that CDF would make a fresh loan to CEF upon the CEF obtaining the debentures, in the same amount over 25 yrs. at 6.34% interest.

Balance of $5.7 was to be obtained from internal cash generation.
| IDA Loan No. 871 | Power Project | April 17, 1965 | $30.0 | $8.8
| IDA Loan No. 872 | Beef Ranching Development Project | October 5, 1966 | $5.1 | $1.0
| IDA Credit No. 48/KE | Kenya Tea Development Project | August 17, 1965 | $8.96 (includes field sector and local currency costs in the field sector of the project) | $8.96

### Terms

**IDA Credit No. 48/KE**

- **Purpose**: Beef Ranching Development Project
- **Amount**: $8.96
- **Terms**: Field sector and local currency costs in the field sector of the project

**IDRs**: 2/ These banks are at present Barclay's Commercial banks which would act as its agents.

**Term Adjustment**: Commerical banks which would act as its agents.

**IDR Loans**: 2/ These banks are at present Barclay's Commercial banks which would act as its agents.

**Interest Rate**: Commerical banks which would act as its agents.

**IDA Loan**: Commerical banks which would act as its agents.

**IDA Credit**: Commerical banks which would act as its agents.

**IDA Credit No. 10**: Uganda Tea Growers Corporation

- **Purpose**: To finance the re-estoration of the commercial sector and additional source of financing.
- **Amount**: $1.0
- **Terms**: On normal IDA terms.

**IDA Credit No. 102**: Coffee Development Project

- **Purpose**: To finance the re-estoration of the commercial sector and additional source of financing.
- **Amount**: $1.0
- **Terms**: On normal IDA terms.

**IDA Credit No. 102**: Coffee Development Project

- **Purpose**: To finance the re-estoration of the commercial sector and additional source of financing.
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- **Terms**: On normal IDA terms.

**IDA Credit No. 102**: Coffee Development Project

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- **Amount**: $1.0
- **Terms**: On normal IDA terms.
<table>
<thead>
<tr>
<th>TYPE OF PROJECT</th>
<th>AGREEMENT DATE</th>
<th>TOTAL COST</th>
<th>FOREIGN EXCHANGE COMPONENT</th>
<th>MILLION US$ EQUIVALENT</th>
<th>BORROWER</th>
<th>GUARANTOR</th>
<th>ORIGIN OF JOINT FINANCING</th>
<th>JOINT LOAN TERMS AND CONDITIONS</th>
<th>SPECIAL PROVISIONS IN LOAN/ CREDIT DOCUMENTATION</th>
<th>INTER-AGENCY AGREEMENTS</th>
<th>METHOD OF FINANCING</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan: $10.7 for 20 yrs., including 2 yr. grace at 6½ percent interest.</td>
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</tbody>
</table>

1/ [Colonial Commonwealth Development Corporation (CDC); Colonial] Commonwealth Development Finance Company, Ltd. (CCDF); Colonial Development and Welfare Fund (CDWF); Economic and Social Welfare Department. For convenience, operations involving participation of British commercial banks are included under this heading.]
Type of Project Agreement Date
IDB Credit 1 No Western Highway Extension
May 17, 1961

IDB Loans $2.25 per 20 yrs., including 6 yrs. grace at 6 percent interest on IDB resources and with local currency ceiling of $0.75.

Government contribution: $0.75.

IDB Credits: $9.0 on normal IDA terms.

IDB Credit 2 No
 Ezra Project
July 24, 1964

IDB Loan: $1.1 to Government with Decrease National de Electricidad (ENDE) as executing agent (ENDE repays principal and interest) for 25 yrs., including 5 yrs. grace at 6 percent interest on ENDE resources with a local currency ceiling of $0.5.

Government of Bolivia: $2.0

Original overall project divided three ways:
1. (a) Bolivia Power Company project financed by IDB credit OBR for $0.5 and Borrower $2.7.
2. (b) IDB project jointly financed by IDB and Borrower.
3. (c) Government contributed proceeds of IDA Credit to ENDE as equity contribution.

IDB Loans: $3.25 in total, of which $1.1 from ENDE, $1.0 from ENDE, and $0.25 from ENDE for previous engineering studies. Local currency ceiling of $2.7.

Government of Honduras: $1.0

In view of Borrower's fiscal situation, the Bank considered external financing of up to 80% of total cost of the project justified, but was unwilling to contribute the full amount and sought additional local and foreign currency financing from IDA.

IDB Loans: $6.0 per 25 yrs., including 6 yrs. grace at 6 percent interest.

IDA Credits: $1.5 on normal IDA terms.

IDB Loan: $1.0 for 20 yrs., including 6 yrs. grace at 6 percent interest from ENDE resources with a local currency ceiling of $0.5.

Government of Honduras: $1.0

In view of Borrower's fiscal situation, the Bank considered external financing of up to 80% of total cost of the project justified, but was unwilling to contribute the full amount and sought additional local and foreign currency financing from IDA.

IDB Loans: $6.0 per 25 yrs., including 6 yrs. grace at 6 percent interest.

IDA Credits: $1.5 on normal IDA terms.

IDB Loans: $2.25 per 20 yrs., including 6 yrs. grace at 6 percent interest from ENDE resources with a local currency ceiling of $0.75.

Government contribution: $0.75.

IDA Credits: $9.0 on normal IDA terms.

1/ IDB "ordinary capital" resources, until January 1, 1968, were available for procurement on the basis of unrestricted international competitive bidding, except that the use of the local currency component of the paid-in portion (there is a "callable" portion as well) could be limited, at the option of the contributor, to domestic procurement. In practice, only Guatemala and Mexico invoked their rights under this option. Until January 1, 1968, IDB resources were partially tied and partially untied, the portion of tied resources increasing with successive replenishments in local currency (particularly in the case of U.S. contributions). By the end of 1967, the untied portion was virtually exhausted.
<table>
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<tr>
<th>TYPE OF PROJECT</th>
<th>ASSESSMENT DATE</th>
<th>TOTAL COST</th>
<th>FOREIGN ECONOMIC COMPONENT</th>
<th>BANK/IDA - LOAN/CREDIT</th>
<th>FORTRAN SCHEME</th>
<th>CREDITS OF JOINT FINANCING</th>
<th>METHOD OF PROCUREMENT</th>
</tr>
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<tbody>
<tr>
<td>Santa Isabel Project in Bolivia</td>
<td>Republic of Bolivia</td>
<td>IDB was prepared to finance up to $3.0 to $4.0, including $1.5 in local currency.</td>
<td>Proposed Government contributions: $2.0</td>
<td>Problems Impeding Joint Financing Proposal:</td>
<td>a) Restrictions in IDB procurement policy effective January 1, 1988, which limits procurement to the U.S., Latin America and specific contributing member countries; b) IDB stipulation that it participate in financing a part of foreign exchange costs, and only a part of local currency costs leaving a shortfall in local currency for IDA to finance. Due to scarcity of IDA resources and restrictions on local currency financing, IDA found this difficult to do; c) IDA willingness to make separate and independent appraisal mission which IDB believed impractical; d) IDB reluctance to be influenced in its lending operations by IDA performance criteria, especially with respect to questions of overall fiscal policy and servicing problems.</td>
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</table>

For additional Bank/IDA joint financing arrangements see: IDB Loan 279 EC/IDA Credit 51 BD, under "Joint Financing with Two or More Co-lenders."
TIA Credit 69 MAU
Road Project
December 28, 1964
$10.5
$7.0
TIA Credit: 6.7% on normal TIA terms, plus
Supplementary Credit

IDC/IDA Joint Financing Operations with the European Economic Community (IDC
and TIA/IAA) Loan

Borrowers:
1. Republic of Somalia
Joint financing a result of Government request for assistance to IDA and to
IDC and TIA/IAA in financing

2. Israel: Republic of Mauritania
Joint financing a result of Government request for assistance to IDC for
assistance in financing the project.

Government Contribution: $0.08

SPECIAL PROVISIONS IN LOAN/CREDO

INTRA-AGREEMENTS

TIA/IDA Credit

$3.22 grant.

Documentation as for IDC Credit 69 MAU, except that:
a) IDC financed 100% of final design and engineering costs; and
b) IDC financed 60% of cost of maintenance equipment and
Highway Department Office for Safe operation of project.

Government Contribution: $0.7 (Supplementary Credit)

Supplemental Credit, 22 yrs., grace
TIA: $7.0

TIA Leadership was recognized by IDC.

IDC Agreement amended Credit Regulation 3, dated June 31, 1961, section 3.01, that the proceeds of the Credit shall be withdrawn from the Credit Account in the amounts of:

Japan: $68 TIA

For irrigation development.

IDC Agreement

IDC Credit 76/50
Road Project
March 27, 1965
$11.2
$7.0
IDC Credit: 6.7% on normal IDC terms, plus
Supplementary Credit

EIB Loan and ICA
IDC Credit 200 US
Plantation Project
March 26, 1967
Total 1967-68 Program Costs:
$17.0 Including 5.0% for
$25.5 (foreign exchange component)

EIB Loan: $7.0 for 20 yrs., including 5 yr. grace at 6
percent interest. Disbursement of Loan to begin only after
ICA Credit fully disbursed.

OIDA Credit: $11.0 on normal IDC terms.

EIB Loan (with EIB acting as agent for
EIB) will refinance 50% of cost of final design and engineering costs for
$11.0 of total cost. IDC will provisionally finance 50% of
interest costs. IDC will provisionally finance 50% of cost of final design and
engineering costs.

Unconditional Bank/IDA and IDC credit for
$11.0 of total cost. IDC will provisionally finance 50% of
interest costs. IDC will provisionally finance 50% of cost of final design and
engineering costs.

Government Contribution: $0.2

Government Contribution: $2.5 (Foreign Exchange Component)

IDC Agreement

Joint agreement that previous loan of
$11.0 from Commonwealth Development Corporation (IDC) to CAMDEV will
remain outstanding and that

Government: $0.5 (Supplementary Credit)

Manpower Agreement with CAMDEV.

Manpower Agreement with CAMDEV.

IDC Agreement

Loan Agreement between Bank/IDA and
IDC and CAMDEV.

Government: $0.5 (Supplementary Credit)

Manpower Agreement with CAMDEV.

Management Agreement between
Bank/IDA and CAMDEV.

Specific provisions for each project.

Documentation as for TIA/IDA Credit 69 MAU, except that:
a) EIB financed 100% of final design and engineering costs to
IDC.

Government: $2.5 (Supplementary Credit)

b) IDC financed 50% of cost of maintenance equipment and
Highway Department Office for Safe operation of project.

c) IDC financed technical assistance.

Document now for each project.

Management Agreement between
Bank/IDA and CAMDEV.

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Loan to assist in financing
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project in Southern Italy, but
rest of program financed by
public loan issue.

OMANDS
Guarantor: Republic of Italy

Joint Financing and Other Financing Arrangements

Cassa per il Mezzogiorno (Cassa)

EBB Loan: $90.0 for 30 yrs., including 8 yr. grace at 5.7/8 percent interest.
Public issues $30.0 of whom $30.0 through Morgan Stanley and Company with
several investment houses, providing 9% percent sinking fund bonds maturing in
15 yrs. and $10.0 issued by Morgan Stanley only, for which $9.0 percent bonds
maturing in 4 yrs. and $3.0 in 3 yrs. per cent bonds maturing in 5 yrs.
Cassa to provide balance of $20.0

IBRD and EIB loans were made concurrently with the offering of a $30 million bond issue
by the Cassa per il Mezzogiorno to assure success of these on New York market. Proceeds
of issue were to be used for the general
development program of the Cassa.

Normal documentation between Bank and Borrower
Guarantor and between IBRD and Borrower, including cross-
conditions of effectiveness and dissent.

Morgan Stanley and Co. arranged
simultaneous effectiveness of their issues with IBRD/IDA bonds
and issued bonds before the Bank and EIB issues.

No Memorandum of Understanding between IBRD and EIB, but
some cooperation in EIB and Italian exchange letters
between 12/6/87/IBRD/Joint financing project of Morg.

Proceedure for IBRD/EIB on the basis of international
competitive bidding.

Disbursement against a common list of needs upon proposal
for reimbursement from the Borrower to the IBRD and EIB
separately. Disbursement on a percentage basis:

Mercure Power Projects 154 1863
1963
Direct Industrial projects 275 1863
1963
 Calcium Industrial Projects 275 1863
1963

For additional IBRD/EIB Joint Financing arrangements with EIB see also note "IBRD/EIB Joint Financing Operations with Two or More Co-Participants" W/70/71.

\[\text{Term: Project Southern BAM/IA TVyAI AGPEM DATE SPECIAL} \]

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1963
Direct Industrial projects 275 1863
1963
 Calcium Industrial Projects 275 1863
1963

For additional IBRD/EIB Joint Financing arrangements with EIB see also note "IBRD/EIB Joint Financing Operations with Two or More Co-Participants" W/70/71.
The Volta River Authority, Guarantor: The Republic of Ghana. Joint financing resulted from discussion between the governments and the Volta River Authority, concluding that the United States should participate in the development of the Volta Project on the basis of international competitive bidding and disbursement, from the proceeds of the loan and at an interest rate of 2.5% per annum. The interest rate is identical to the rate available to the United States for the same project. The loan amount was $100 million, including $80 million at the 2.5% rate, and $20 million at the 3.5% rate. The loan was to be repaid over 25 years, with an option to accelerate repayments at any time. The loan was to be made available to the Volta Project in tranches, with the first tranche to be drawn down on July 1, 1965. The loan was to be used for the construction of the Volta Project, including the construction of the Volta Dam and the Volta River Power Station. The loan was to be subject to the conditions and restrictions of the IDA and AID, and was to be used for the purpose of financing the Volta Project, subject to the terms and conditions of the loan agreement.

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<table>
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<tr>
<th>TYPE OF PROJECT</th>
<th>AGREEMENT DATE</th>
<th>TOTAL COST</th>
<th>FOREIGN EXCHANGE COMPONENT</th>
<th>PROJECT PREPARED</th>
<th>JUNIOR LOAN TERMS AND CONDITIONS</th>
<th>SPECIAL PROVISIONS IN LOAN AND CREDIT DOCUMENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan 379 EC</td>
<td>May 25, 1966</td>
<td>$276</td>
<td>$135</td>
<td>Republic of Ecuador</td>
<td>U.S. A. AID Loan $25.0 (tied) for 40 yrs., including 10 yrs., grace at 3½% of 1 percent interest during the grace period and at 2 percent thereafter. To cover approximately $80.7 in local currency costs, but with no limits specified. Alliance for Progress funds, Loan 0.7 signed Sept. 1, 1966 and one for $1.3 signed May 24, 1966.</td>
<td>Memorandum of Understanding covering all lenders and incorporating standard provisions of earlier individual agreements between the Bank and IDA, and between the Bank and IDB. (cf. &quot;IBRD/IDA Joint Financing Operations with WB, IDA, and IDB&quot;)</td>
</tr>
<tr>
<td>IDA Credit 51 EC</td>
<td></td>
<td>$63.9</td>
<td>$27.6</td>
<td>Republic of Egypt</td>
<td>IDA Loan: $14.0 (tied) through Instituto de Crédito del Banco de Comercio (ICBC), to the Government for 25 yrs., including 5 yrs., grace at 5½% interest. Proceeds of loan were restricted to financing 50% of sub-contracts placed in the U.S. and 25% in other credits.</td>
<td>Special Provisions in Memorandum of Understanding: a) agreement on establishment of Joint Board; b) agreement that U.S.A. Aid would provide up to $2.5 for equipment of U.S. origin, but after international competitive bidding; c) further agreement that all other financing of foreign exchange costs of engineering, on equipment in case all $2.5 would be utilized for equipment, in which case the Bank would finance corresponding equipment costs.</td>
</tr>
<tr>
<td>Loan 383 EN</td>
<td>July 1, 1966</td>
<td>$145</td>
<td>$64.0</td>
<td>Nigerian Home Authority (NHA)</td>
<td>British A.A. AID Loan: $14.0 (tied) through United Kingdom through Export Credit Guarantee Department; $14.0 (tied) for 25 yrs., including 5 yrs., grace at 7½% interest. Proceeds of loan were restricted to financing 50% of sub-contracts placed in the U.S.</td>
<td>Common investment and financing plan provided for the allocation of certain items to individual lenders for 100% financing of foreign exchange costs and for local financing of other items on the following percentage basis: Stage I construction: $3.1 IBRD $1.6 IDA Stage II construction: $1.7 IDA $0.3 AID $0.2 A.D.</td>
</tr>
<tr>
<td>Loan 386 EN</td>
<td>July 1, 1966</td>
<td>$140</td>
<td>$63.0</td>
<td>Republic of Korea</td>
<td>U.S. A. AID Loan $14.0 (tied) through Instituto de Crédito del Banco de Comercio (ICBC), to the Government for 25 yrs., including 5 yrs., grace at 5% interest. Proceeds of loan were restricted to financing 50% of sub-contracts placed in the U.S.</td>
<td>Supplementary loan to cover the shortfall in foreign exchange which had developed from: a) a rise in project costs, coupled with b) the inability to utilize all the tied funds available after competitive bidding was completed.</td>
</tr>
</tbody>
</table>
e) EIB contribution to be used to finance purchases in EEC countries, which, in the case of EEC member countries participating in the Syndicate, would be on a 50 percent matching basis; provided 100 percent:
d) All bidding to be restricted to participating countries consistent with arrangement (b) and (c) above;f) contingency reserves were to be not added to the 10 percent of foreign exchange requirements of each contract;g) An important agreement provided that the syndicate would finance purchases of materials, equipment and services from any of all of the participating countries up to certain limits to be specified on the basis of the bid analysis costs.

U.S. AID Loans $350.0 (tied) was for 50 yr., including 30 yr. grace at 1 percent interest during the grace period and 64 percent thereafter from development loan resources.

France: Euro 21.0 total, of which $5.0 is export credit for 10 yr., with no grace period at 6 percent interest; and $50.0 French Treasury Loan for 15 yr. including 5 yr. grace at 1 percent interest for the first five yr. and 3 percent thereafter. 

Italy: Euro 10.0 for 15 yr. at 5 percent interest. Grace period not known.

Germany: Euro 20.0 for 25 yr., including 7 yr. grace at 3 percent interest.

EIB: $350.0 for 30 yr. including 7 yr. grace at 3 percent interest. The favorable terms of EIB lending result from use of special fund (totaling $175.0) appropriated for the use of the project (or more) for financing qualifying industrial projects at 3 percent interest (at least 1/3 of the total must be used for this purpose) and for financing qualifying infrastructure projects at 1 percent interest (up to 70 percent of the total may be used for this purpose). Repayment may take up to 30 yr. for all loans. The special fund agreement expires December 1, 1969.

Total contributions for Senegal Dam Projects: Syndicate Co-lenders: Euro 355.0; Government: Euro 265 (or more).

Total contributions for Bank Transmission Lines Projects: Bank: Euro 25.01; Government: Euro 119.0 with on-lending of Bank loan, on same terms, to ETBANK (or TEB) the Turkish Electric Authority, when it comes into existence.

Cost overrun on Dam Project: Due to increase in cost, inability to utilize fully the U.S. and German offers, and expenditures in France and Italy in excess of ceilings, project cost exceeded both available and usable funds. Financing of the shortfall of funds not yet determined pending revision of cost estimates.

-2-
Introductory note

1. Origin of joint financing. Following a series of exploratory discussions by Bank staff with officials of various governments concerned with financing assistance to developing countries and with representatives of private financing institutions during the course of 1964 and 1965 agreement was reached on a mechanism through which private financing institutions, using bilateral export credits, could join with the Bank to finance goods procured under international competitive bidding for projects prepared and executed under the supervision of the Bank. The first pilot project was a Mexican power sector project, costing $309 million, for which a Bank loan was made in December 1965.

2. For the first operation, agreement on arrangements for joint financing was reached with five countries, namely Canada, France, Italy, Japan and Switzerland. These arrangements provided that contracts potentially subject to joint financing would be awarded on the basis of cash prices (i.e. without taking account of credit terms); and that the Bank would finance 2/3 and joint lenders 1/3 of the value of orders. However, the actual terms of joint loans were left in large part to the individual participating countries. In practice joint loans were at least 10 years from delivery of the goods. There was no general agreement on what would be covered by these loans, and participating governments appear to have applied certain restrictions on the nature of the goods and the size of the orders, which they treated as eligible for joint financing.

3. Following the experience of the pilot project, discussions on joint financing with governments and private financing institutions were continued under the auspices of an ad hoc group consisting of member countries of the Consultative Group for Colombia and those interested in joint financing of projects in both Colombia and Mexico. In October 1967, agreement was reached in principle on the joint financing of three projects in Colombia (the Bogota Water Supply Project, the Bogota Third Power Expansion Program, and the National Power Interconnection Project) and one project in Mexico (the Second Mexican Power Sector Project). The choice of projects was based on the following considerations: (a) external financing was required primarily for imported goods; (b) the imported goods required were generally of a kind appropriate for long term export credit financing; and (c) the countries and the borrowing enterprises were creditworthy.

4. The following table shows the estimates of joint loans envisaged at the time the amounts of the Bank loans were fixed:

<table>
<thead>
<tr>
<th>Project</th>
<th>Estimated US $ million equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Cost</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange Cost</td>
</tr>
<tr>
<td></td>
<td>Bank Loan</td>
</tr>
<tr>
<td></td>
<td>Other Joint Loans</td>
</tr>
<tr>
<td>Bogota Water Supply</td>
<td>35</td>
</tr>
<tr>
<td>Bogota Power Supply</td>
<td>114</td>
</tr>
<tr>
<td>Colombia Power Interconnection</td>
<td>2.96</td>
</tr>
<tr>
<td>Second Mexican Power Sector Project</td>
<td>300</td>
</tr>
<tr>
<td>First Mexican Power Sector Project</td>
<td>300</td>
</tr>
</tbody>
</table>

1/ Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, United Kingdom, United States of America and Switzerland.

2/ Portions of the Bank loan may be cancelled should the joint financing formula result in larger financing by other joint lenders.
The participants in the October 1967 discussions expressed the strong feeling that there should be the greatest possible degree of prior agreement on the terms of joint financing operation before any effective action was taken to implement it and, on the cost-sharing formula; both participating countries and the Bank emphasized that acceptance of the formula should not be taken to imply a commitment to the formula for the future.

General formula for joint financing: The following provisions of the memorandum 1/ recording the points agreed between the Bank and the Governments of countries participating in the second meeting on Joint Financing, held in Paris, October 1967, are quoted verbatim:

"The formula for provision of external financing of imported goods required for the project would be in the case of contracts for the three Colombian projects, 50 percent by the Bank and 50 percent by the supplying countries, and in the case of contracts for the Mexican project two-thirds by the Bank and one-third by the supplying country. This formula would only apply to individual orders for imported goods of at least $200,000 aggregating for each individual project at least $1.0 million in any one supplying country."

"All countries with prospects of obtaining significant contracts under the above formula for a particular project would indicate their willingness to join in its financing as a pre-condition for proceeding with joint financing of that project."

"The terms of maturity of joint loans would be a minimum of 10 years from delivery of goods, with an appropriate grace period, in cases where maturity is calculated from the date of signature as opposed to the date of delivery. The interest rate and other charges would be no higher than the most favorable rate and charges which the country otherwise provided with respect to long-term export credits."

"The goods to be imported for the project with financing provided under joint financing arrangements would be procured on the basis of international competitive bidding and in accordance with practices usually followed for Bank projects, without reference to credit terms including interest rates and amortization schedules."

The Bank was to continue to finance 100% of orders not eligible for joint financing under the formula and also goods procured in countries not participating in the joint financing agreement. Special difficulties arose in obtaining joint financing for some cases of multi-national procurement. 2/ These difficulties stemmed from the award of large contracts to a prime contractor of one country who intended to supply goods and services originating not only in that country but also in other countries.

1/ Distributed to Executive Directors as attachment No. 2 to the President's Report and Recommendations (P-596) on a proposed loan for the third power expansion program in Colombia (R63-72), May 16, 1968.

2/ It is understood that a number of European countries have concluded reciprocal agreements with other under which the insurance of a major contractor for capital goods could cover work sub-contracted to another country (a party to the agreement) up to a certain proportion of the value of the main contract. However, this also depends on the type of financing provided, i.e., whether it is a credit to the supplier or the buyer. Not all of the major supplying countries participate in these reciprocal agreements.
The joint financing arrangements of October 1967 did not provide for the allocation of responsibility for providing credit in such cases. It has since emerged that the export credit institutions of some countries are prohibited by their statutes from providing credit in respect of goods procured outside the home country or of goods with a significant import content. Some countries of sub-contractors are also reluctant to provide credit in respect of sub-contracts where the prime contractor is of another country.

8. **The role of the Bank:** The Bank is responsible for establishing agreement in principle with governments and private financial institutions on (a) the desirability in principle of a joint financing arrangement of a particular country or countries; (b) identification of projects considered suitable; (c) the general formula for joint financing; and (d) the major issues involved. The Bank is also responsible for appraisal of the project in accordance with its customary procedures and, in due course, for the execution of a loan agreement to cover its share of the financing of imported goods, in accordance with the agreed formula, as well as the finance of other items in the project. Joint lenders are advised by the Bank from time to time on the progress of its project appraisal, on the status of procurement and the award of contracts for the projects concerned.

9. **The Bank is responsible for ensuring adherence to Bank guidelines for the prequalification, bidding and award of contracts.** In carrying out this role, supervising the project and administering its own loan, the Bank necessarily provides an equivalent service to joint lenders. The Bank is not responsible for the disbursement of joint loans. However, at the request of three countries, arrangements have been made under which certification of the Borrower's withdrawal application and accompanying documentation as acceptable for Bank reimbursement is also accepted for disbursement under the joint loans of the countries in question.

10. **The Bank included in its loan agreement provisions:** (a) requiring the Borrower and the Guarantor to use their best efforts to secure other loans (under the joint financing arrangements) for the project; (b) entitling the Bank to reduce its loan by any amount in excess of the foreign exchange amount of the project after taking into account the joint arrangements made (in the case of the Colombian projects); (c) permitting adjustment within prescribed limits, of the amortization schedule of its loan to the schedule of joint loans, once these are established, so that the total annual amortization payments required of the Borrower would be reasonably approximate to those which the Borrower would have made if the entire amount had been provided by the Bank; (d) providing for the Bank loan to become effective under certain conditions, in advance of the effectiveness of joint loans if this were to be justified by the circumstances of the case; (e) stipulating that premature of a joint loan because of a default by the Borrower would be an event of default under the Bank loan.

11. **Role of other lenders:** The joint lenders agreed to enter into loan negotiations with the relevant borrowers in Colombia and Mexico promptly upon receipt of notification from the Bank. In the case of the Colombian projects, the joint lenders were notified at the time of the Bank's own negotiations, when the award of contracts was known for over 50% of imported goods; in the case of the Mexican project the award of contracts extends over a period of time and joint loans need to be negotiated when there are indications that countries' suppliers are receiving contracts in amounts eligible for joint financing.
13. It was also agreed that, if a joint lender found it necessary to place a ceiling on the amount of the financing to be made available, it would consider seriously the possibility of increasing this amount in the event that the flow of orders was such that its share of their financing under the joint financing formula would otherwise have exceeded the ceiling. The Bank was made responsible for considering the effect of any such ceiling and for advising, after consultation with interested joint lenders, as to whether the ceiling would, in the Bank's judgment, be adequate in relation to the orders likely to be obtained. Ceilings were imposed by most countries but there has been no necessity as yet to seek any increase in the limits prescribed.

14. Joint loans are normally to be made directly by the export financing institutions to the borrowing agencies in Colombia and Mexico, and not to the governments.

15. The joint lending institutions, that is the export finance institutions (E.F.I.) and the appropriate borrowers, were requested to agree with the Bank on a letter providing for coordination of the Bank and joint loans, detailing the specific joint loans and summarizing the understandings between the Bank, the financing institutions and the borrowers. These understandings are to cover the following subjects: (a) terminology and definitions; (b) notification of award of contracts to suppliers; (c) payment of goods and services and subsequent claims for reimbursement by the Bank and individual export finance institutions in the appropriate cost sharing percentage; (d) in the event of any refusal to disburse, notification by the lender in question of all other parties concerned, (e) supply to the Bank of information regarding the utilization of the proceeds of the loan together with the appropriate amortization schedule; (f) cooperation and exchange of views and information on operation of such loans and performance of obligations thereunder; and (g) prior warning of any conditions likely to interfere with the performance of the agency's obligations or the execution of the project. The Bank and E.F.I. will also agree not to premature, terminate or substantially amend the appropriate loan agreement, or suspend or cancel disbursements without prior consultation.

16. The role of the Borrower and Guarantor: The Borrower and Guarantor are required to use their best efforts to secure other loans under the joint financing arrangements for the project and are responsible for financing the full local currency costs of the project and, in addition, any possible short-fall of foreign exchange requirements that may arise due to inability to obtain or utilize joint loans to the full. They are also responsible for the conduct of negotiations on the detailed terms and conditions of loans from the joint lenders and for dealing with the many new problems of a legal, administrative and financial nature arising from the need to deal with several lenders in association with the same project; at the request of both the Borrower and the E.F.I. the Bank has been represented during some of these negotiations.

17. Further details of individual projects are given overleaf.

1/ Ceilings were imposed as follows: -

<table>
<thead>
<tr>
<th>Country</th>
<th>Colombia</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Japan</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Sweden</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>U.K.</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>USA</td>
<td>10</td>
<td>8</td>
</tr>
</tbody>
</table>

No ceilings were imposed by Canada, Netherlands, Spain and Switzerland.

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Agreement Date</th>
<th>Total Cost</th>
<th>Project Exchange Component</th>
<th>Bank/IDA - Dom/Comarct</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IIBD Loan 135.5K</strong></td>
<td>Power Sector</td>
<td>December 15, 1965</td>
<td>$200</td>
<td>$150 (50% from IIBD, 50% from COM)</td>
</tr>
<tr>
<td><strong>IIBD Loan 136.0K</strong></td>
<td>Bogota Water Supply</td>
<td>June 3, 1968</td>
<td>$250</td>
<td>$200 (50% from IIBD, 50% from COM)</td>
</tr>
<tr>
<td><strong>IIBD Loan 237.0K</strong></td>
<td>Bogota Water Supply</td>
<td>June 3, 1968</td>
<td>$500</td>
<td>$250 (50% from IIBD, 50% from COM)</td>
</tr>
<tr>
<td><strong>IIBD Loan 300.0K</strong></td>
<td>Bogota Power Supply</td>
<td>June 3, 1968</td>
<td>$250</td>
<td>$150 (50% from IIBD, 50% from COM)</td>
</tr>
<tr>
<td><strong>IIBD Loan 180.0K</strong></td>
<td>Bogota Water Supply</td>
<td>December 15, 1968</td>
<td>$350</td>
<td>$210 (50% from IIBD, 50% from COM)</td>
</tr>
</tbody>
</table>

**Terms and Conditions:***

**IIBD Loan 135.5K (Power Sector)**
- **For origin of joint financing see "Introductory Note"**
- Loan amount: $101.4 at 2.1/2 percent and $16.6 at 5 percent, repayable over 20 years with 5 years grace period, subject to corresponding reduction if joint financing exceeds $10.0.
- See also "Introductory Note".

**IIBD Loan 136.0K (Bogota Water Supply)**
- **For origin of joint financing see "Introductory Note"**
- Bank loan: $81.0 at 6.1/2 percent, repayable over 20 years with 5 years grace period, subject to corresponding reduction if joint financing exceeds $7.0.

**IIBD Loan 237.0K (Bogota Water Supply)**
- **For origin of joint financing see "Introductory Note"**
- Bank loan: $81.0 at 6.1/2 percent, repayable over 20 years with 5 years grace period, subject to corresponding reduction if joint financing exceeds $7.0.

**IIBD Loan 300.0K (Bogota Water Supply)**
- **For origin of joint financing see "Introductory Note"**
- Bank loan: $90.0 at 6.1/2 percent, repayable over 20 years with 5 years grace period, subject to corresponding reduction if joint financing exceeds $7.0.

**IIBD Loan 180.0K (Bogota Water Supply)**
- **For origin of joint financing see "Introductory Note"**
- Bank loan: $81.0 at 6.1/2 percent, repayable over 15 years with 5 years grace period, subject to corresponding reduction if joint financing exceeds $5.5 million.
December 11, 1969

Dear Jim:

On my return from a mission I find your letter of December 5th with the enclosures. I have referred your paper to Mr. Richard Demath who has been put in charge of defining the Bank's views on the Pearson Commission's recommendations.

Sincerely yours,

Jew

John C. de Wilde
Chief Economist
Western Africa Department

Mr. J. Ilett
20 Schady Place
New Rochelle, N.Y.
10601

JEW:ja
cc. Mr. Demath
FROM: The Secretary

December 11, 1969

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PEARSOn COMMISSION RECOMMENDATIONS

In pursuance of the procedure indicated in the President's Memorandum dated October 10, 1969 (SecM69-472), there are attached hereto analytical memoranda dealing with Recommendation Nos. 7, 9, 10, 15, 16 and 31 in the list set out in the attachment to the memorandum of October 10.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: PEARSON COMMISSION'S RECOMMENDATIONS RELATING TO THE WORLD BANK GROUP

The Executive Directors will recall that on October 10, I distributed a list of the 33 recommendations of the Pearson Commission relating directly to the activities or policies of the Bank Group (SecM69-472, dated October 10, 1969). In my covering note, I said that I would present to the Executive Directors, with respect to each of the recommendations, a memorandum proposing the position which I believed the Bank should adopt on the recommendation and the action, if any, which I believed it appropriate for the Executive Directors to take.

Attached is the first group of analytical memoranda, dealing with the following recommendations:

Recommendation No. 7: IFC Policies
Recommendation No. 9: IFC Project Identification and Investment Promotion Work
Recommendation No. 10: Advice on Industrial and Foreign Investment Policies
Recommendation No. 15: Assistance to Development Banks, Industrial Parks and Agricultural Cooperative Credit Institutions
Recommendation No. 16: Joint or Parallel Financing
Recommendation No. 31: Need for Organizational Changes in IDA

The numbers assigned to the recommendations are those which appear in the list set forth in SecM69-472, referred to above.

As the Executive Directors will recognize, this first group of memoranda deals with recommendations which present no difficult analytical problems; in
most instances, the Commission has recommended an intensification or a broadening of present activities, which is already reflected in the Bank Group's plans for the next five years. I believe that we can readily accept these recommendations. There is one recommendation, however, which I do not feel we should accept: the recommendation which suggests the need for a review of IDA's organizational structure, if and when IDA's resources are substantially increased.

While I believe that the Executive Directors will find the attached memoranda of interest, none of the recommendations analyzed seems to me to call for action by the Directors at this time. Therefore, unless any Executive Director wishes me to do so, I do not intend to schedule these memoranda for Board discussion.

As I said in my October memorandum, it is my intention to submit additional groups of memoranda on a monthly basis.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 7 Concerning IFC Policies

Recommendation

IFC policies should be reoriented to emphasize the development effect of its investments and not just their profitability.1/

Background

This recommendation appears in the context of a discussion on ways in which developing countries might realize greater advantages from foreign investment. The Commission says that while many of IFC's investments have benefited the host country, others have contributed only marginally, if at all, to economic development, rarely being preceded by an analysis of their impact on the country's economy. This, the Commission comments, is because profitability has been IFC's principal investment criterion. While it does not suggest that IFC should ignore profitability, it urges that IFC reorient its policies "for the sake of the economic impact of its own investment and even more for that of the new investments ... it is well placed to promote."2/

Analysis

As the Commission recognizes, profitability is an essential investment criterion for IFC. IFC's Articles direct it to undertake its financing on terms and conditions which take account, among other considerations, of "the terms and conditions normally obtained by private investors for similar financing."3/ In addition, it is directed to "seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms."4/ IFC wants partners in the enterprises in

1/ This is a paraphrase of two paragraphs in the Commission's report (pages 114-115) which are cast in the form of an analysis and an expression of hope for change, rather than in the form of a recommendation. It has been included in this series of memoranda, however, because the Commission's intent was clearly to suggest an important policy change for a member of the Bank Group.


3/ Art. III, Sec. 3(v).

4/ Art. III, Sec. 3(vi).
which it invests, it wants to revolve its funds by selling seasoned securities out of its portfolio and, above all, it wants to encourage the growth of private productive enterprise in the developing countries. Each of these objectives alone, and certainly in combination, makes the prominence of the profitability criterion inevitable.

It is true that IFC has not in the past had a strategy of development based on the needs of the countries in which it operated. It tended to consider individual projects as they came up. One reason was that, until the Bank’s Articles of Agreement were amended to permit it to lend to IFC, IFC did not have sufficient resources to enable it to make a significant impact on the economies of its member countries. Another was that in the past it did not itself engage in promotional activity.

Although my appraisal of the current situation is less negative than that of the Commission, I nevertheless agree that developmental significance should be given a more prominent place in IFC’s investment decisions. This shift in emphasis has already begun and is reflected in the revision of the IFC policy statement which I have submitted to the IFC Board for approval.

At the same time, I agree with the Commission’s recommendation that IFC should be better equipped to ascertain and to take into account the economic implications of its investments. One step we have taken in that direction is to authorize IFC to appoint an Economic Adviser who will add to IFC’s in-house economic strength. In addition to the attention which IFC will thus be enabled to bring to bear directly upon the implications of proposals which it is considering, IFC will have the benefit of the work of the new Industrial Projects Department of the Bank. As I have pointed out in another of this series of memoranda, it is my intention that the work of IFC and the new Bank Department should be complementary.

Conclusion

The paths along which IFC is proceeding are consistent with and should effectively implement the Commission’s recommendation. I have submitted for the approval of the IFC Board a revised IFC policy statement which reflects this trend.

[Signature]
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 9 Concerning IFC Project Identification and Investment Promotion Work

Recommendation

"... because of their links with the private sectors of both developed and developing countries, IFC, and organizations like it, are logical agents for project identification and investment promotion work, and we accordingly recommend that they become much more active in this field."1/

Background

The report records the Commission's "definite impression that most low-income countries would welcome a larger flow of foreign investment."2/ The Commission notes that there are bilateral programs intended to stimulate the flow of private capital, which include subsidization of investment surveys and the publicizing of investment opportunities. It comments that these programs are useful, but often too small and too imperfectly geared to the investor's real needs, and it recommends that they devote more attention to inducing small and medium-sized investors to take up projects in developing countries, providing them where necessary with technical assistance. The report proposes that "similar change" should be encouraged with respect to IFC. Commenting that in the past IFC has interpreted its Articles "to mean that it should leave all project initiative to others," the Commission adds that there are signs that IFC and similar bilateral institutions are beginning to appreciate the role they could play in actively identifying new investment opportunities and bringing together domestic and foreign partners to execute them.3/ There follows the recommendation quoted above.

Analysis

The Commission is correct in stating that in the past IFC was content to leave the project initiative to others. But its reference to IFC's approach does not fully reflect our plans for the future.

1/ Report, page 110.
2/ Ibid., page 105.
3/ Ibid., page 110.
In July 1968, I told the IFC Board that I considered that IFC had established itself in the industrial and financial community and had built up staff experience to the point at which it could usefully do more in the direction of investment promotion. Many developing countries were thought to have a low absorptive capacity with respect to industrial projects. But, if experience in other fields was any guide, some of this apparent lack of absorptive capacity could be overcome by increased preinvestment assistance. Experience also indicated that there were instances of promising investment opportunities in the developing countries where projects had not been carried out, or had been carried out inefficiently or ineffectively, because of the absence of suitable sponsors to do the necessary developmental and promotional work. We therefore proposed that IFC should become more active in seeking to promote industrial projects where there was a reasonable prospect that the project would eventually be suitable for financing by IFC in accordance with its established criteria. We proposed, further, that IFC should be free to suit the form of promotional activity to the needs of the proposed venture and the circumstances prevailing in the country in which the venture would be located. This might mean, in some instances, that IFC would assume responsibility for implementing a project from its inception, through the stages of a feasibility study, detailed engineering and market investigations, finding technical and financial partners and putting together a financial package. At the other extreme, it might mean that IFC would participate as one of a number of shareholders in a pilot company which would conduct the requisite investigations on behalf of a group of technical and financial sponsors already committed to proceed with the venture if the investigations demonstrated the project's viability. We suggested an over-all limit of $250,000 for promotional costs. The Board approved the proposal, with a limit of $50,000 for any one project.

Under this policy, in the 1969 fiscal year IFC invested in an industrial promotional company in Honduras 1/ and in two tourism promotional ventures, in Colombia 2/ and Tunisia 3/. IFC also committed funds to a cement project in Indonesia, taking primary responsibility for determining the feasibility of the project and organizing financial and technical support for it.

In January of 1969, the IFC Board approved my proposal that IFC should be willing to put a director on the Board of any promotional company to the shares of which it has subscribed, if in IFC's judgment this would enable its promotional activity to be carried out more effectively.

Locating investment opportunities, promoting indigenous entrepreneurial talent and encouraging the growth of private investment is a difficult job. IFC plans to increase its efforts in this area by continuing and intensifying activity of the kind described above and by increasing its contacts with individuals and institutions in both the developing and developed countries, with an eye to uncovering and exploiting investment opportunities. These plans

1/ No. 140.
2/ No. 137.
3/ No. 152.
are reflected in the new policy statement for IFC which has been submitted to the IFC Board of Directors for approval.

If these policies are to be more than pious statements of intention, it will be necessary that IFC have available staff who can spend a considerable portion of their time in the developing countries. It would be their primary function to look for investment opportunities which IFC might appropriately participate in or bring to the attention of others. This will require adding several senior professionals to IFC's staff.

Even if IFC's staff is enlarged, IFC cannot by itself accomplish all that needs to be done. As the Executive Directors know, the Bank Group as a whole has given considerable support to institutions in the developing countries which are themselves engaged in promoting private enterprise. The Pearson Commission has recommended greater help to development banks and similar institutions, and the memorandum analyzing that recommendation reviews the past activity of the Bank Group and plans for increased support in the future. However, IFC's assistance should not be limited to institutions formed by residents of the developing countries. It should, and it intends to, work with, support and help to finance institutions such as the Atlantic Community Development Group for Latin America (ADELA),1/ the Private Investment Company for Asia (PICA),2/ and other comparable organizations (including the private investment company proposed for Africa) provided that they need help, are well managed, and are carrying on investment programs that will assist the development of the countries in which they are doing business.

It is relevant to remind the Executive Directors that the Bank also intends to do more to help identify and prepare industrial projects. As the Executive Directors are aware, we have recently established an Industrial Projects Department within the Bank, which will carry out sector analyses and

1/ ADELA is a private corporation, with authorized capital of $60 million, $52.65 million of which has been subscribed by 234 stockholders in Europe, the United States, Latin America, Canada and Japan. It makes equity and loan investments and, through an entity known as ADEIA, which is in effect a firm of development consultants rendering services to ADELA and to others, it engages in a variety of other activities designed to support private investment in Latin America: underwriting, project identification and promotion, project management, market studies, resource surveys, and feasibility and pre-feasibility surveys. The ADELA Group is at present giving priority to agri-business and tourism. It is increasingly devoting its energies and resources to self-initiated sectoral studies, project identification and project promotion in these fields.

2/ PICA, whose authorized capital is $40 million, was modeled on ADELA; the two corporations have a number of shareholders and directors in common. PICA was formally organized in February of 1969 and its operations have thus far been limited.
project identification work in the industrial sector. To assure that the efforts of IFC and of the new Department, as well as the activities of the Bank's Development Finance Companies Department, are complementary, and that there is a full exchange of information and an appropriate allocation of responsibility among all Bank Group operational units working in the field of industry, we are also creating an Industrial Coordination Committee composed of the Executive Vice President of IFC, as Chairman, the Directors of the two Bank Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

Conclusion

The plans for future IFC activity are consistent with the Commission's recommendation. As indicated above, the implementation of these plans involves a revision of the IFC policy statement. Such a revision has been submitted to IFC's Board of Directors for approval.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 10 Concerning Advice on Industrial and Foreign Investment Policies

Recommendation

"International institutions, such as the World Bank . . ., should expand further their advisory role regarding industrial and foreign investment policies. These activities could eventually be fully transferred to IFC if the proposed reorientation of IFC is successfully achieved." 1/

Background

This recommendation appears in the context of the Commission's discussion of the potential of foreign investment, primarily direct investment, for contributing to the faster growth of the developing countries. The Commission reports its impression that most low income countries would welcome a larger flow of foreign investment, and suggests a number of ways in which that flow might be stimulated. It believes that developing countries urgently need impartial advice concerning their posture toward foreign investment. It finds that such advice has rarely been provided in the past. With respect to the Bank Group, the Commission says that the Bank has tended to delegate much of its industrial activity to IFC, but that IFC has deliberately and to the extent possible avoided involvement in issues of governmental policy and is, in any case, not equipped to ascertain the economic implications of government policies. 2/

The Commission also observes that much of the substantial industrialization achieved by developing countries in the last two decades has been in the form of high-cost import-substituting industry and that, in many cases, new industries have become a burden rather than a benefit to

1/ Report, page 115. The proposal for reorientation of IFC policy is the subject of a separate memorandum.

the economies, with adverse effects on agriculture and on the prospects for increasing exports. Thus the advice to be given to developing countries on foreign investment policies is closely linked with advice on their industrial policies.

Analysis

In recommending that the Bank "expand further" its advisory role, the Commission implicitly recognizes that the role would not be a new one for the Bank. The principal vehicle for the provision of advice has been country economic missions. The resources devoted to the industrial sector on these missions have, however, been limited. From the beginning of 1967 to date, the total of industrial specialist resources devoted to such coverage has averaged only five man-years annually. There has been some increase in emphasis on industrial policy recommendations to individual countries in this work, exemplified by recent missions to, e.g., Argentina, Brazil and Mexico in the Western Hemisphere, and India, Indonesia, Iran, Korea and Pakistan in Asia. Appraisal and follow-up of industrial projects have also provided the occasion for advice on industrial policies.

The Bank's advisory role with respect to policies of individual countries towards foreign direct investment has not been well defined. In the course of the country economic work, such policies have been the subject of attention when they appeared to be hampering development. But these policies have not been systematically reviewed, nor has any specialist been employed to deal with them.

I fully agree with the Commission's recommendation that the Bank's advisory functions should be enlarged. Many developing countries need advice on trade, fiscal and other policies which will foster industrial growth and attract foreign private investment. Tariffs, import licenses, taxation, subsidies, price controls -- all can affect industrial progress to an extent often not fully appreciated by the government involved. Protection policies, which have been the subject of discussion by the Executive Directors in the context of some recent Bank Group operations, frequently foster the growth of uneconomic enterprises. The Bank ought to be in a position to advise its developing country members on the implications of particular policies and to assist them to make sensible choices.

It is my intention that comprehensive industrial sector studies shall in future form part of the Bank's economic reviews conducted under the direction of the Area Departments. As the economic missions now do for other sectors, they will be systematically analyzing the industrial capacity and strategy of individual countries and the relationship of industrial progress to over-all growth. This is a difficult process which will take some time to organize and to staff, and which will in due course have budgetary implications.

1/ Some of the general survey missions organized by the Bank included industrial specialists, but no survey mission has been sent out since 1964.
The Industrialization Division of the Economics Department was organized a year ago to undertake research concerning the industrialization process, and more recently we have created an Industrial Projects Department in the Bank which, in addition to its operational functions, is charged with making recommendations on industrialization problems and policies of member countries, including advice on industrial planning and priorities and on measures to stimulate efficient and sound industrial growth.

We shall also look to other international organizations for assistance in their fields of specialization. The United Nations Industrial Development Organization (UNIDO), since its establishment a few years ago, has been engaged primarily in providing technical assistance for specific industrial activities. It is now widening its advisory activities, and in view of my intention that the Bank should step up its own activities of that character, closer cooperation with UNIDO seems appropriate. Arrangements have accordingly been made with UNIDO for an exchange of information about matters of common interest, on an informal basis. The International Labour Organisation (ILO) and the Food and Agriculture Organization of the United Nations (FAO) are also concerned with some aspects of industrialization, and we shall be cooperating with these agencies as well.

I also believe that IFC could usefully play a role in considering and advising governments on measures to encourage the development of the private sectors of their economies, in particular the flow of foreign private capital. IFC has begun to collect some data bearing on this problem. As reported in the memorandum dealing with the Commission's recommendation for a reorientation of IFC policies, I have authorized IFC to appoint an Economic Adviser. This adviser will be expected to organize the data collection work more efficiently and to evolve proposals for systematic activity by IFC in providing advice to governments on their foreign investment policies.

As noted in another of this series of memoranda, an Industrial Coordination Committee is being created in order to coordinate work in the Bank Group on industrialization policies and measures to promote foreign private investment. This Committee will be composed of the Executive Vice President of IFC, as Chairman, the Directors of the Bank's Industrial Projects and Development Finance Companies Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

I am not now prepared, however, to endorse the tentative suggestion of the Commission that eventually all advisory activities on industrial and foreign investment policies might be performed, for the Bank Group, by IFC. Although, as indicated above, our plans call for IFC to play an important advisory role in connection with foreign investment policies, it seems likely that most of the Bank Group's advisory activities in the field of general industrialisation policy, including the establishment of priorities for industrial development, will, at least in the foreseeable future, and probably over the long term, be undertaken by the Bank, where work in this field may be integrated with the guidance being given to member countries on other aspects of their development programs.
Conclusion

The plans for increased emphasis by the Bank Group on the provision of advice to member countries concerning the industrial and foreign investment policies of developing countries are fully consistent with the Commission's recommendation. No action by the Executive Directors is now required.

[Signature]

Robert S. McNamara
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 15 Concerning Assistance to Development Banks, Industrial Parks and Agricultural Cooperative Credit Institutions

Recommendation

"... we recommend greater help to development banks and similar institutions in developing countries. In addition, assistance should be provided to such promising activities as industrial parks and agricultural cooperative credit institutions, designed to promote financing of the domestic private sector."1/

Background

In the context of its discussion of ways to make aid more effective, the Commission notes that "Smaller investment projects may also require support, and there is then a case for the assistance of national development banks and similar institutions, public and private."2/ These institutions, particularly the development banks, the Commission says, "are especially important because they can reach the small investor, their administrations are generally more decentralized and fast moving than larger enterprises, and they result in such important institution-building as the strengthening of local capital markets."3/ In its historical review of the last two decades, the Commission also notes the role of development banks in facilitating savings and investment,4/ and elsewhere in the report stresses the importance of the role of financial intermediary.5/

1/ Report, page 179.
2/ Ibid., page 179.
3/ Ibid., page 179.
4/ Ibid., page 31.
5/ Ibid., pages 64-65.
There is no mention or discussion of industrial parks per se in the Commission's report, beyond the statement in the recommendation that they constitute a promising activity. The closest reference occurs in the discussion, earlier in the report, of the problems of the private sector, where mention is made particularly of financial institutions to accommodate small entrepreneurs, and there is a passing reference to the need for legal and accounting facilities, suitable land tenure and management training as well. All of these considerations arise in connection with industrial parks. There is no extended discussion of agricultural credit institutions, although it is noted elsewhere in the report that increasing agricultural production raises a demand for more farm credit.

For convenience, each of the three types of facilities mentioned in the recommendation -- development banks, industrial parks and agricultural cooperative credit institutions -- will be analyzed separately.

Analysis

A. Development Banks

The Bank's involvement with development banks dates from 1950 when it assisted in the establishment of the Industrial Development Bank of Turkey and the Development Bank of Ethiopia. Ever since, the Bank Group has been heavily engaged in promoting, financing and extending technical assistance to such institutions. A few indications of this activity are cited below:

a. The Bank Group has helped to promote 12 development banks and to reorganize another six.

2/ Ibid., page 61.
3/ In view of the characteristics cited by the Commission (quoted in the text, above) to illustrate the importance of "development banks", it appears that the Commission had in mind the kind of institution known in Bank Group parlance as a "development finance company", in contrast to such institutions as e.g., the Japan Development Bank which is the government's agency for borrowing abroad and which serves as a conduit for funds to private industry, or the Corporacion de Fomento de la Produccion of Chile, created to devise and give effect to a plan to promote production in all sectors of the economy and to borrow abroad. Accordingly, the following description of the Bank's experience with "development banks" concerns institutions of the former type, devoted primarily to stimulating medium-sized and smaller enterprises in the private sector of the economy.

4/ The data includes companies in Austria and Finland although these countries fall outside the category of "developing countries". Both are Part I IDA countries.
b. The Bank Group has assisted in recruiting key personnel for a number of development banks. IFC is represented on the board of 13.

c. Fifty-five officials of development banks which have been financed by the Bank Group have received training in the Bank's Economic Development Institute; sixty-one have received training under special programs.

d. Gross commitments to development banks up to the end of September 1969 amounted to $954 million. This financing was extended to 28 companies in 24 countries and included Bank loans (93%), IDA credits (4%), and IFC investments (3%). These figures reflect a recent rapid acceleration of commitments. Until the end of fiscal 1963, commitments amounted to only $229 million; in the next five-year period they totalled $497 million. In fiscal 1969 alone, commitments reached almost $195 million. About 61% of gross commitments had been disbursed up to the end of September 1969. Allowing for repayments and redemptions of about $149 million, the disbursed amount outstanding was $430 million.

Bank Group policies towards development banks have been reviewed periodically, most recently by the Executive Directors in November 1968. Several significant changes have recently taken place. For example, in June 1968, the Bank, whose policy once prohibited lending to government-controlled development banks, decided it would be prepared to lend to such institutions provided their management was sound and autonomous in day-to-day decision making. Another policy departure, accepted in November 1968, involved the scope of operations of institutions financed by the Bank Group. Formerly they were eligible only if they were devoted primarily to manufacturing industry. Now they may be multi-purpose companies, financing not only industry but also tourism, housing, and other productive activities. Moreover, in the past year IFC has sponsored and helped bring into existence two companies which are primarily devoted to promoting new enterprise and to providing investment services, rather than finance.1/ These developments, all indicative of increased flexibility on the part of the Bank Group, reflect the importance which the Group attributes to institutions which can mobilize capital, allocate it for productive purposes, promote investment and generally act as intermediaries in the investment process.2/

1/ These companies, and IFC's investment in them, are not included in the figures cited in the previous paragraph.

2/ As noted in the memorandum concerned with IFC's preinvestment promotion work, IFC intends also to work with, support and help to finance such institutions as the Atlantic Development Community Group for Latin America (ADELA), the Private Investment Company for Asia (PICA) and other comparable organizations (including the investment company proposed for Africa), if these institutions need help, are well managed and are carrying on investment programs that will assist the development of the countries in which they operate.
The 28 development banks presently associated with the Bank Group are now committing the equivalent of about $430 million per annum in loans, investments, etc. These in turn contribute to a total investment estimated at about $900 million. The vast bulk of these investments assist the manufacturing sector. Judging by the size of the operations, it is fair to say that development banks are financing primarily medium-scale enterprises and, to some extent, small enterprises. If it did not work through such intermediary institutions, the Bank Group would be unable to reach a very significant part of the manufacturing sector of developing countries.

The principal objective of the Bank Group, however, is not simply to find retail outlets for dispensing external finance and technical assistance, but to help build effective investment institutions in developing countries. Hence, the Group encourages development banks to be active in mobilizing domestic capital, underwriting securities, subscribing to equities, selling from their portfolios in order to broaden ownership of enterprises, identifying and promoting investment opportunities and assisting entrepreneurs in formulating and carrying out investment proposals. While some progress has been made on these lines, a great deal remains to be done. Most development banks have not acquired much capability as mobilizers of financial resources and remain dependent on government funds, or on international institutions or on foreign aid. Furthermore, development banks, in the main, still respond to investment opportunities presented to them by their clients and only rarely do they do much in the way of identifying and promoting projects on their own initiative.

I fully accept the recommendation of the Pearson Commission that the Bank Group should provide more help to development banks.

The Bank's Five-Year Program already reflects this view. The plan for gross Bank and IDA commitments to development banks in the period 1969-73 is around $1,500 million, compared with $483 million in the preceding five-year period. As noted above, in fiscal 1969, the first year of the period, $193 million was committed. Although there is not yet a projection for IFC operations in this field, I have little doubt that IFC, too, will expand its role in financing development banks.

To achieve the objective of the Five-Year Program, the number of development banks associated with the Group will grow to perhaps twice the current number of 28.

The proposed expansion in the number of institutions, as well as in the volume of operations, is closely related to the recent changes of policy already mentioned, which make possible a significant expansion of activity in Africa and in Latin America. In particular, it is probable that three or four loans will be made to government-controlled development banks in the current fiscal year. We have begun a systematic exploration of existing small development banks in Africa and of the possibilities of financing such institutions.
This expansion of activity, in exploration, in appraisal of companies, and in actual lending, has placed an unusual strain on staff. In fiscal 1969 the number of professional staff in the Bank's Development Finance Companies Department increased by 50%, from 20 to 30; another 25% increase is expected in the current year.

As noted above, Bank Group policies towards development banks have in the past been periodically reviewed in the light of experience and as new problems emerged. I shall continue to bring to the Executive Directors proposals for further changes as and when they appear desirable.

B. Industrial Parks

Industrial parks, sometimes referred to as industrial estates, essentially consist of tracts of land provided with services and public utilities for the establishment and operation of a group of industrial enterprises. First employed in industrialized countries as a device for the planned location or relocation of industries, they have been widely used in developing countries since the 1950's primarily as a tool to foster small-scale and medium-sized industrial enterprises. Experience has been widespread and interest is growing, but the results have been uneven.

Fundamentally, the industrial estate provides developed sites for the construction of factories, to be built by the entrepreneur or to be offered for sale or lease by the estate management authority. The resulting clustering of enterprises may facilitate working arrangements between enterprises and provide a focal point for other assistance needed by smaller industries. This assistance may take the form of financing; contracts with government regulatory agencies; training; advisory services; research; subsidies; testing facilities; common industrial, purchasing, or marketing services; or labor relations services. Thus industrial estates can serve to create external economies of scale, to make available serviced industrial land at reasonable cost, to produce a desirable pattern of location of industry, and to serve as a means of centralizing official assistance to industry.

In addition to the general-purpose industrial estate, a variety of other forms has evolved in developing countries. Some are large estates for both heavy, large industries and smaller, light industries, and may include major transport facilities such as ports or railway yards. A newer type for particularly small industries is the estate consisting of "flatted" factories or lofts, for relocating squatter workshops or others covered by urban renewal programs, or for attracting foreign investment to labor-intensive activities such as electronic assembly. There are "functional" estates specializing in one type of industry, e.g., metal working. "Satellite" estates have been

1/ Industrial estates are found in such diverse countries as Ireland, in Europe; Puerto Rico, Mexico and Brazil, in the Western Hemisphere; India, Pakistan, Malaysia, Singapore and Taiwan in Asia; Ghana and Nigeria in Africa.

2/ e.g., Jurong near Singapore with a potential area of 17,000 acres; Aratu near Salvador in Brazil with 110,000 acres.

3/ e.g., Hong Kong, Singapore.

4/ e.g., Singapore.
created for sub-contractors of larger industries. There are also estates set up in thickly populated rural areas to tap a new work force and decentralize industrial concentrations.  

The ownership of industrial estates may be private or governmental, in the latter case at the local, regional or national level. In developing countries ownership must usually be public, although the hope is sometimes that the governmental initiative may induce similar operations by private entrepreneurs. Given public ownership at one or another level of government, the question arises, in relation to the Commission's recommendation, as to what kind of external assistance governments need and what role there can be for the Bank Group. Technical assistance, which can be used to good advantage for preinvestment studies and planning of industrial estates as well as for their operation, is available from the U.N. Industrial Development Organization (UNIDO) with financing from the United Nations Development Programme, and from bilateral sources, both public and private, such as USAID and the Ford Foundation. Finance is required for land acquisition, the provision of infrastructure, factory buildings and equipment, and for various kinds of services.

The Bank Group's potential role is obviously primarily one of providing finance. Our experience with industrial estates is limited to one IDA credit of $6.5 million, extended to Pakistan in 1962 to help develop two industrial estates. This particular project ran into difficulties, partly because the estates were not well sited and partly because the financing arrangements for the prospective tenants were inappropriate. Nevertheless, I believe that we should, consistent with the Commission's recommendation, be prepared to give assistance to appropriate projects involving the establishment of industrial estates. A follow-up of the Pakistan project is in fact in an advanced state of preparation and should come forward to the Board early in 1970.

As the Executive Directors know, we keep searching for ways in which the Bank Group of institutions, centrally organized as they are, can effectively help the small entrepreneur. The Commission is, in my judgment, entirely correct in pointing to industrial estates as a promising vehicle for such assistance. Of course, in each case we would need to weigh the relative merits and costs, social as well as economic, of helping to establish an industrial estate as against other possible ways of promoting the particular small industries concerned.

In the single instance in which we have thus far provided financing for an industrial estate, our funds were used primarily for importation of capital equipment for private factories located on the estates. The financing requirements for other cases may well be primarily for the public sector infrastructure. Each case will have to be judged on its merits. In most instances, it is likely to be desirable to associate our financing with technical assistance from other sources. We should also, I believe, be prepared to help in the planning of industrial estates projects for which Bank Group financing is contemplated. This might be done, in appropriate cases, in association with UNIDO.

1/ e.g., Taiwan.
C. Agricultural Credit Cooperatives

The Commission noted that increasing agricultural production in the developing countries has increased the demand for farm credit. It was particularly concerned about the needs of small farmers, who characteristically have difficulty in finding funds with which to buy imported seed, fertilizer, pesticides and implements and to improve the productivity of their property. In framing its recommendations, the Commission singled out for support, among the other various kinds of agricultural credit institutions, the credit cooperatives. The analysis which follows, accordingly, similarly limited, although cooperatives are of course only one of several vehicles through which agricultural credit may be extended.1/

Agricultural credit cooperatives specializing in investment lending are rare in developing countries. More frequently multi-purpose cooperatives are found which extend credit in the form of seasonal inputs and collect payment through marketing the crops. There are also various forms of farmer associations, for example in Taiwan, Pakistan and West Africa, which are not cooperatives in a strict sense but which perform many of the same functions effectively. Even where specialized agricultural credit cooperatives do exist, the apex organization is usually not a cooperative, as it is the case in Western Europe and North America, but a public agency or specialized banking institution designed to exercise control over the cooperatives and to channel government subsidies to them. In addition, agricultural credit cooperatives often deal mainly or only in short-term credit and, because of lack of experience and appraisal staff, find it difficult to provide longer term credit. That kind of credit is, instead, provided through specialized public agricultural credit institutions.

Within these limitations, the Bank Group has used both agricultural cooperative credit institutions and multi-purpose cooperatives as a channel for making funds available to their members, the ultimate beneficiaries. In some cases, these cooperatives have played an important role in the project as a whole by providing needed services rather than funds.

Experience with these projects has been mixed: some have been successful, others not. The critical factor has been the quality of the management of the cooperatives; if it is weak, as it often is, the project has not been fully effective. In one case, the management of a cooperative group which was expected to act as the channel for Bank funds was so weak that a proposed financing operation had to be postponed indefinitely.

Experience suggests that, in most cases, working through cooperatives imposes a sizeable workload on the Bank, in that substantial guidance and supervision appear to be required. I believe, nevertheless, that our use of

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1/ A sizeable portion of the Bank Group's total financing of the agricultural sector has, over the years, been extended to agricultural credit institutions, to which we have also provided considerable technical assistance. Bank and IDA financing for agricultural credit aggregated $285.2 million as of June 30, 1969.
cooperatives has been worthwhile and that they are an important tool in carrying out our agricultural programs and particularly in reaching individual farmers and ranchers. They are not the only tool, however, and therefore the Bank Group must in each case choose the institutional vehicle most suited for carrying out its financing objectives.

When the Bank Group lends for projects which make use of agricultural cooperatives to provide credit and other services for farmers, provision normally has to be made for substantial technical assistance to supplement the provision of finance and to make it more effective. A recent example is the loan and credit of $9.5 million equivalent made to Senegal in February 1969 to provide (a) credit to farmers, through existing cooperatives, for various agricultural inputs; (b) management services to reorganize the cooperatives' supply and marketing organization and train local staff for its future operations; and (c) extension services to the farmers.1/ Several agricultural credit projects in India are under consideration now, all of which include the use of specialized credit cooperatives as channels of funds and some of which involve substantial inputs of technical assistance.

I believe, however, that we could do more in this field by way of assistance in project preparation, perhaps most effectively in association with the international cooperative movement which has been active in helping cooperatives in the developing countries. I have therefore directed the staff to consider ways in which the Bank Group might support that movement by relating it more closely to Bank operations, and to come forward with proposals to that end.

Conclusion

I am in full agreement with the recommendation of the Commission that more should be done by way of support to the indicated types of intermediary institutions and facilities. Substantially increased assistance to development banks is already provided for in the Bank Group's program for the next five years. Assistance for industrial estates and agricultural cooperative credit institutions must necessarily proceed at a slower pace, for the reasons indicated. However, we are mindful of the potential in these areas. We shall be prepared not only to provide finance in support of industrial estate projects but to assist in the planning of projects of that character for which Bank Group financial support would be appropriate. We shall also be exploring the possibilities of helping to improve the management of agricultural credit cooperatives and of assisting governments in preparing agricultural credit projects involving the use of cooperatives, where appropriate, for Bank Group financing.

No action by the Executive Directors is now required.

1/ Loan No. 584 SE; Credit No. 140 SE.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 16 Concerning Joint or Parallel Financing

Recommendation

"We recommend that multilateral agencies extend the practice of joint or parallel financing of projects." 1/

Analysis

This recommendation comes in Chapter 9 dealing with ways of making aid more effective. It is one of a series of recommendations in the context of a sharp criticism of aid tying and is put forward as one way in which the multilateral agencies can help to mitigate the harmful effects of tying.

The Bank shares the view of the Commission that joint financing between multilateral and bilateral agencies, where feasible, can help borrowers to obtain the advantages of wide international competitive bidding while at the same time utilizing some of the tied bilateral assistance available to them. Joint financing between the Bank and co-lenders also has other advantages. It provides a means whereby funds from other sources are channelled into high-priority projects. Because of the responsibility taken by the Bank for project appraisal and supervision, the execution of jointly financed projects is likely to be more effective than might otherwise be the case. And joint financing with the Bank enables bilateral agencies, notably those in some of the smaller aid-giving

1/ Report, page 174. The Commission did not say what it meant by "joint or parallel financing." As used in the Bank, "joint financing," in its narrow sense, refers to arrangements under which individual contracts for a single project or program are financed partly by the Bank and partly by the co-lender(s). "Parallel financing," as used in the Bank, refers to arrangements under which the Bank provides all the external finance for individual contracts or separable facilities for a project or program and co-lenders provide all the external finance for other contracts or other facilities. For purposes of this memorandum, however, the term "joint financing" is used in a general sense to include all arrangements for co-lending.
countries, to ensure that their funds are being applied to sound projects without the necessity of building up large project appraisal staffs of their own. For all these reasons the Bank maintains a positive and flexible attitude towards joint financing wherever it can be carried out under conditions insuring wide international competition and without involving unduly complex procedures.

A recent review of the Bank's experience reveals a great diversity in the methods of joint financing that have been used. No one formula, and no one set of rules as to the detailed arrangements, can fit all circumstances. Attached as Annex 1 is a table showing the number of projects, total cost, foreign exchange cost, and the contribution of the Bank or IDA and co-lenders, respectively, in joint financing operations for 1955-1968 and up to October 15, 1969. The table indicates that, while joint financing has been a regular feature of Bank operations for many years, both the number of such operations and the amounts involved increased sharply in 1968 and 1969. This reflects both greater efforts by the Bank to find ways of associating Bank Group finance with funds available from bilateral sources and greater interest by a number of national aid and export financing agencies in becoming associated with projects appraised and partly financed by the Bank Group. There is being circulated separately a summary analysis of the kinds of joint financing arrangements in which the Bank or IDA has been involved through 1968.

Some types of joint financing arrangements have been quite difficult to work out and have imposed a significant administrative burden on the Bank, on co-lenders and on borrowers. Where funds of a bilateral co-lender are already untied, as are those of the Swedish International Development Agency, there is no significant administrative difficulty. On the other hand, joint financing with co-lenders providing funds tied in various ways and operating under different sets of constraints, as in the case of the Colombian power and water supply1/ and the Mexican power projects2/ has involved extensive negotiations and detailed administration; this type of financing is therefore likely to be appropriate primarily for larger projects.

While several variations are possible, the basic necessity, if tied funds are to be "untied" by use of joint financing techniques, is to obtain credit offers from the countries likely to win orders under a system of international competitive bidding, each country so participating agreeing to finance the whole, or an agreed proportion, of the orders it receives. If international competitive bidding is to be open to all Bank members, credit offers have to be available from all the countries which are likely to be competitive.

If, however, only a few countries are prepared to participate, it may be necessary to restrict bidding to these countries. While even some

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1/ Loans 536 CO and 537 CO, June 3, 1968; Loan 575 CO, December 2, 1968.

competition is better than none, the full contribution of joint financing in untying tied aid can be achieved only by a broad participation by equipment-supplying countries.

In a joint financing operation, the terms on which countries are prepared to provide credit are important. It is understandable that capital goods-exporting countries wish to avoid a credit race involving ever-increasing periods of credit and subsidized interest rates. It would, however, greatly facilitate joint financing if countries were prepared to adjust the terms of their lending to a reasonable extent so as to have a minimum term and a maximum interest rate agreed to by all participating countries, so that orders can be allotted purely on the basis of price. The longer this minimum term is, the more suitable the joint financing will be for the needs of the less developed countries.

Progress by potential co-lenders towards lengthening and standardizing credit terms for projects financed jointly with the Bank would facilitate increased use of joint financing, as suggested by the Pearson Commission, thus effectively extending the field of competitive bidding and enabling borrowers to make the best use of the tied funds available to them.

**Conclusion**

The staff has been instructed to examine every project with a heavy requirement of external financing to see whether it has possibilities for joint financing. Such joint financing is facilitated by the Bank's practice of maintaining close contacts with both development aid and export financing agencies in the principal capital-exporting countries that are potential co-lenders. Since the Bank's policies are consistent with the Pearson Commission's recommendation, no action by the Executive Directors is necessary.
### Joint Financing Operations by Year of Signature of Loan or Credit

<table>
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<th>Year</th>
<th>No. of Projects</th>
<th>Total Cost</th>
<th>Foreign Exchange Cost</th>
<th>Bank/IDA Contribution</th>
<th>Co-lender amount</th>
<th>% Total Cost</th>
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**Indus Basin**

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<th>Total Cost</th>
<th>Foreign Exchange Cost</th>
<th>Bank/IDA Contribution</th>
<th>Co-lender amount</th>
<th>% Total Cost</th>
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<td>3,382.0</td>
<td>1,514.5</td>
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1/ Includes some estimates.

2/ Excluding public issues but including private placement through banks.

3/ The saving of $324 million in the Indus Basin Fund has been deducted from both the total cost and the co-lenders' amount and pro rata, 60% from the foreign exchange cost.

4/ Amounts likely to be utilized following pattern of award of contracts.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 31 Concerning Need for Organizational Changes in IDA

Recommendation

"... we recommend that the President of the World Bank undertake a review of the need for organizational change of the International Development Association as its functions increase." 1/

Background

Although the recommendation is addressed to IDA's organization, the report makes clear that in fact the Commission was concerned with IDA's policies, which are described as "almost indistinguishable" from those of the Bank.2/ The Commission comments that the Bank's policies reflect constraints imposed by the Bank's reliance on the private capital markets. It reasons that, since IDA does not go to the market, these constraints do not apply to IDA and accordingly IDA's policies need not be the same as the Bank's. In the Commission's view, however, the integration of IDA into the Bank's organizational structure has effectively precluded IDA from developing its own policies -- in such areas, for example, as non-project lending, local cost financing and debt relief. The Commission suggests that the recommended expansion of IDA's resources 3/ and the enlarged scope of activity which could be expected to follow would provide a suitable occasion for considering the need for a change in IDA's organizational structure.

The report itself does not indicate what kinds of organizational change the Commission thought might facilitate an independent approach by IDA. It appears from papers prepared by the Commission's staff that some or all of the following were suggested to the Commission as possibilities:

(a) a separate IDA president, or an IDA executive vice-president responsible for developing lending policy;

1/ Report, page 226.
2/ Ibid., page 223.
3/ Ibid., page 224.
(b) a separate IDA policy-making staff, to function independent of, although in consultation with, Bank staff;

(c) separate IDA Executive Directors (at the option of governments); and

(d) a Bank/IDA coordinating committee composed of the presidents of the Bank and IDA and a number of Directors nominated by the Boards of Governors.

Analysis

The recommendation by its terms does not call for any immediate action, since it relates possible organizational change to a substantial increase in IDA's resources and to an expanded scope of operations. However, since we are undertaking a general review of all of the Commission's recommendations relating to the Bank Group, it seems desirable to analyze the issues which this particular recommendation poses, assuming for purposes of the analysis that the recommended expansion of IDA's resources will take place.

The issues raised by the Commission's recommendation are (a) whether it is desirable that IDA follow policies different from those of the Bank, and (b) if so, whether and what kind of organizational changes are required to put IDA in a position to do so. If the answer to the first is in the negative, it is not necessary to consider the second.

The Commission is correct in stating that in most major respects the Bank and IDA follow identical policies. Both finance only projects or programs of high economic priority, which are economically and technically sound and which appear likely to be successfully carried out and operated. They apply the same standards in determining which projects or programs satisfy these criteria.

Compatibility, if not identity, of policies was a specific objective of the design of IDA's organization. The resolution of the Bank's Board of Governors requesting the Bank's Executive Directors to prepare Articles of Agreement for an IDA directed that the institution should be affiliated with the Bank but left open the manner of affiliation.1/ The Bank staff, preparing to work on a first draft of Articles, proposed following the pattern set by the IFC Articles to the extent of providing that Bank Governors and Directors should serve IDA ex officio. However, the staff also proposed a departure from the IFC pattern of a separate chief executive and staff by providing that the President of the Bank should serve as IDA's President and that Bank staff should serve IDA as well. The latter proposal was justified on the ground that, since IDA operations would be close to those of the Bank, the absence of unified direction at the level of the top management, as well as the Board, might be confusing and that it would be desirable to avoid conflicting lines of policy. The existence of a separate executive would be likely to lead to creation of a separate staff; although it might be necessary to recruit additional Bank staff to

handle IDA work, it was desirable not to label staff as either "Bank" or "IDA".1/

Among the alternatives or modifications suggested by Directors during the Board discussions were that IDA's Articles should permit, rather than require, the President of the Bank to serve as president of IDA,2/ and that provision be made for the possibility of a separate management3/ and a separate staff.4/ However, the consensus favored the original approach, modified only to provide that Bank officers and staff should serve IDA "to the extent practicable".5/

IDA and the Bank are complementary institutions, both intended to promote economic development. They differ only in the terms on which they lend, the spectrum of developing countries to which they provide finance and the source of their funds. The Commission felt that the latter difference, the fact that the Bank borrows in capital markets and that IDA does not, justifies a difference in approach. The report does not specify how IDA's policies might differ from the Bank's but it appears that the Commission had in mind at least that IDA should be prepared to do more program lending and more local currency financing than the Bank will do.

Although in its early days the Bank was concerned to establish itself in the market and its policies necessarily reflected that concern, I believe it fair to say that our policies are now determined, not by considerations of market appeal, but primarily by what the Bank regards as the best use of its funds from the standpoint of the developing countries, subject only to creditworthiness considerations. The market, for its part, is primarily concerned with the guarantees behind the Bank's bonds and with the Bank's creditworthiness criteria; as long as the Bank's lending procedures continue to provide satisfactory assurance that Bank funds are used sensibly, the market pays scant attention to the specific sectors for which the Bank lends or to the Bank's position on such


4/ Ibid., page 4.

5/ IDA Articles of Agreement, Article VI, Section 5(b). In consequence, it may be noted, it would require an amendment to the Articles to permit the optional designation of separate IDA Directors or to give IDA its own president. The other changes mentioned in the Commission staff papers -- an IDA vice president for policy, a policy-making staff and a Bank/IDA coordinating committee -- could be brought about without amending the Articles.
issues as program lending or local currency financing. Moreover, it is clear
that the source of the funds to be lent is irrelevant to the economic case
either for or against program lending or local currency financing.

If the Bank were indeed subordinating the development interests of its
borrowers to market considerations -- which would mean, because IDA follows
the same policies as the Bank, that IDA borrowers would also be prejudiced --
the proper solution, in my opinion, would be to change the Bank's policies,
not to set IDA free to follow an independent course. What is best for the
borrowing country should be the determining factor in both Bank and IDA
operations. Any policy, except those having to do with creditworthiness,
which can be justified for IDA as consistent with its development function
can, I believe, equally be justified for the Bank, and the Bank should adopt
it.

This is not to say that the circumstance of a substantial increase in
IDA resources might not be the occasion for some modification of IDA poli-
cies, the allocation criteria in particular. But any changes of this type
can readily be considered within the existing IDA organizational framework,
as demonstrated by the full-scale reviews of IDA lending policy which have
taken place periodically in the past.1/

Conclusion

No change in IDA's organization is now, or is likely to become, neces-
sary to achieve the objectives sought by the Commission and I do not believe
any such change would be desirable.

1/ "IDA Lending Policy", IDA/FPC 64-8, July 30, 1964; IDA/FPC 64-9,
August 10, 1964; IDA/FPC 64-10, August 12, 1964. "IDA Policies", June 24,
1968 and July 16, 1968; IDA/SecM68-81, August 8, 1968 and IDA/SecM68-81/1,
August 15, 1968.
FROM: The Secretary  

December 11, 1969

PEARSON COMMISSION RECOMMENDATIONS

In pursuance of the procedure indicated in the President's Memorandum dated October 10, 1969 (SecM69-172), there are attached hereto analytical memoranda dealing with Recommendation Nos. 7, 9, 10, 15, 16 and 31 in the list set out in the attachment to the memorandum of October 10.

Distribution:

Executive Directors and Alternates  
President  
President's Council  
Executive Vice President, IFC  
Vice President, IFC  
Department Heads, Bank and IFC
Subject: PEARSON COMMISSION'S RECOMMENDATIONS RELATING TO THE WORLD BANK GROUP

The Executive Directors will recall that on October 10, I distributed a list of the 33 recommendations of the Pearson Commission relating directly to the activities or policies of the Bank Group (SecM69-472, dated October 10, 1969). In my covering note, I said that I would present to the Executive Directors, with respect to each of the recommendations, a memorandum proposing the position which I believed the Bank should adopt on the recommendation and the action, if any, which I believed it appropriate for the Executive Directors to take.

Attached is the first group of analytical memoranda, dealing with the following recommendations:

Recommendation No. 7: IFC Policies
Recommendation No. 9: IFC Project Identification and Investment Promotion Work
Recommendation No. 10: Advice on Industrial and Foreign Investment Policies
Recommendation No. 15: Assistance to Development Banks, Industrial Parks and Agricultural Cooperative Credit Institutions
Recommendation No. 16: Joint or Parallel Financing
Recommendation No. 31: Need for Organizational Changes in IDA

The numbers assigned to the recommendations are those which appear in the list set forth in SecM69-472, referred to above.

As the Executive Directors will recognize, this first group of memoranda deals with recommendations which present no difficult analytical problems; in
most instances, the Commission has recommended an intensification or a broaden-
ing of present activities, which is already reflected in the Bank Group's plans
for the next five years. I believe that we can readily accept these recommenda-
tions. There is one recommendation, however, which I do not feel we should
accept: the recommendation which suggests the need for a review of IDA's organ-
izational structure, if and when IDA's resources are substantially increased.

While I believe that the Executive Directors will find the attached memo-
randa of interest, none of the recommendations analyzed seems to me to call
for action by the Directors at this time. Therefore, unless any Executive Di-
rector wishes me to do so, I do not intend to schedule these memoranda for
Board discussion.

As I said in my October memorandum, it is my intention to submit additional
groups of memoranda on a monthly basis.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 7 Concerning IFC Policies

Recommendation

IFC policies should be reoriented to emphasize the development effect of its investments and not just their profitability.1/

Background

This recommendation appears in the context of a discussion on ways in which developing countries might realize greater advantages from foreign investment. The Commission says that while many of IFC's investments have benefited the host country, others have contributed only marginally, if at all, to economic development, rarely being preceded by an analysis of their impact on the country's economy. This, the Commission comments, is because profitability has been IFC's principal investment criterion. While it does not suggest that IFC should ignore profitability, it urges that IFC reorient its policies "for the sake of the economic impact of its own investment and even more for that of the new investments ... it is well placed to promote."2/

Analysis

As the Commission recognizes, profitability is an essential investment criterion for IFC. IFC's Articles direct it to undertake its financing on terms and conditions which take account, among other considerations, of "the terms and conditions normally obtained by private investors for similar financing."3/ In addition, it is directed to "seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms."4/ IFC wants partners in the enterprises in

1/ This is a paraphrase of two paragraphs in the Commission's report (pages 114-115) which are cast in the form of an analysis and an expression of hope for change, rather than in the form of a recommendation. It has been included in this series of memoranda, however, because the Commission's intent was clearly to suggest an important policy change for a member of the Bank Group.


3/ Art. III, Sec. 3(v).

4/ Art. III, Sec. 3(vi).
which it invests, it wants to revolve its funds by selling seasoned securities out of its portfolio and, above all, it wants to encourage the growth of private productive enterprise in the developing countries. Each of these objectives alone, and certainly in combination, makes the prominence of the profitability criterion inevitable.

It is true that IFC has not in the past had a strategy of development based on the needs of the countries in which it operated. It tended to consider individual projects as they came up. One reason was that, until the Bank's Articles of Agreement were amended to permit it to lend to IFC, IFC did not have sufficient resources to enable it to make a significant impact on the economies of its member countries. Another was that in the past it did not itself engage in promotional activity.

Although my appraisal of the current situation is less negative than that of the Commission, I nevertheless agree that developmental significance should be given a more prominent place in IFC's investment decisions. This shift in emphasis has already begun and is reflected in the revision of the IFC policy statement which I have submitted to the IFC Board for approval.

At the same time, I agree with the Commission's recommendation that IFC should be better equipped to ascertain and to take into account the economic implications of its investments. One step we have taken in that direction is to authorize IFC to appoint an Economic Adviser who will add to IFC's in-house economic strength. In addition to the attention which IFC will thus be enabled to bring to bear directly upon the implications of proposals which it is considering, IFC will have the benefit of the work of the new Industrial Projects Department of the Bank. As I have pointed out in another of this series of memoranda, it is my intention that the work of IFC and the new Bank Department should be complementary.

Conclusion

The paths along which IFC is proceeding are consistent with and should effectively implement the Commission's recommendation. I have submitted for the approval of the IFC Board a revised IFC policy statement which reflects this trend.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 9 Concerning IFC Project Identification and Investment Promotion Work

Recommendation

"... because of their links with the private sectors of both developed and developing countries, IFC, and organizations like it, are logical agents for project identification and investment promotion work, and we accordingly recommend that they become much more active in this field."1/

Background

The report records the Commission's "definite impression that most low-income countries would welcome a larger flow of foreign investment."2/ The Commission notes that there are bilateral programs intended to stimulate the flow of private capital, which include subsidization of investment surveys and the publicizing of investment opportunities. It comments that these programs are useful, but often too small and too imperfectly geared to the investor's real needs, and it recommends that they devote more attention to inducing small and medium-sized investors to take up projects in developing countries, providing them where necessary with technical assistance. The report proposes that "similar change" should be encouraged with respect to IFC. Commenting that in the past IFC has interpreted its Articles "to mean that it should leave all project initiative to others," the Commission adds that there are signs that IFC and similar bilateral institutions are beginning to appreciate the role they could play in actively identifying new investment opportunities and bringing together domestic and foreign partners to execute them.3/ There follows the recommendation quoted above.

Analysis

The Commission is correct in stating that in the past IFC was content to leave the project initiative to others. But its reference to IFC's approach does not fully reflect our plans for the future.

1/ Report, page 110.
2/ Ibid., page 105.
3/ Ibid., page 110.
In July 1968, I told the IFC Board that I considered that IFC had established itself in the industrial and financial community and had built up staff experience to the point at which it could usefully do more in the direction of investment promotion. Many developing countries were thought to have a low absorptive capacity with respect to industrial projects. But, if experience in other fields was any guide, some of this apparent lack of absorptive capacity could be overcome by increased preinvestment assistance. Experience also indicated that there were instances of promising investment opportunities in the developing countries where projects had not been carried out, or had been carried out inefficiently or ineffectively, because of the absence of suitable sponsors to do the necessary developmental and promotional work. We therefore proposed that IFC should become more active in seeking to promote industrial projects where there was a reasonable prospect that the project would eventually be suitable for financing by IFC in accordance with its established criteria. We proposed, further, that IFC should be free to suit the form of promotional activity to the needs of the proposed venture and the circumstances prevailing in the country in which the venture would be located. This might mean, in some instances, that IFC would assume responsibility for implementing a project from its inception, through the stages of a feasibility study, detailed engineering and market investigations, finding technical and financial partners and putting together a financial package. At the other extreme, it might mean that IFC would participate as one of a number of shareholders in a pilot company which would conduct the requisite investigations on behalf of a group of technical and financial sponsors already committed to proceed with the venture if the investigations demonstrated the project's viability. We suggested an over-all limit of $250,000 for promotional costs. The Board approved the proposal, with a limit of $50,000 for any one project.

Under this policy, in the 1969 fiscal year IFC invested in an industrial promotional company in Honduras 1/ and in two tourism promotional ventures, in Colombia 2/ and Tunisia. 3/ IFC also committed funds to a cement project in Indonesia, taking primary responsibility for determining the feasibility of the project and organizing financial and technical support for it.

In January of 1969, the IFC Board approved my proposal that IFC should be willing to put a director on the Board of any promotional company to the shares of which it has subscribed, if in IFC's judgment this would enable its promotional activity to be carried out more effectively.

Locating investment opportunities, promoting indigenous entrepreneurial talent and encouraging the growth of private investment is a difficult job. IFC plans to increase its efforts in this area by continuing and intensifying activity of the kind described above and by increasing its contacts with individuals and institutions in both the developing and developed countries, with an eye to uncovering and exploiting investment opportunities. These plans

1/ No. 140.
2/ No. 137.
3/ No. 152.
are reflected in the new policy statement for IFC which has been submitted to the IFC Board of Directors for approval.

If these policies are to be more than pious statements of intention, it will be necessary that IFC have available staff who can spend a considerable portion of their time in the developing countries. It would be their primary function to look for investment opportunities which IFC might appropriately participate in or bring to the attention of others. This will require adding several senior professionals to IFC's staff.

Even if IFC's staff is enlarged, IFC cannot by itself accomplish all that needs to be done. As the Executive Directors know, the Bank Group as a whole has given considerable support to institutions in the developing countries which are themselves engaged in promoting private enterprise. The Pearson Commission has recommended greater help to development banks and similar institutions, and the memorandum analyzing that recommendation reviews the past activity of the Bank Group and plans for increased support in the future. However, IFC's assistance should not be limited to institutions formed by residents of the developing countries. It should, and it intends to, work with, support and help to finance institutions such as the Atlantic Community Development Group for Latin America (ADELA),\(^1\) the Private Investment Company for Asia (PICA),\(^2\) and other comparable organizations (including the private investment company proposed for Africa) provided that they need help, are well managed, and are carrying on investment programs that will assist the development of the countries in which they are doing business.

It is relevant to remind the Executive Directors that the Bank also intends to do more to help identify and prepare industrial projects. As the Executive Directors are aware, we have recently established an Industrial Projects Department within the Bank, which will carry out sector analyses and

\(^1\) ADELA is a private corporation, with authorized capital of $60 million, $52.65 million of which has been subscribed by 234 stockholders in Europe, the United States, Latin America, Canada and Japan. It makes equity and loan investments and, through an entity known as ADEIATEC, which is in effect a firm of development consultants rendering services to ADELA and to others, it engages in a variety of other activities designed to support private investment in Latin America: underwriting, project identification and promotion, project management, market studies, resource surveys, and feasibility and pre-feasibility surveys. The ADELA Group is at present giving priority to agri-business and tourism. It is increasingly devoting its energies and resources to self-initiated sectoral studies, project identification and project promotion in these fields.

\(^2\) PICA, whose authorized capital is $40 million, was modeled on ADELA; the two corporations have a number of shareholders and directors in common. PICA was formally organized in February of 1969 and its operations have thus far been limited.
project identification work in the industrial sector. To assure that the efforts of IFC and of the new Department, as well as the activities of the Bank's Development Finance Companies Department, are complementary, and that there is a full exchange of information and an appropriate allocation of responsibility among all Bank Group operational units working in the field of industry, we are also creating an Industrial Coordination Committee composed of the Executive Vice President of IFC, as Chairman, the Directors of the two Bank Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

Conclusion

The plans for future IFC activity are consistent with the Commission's recommendation. As indicated above, the implementation of these plans involves a revision of the IFC policy statement. Such a revision has been submitted to IFC's Board of Directors for approval.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 10 Concerning Advice on Industrial and Foreign Investment Policies

Recommendation

"International institutions, such as the World Bank ..., should expand further their advisory role regarding industrial and foreign investment policies. These activities could eventually be fully transferred to IFC if the proposed reorientation of IFC is successfully achieved."

Background

This recommendation appears in the context of the Commission's discussion of the potential of foreign investment, primarily direct investment, for contributing to the faster growth of the developing countries. The Commission reports its impression that most low income countries would welcome a larger flow of foreign investment, and suggests a number of ways in which that flow might be stimulated. It believes that developing countries urgently need impartial advice concerning their posture toward foreign investment. It finds that such advice has rarely been provided in the past. With respect to the Bank Group, the Commission says that the Bank has tended to delegate much of its industrial activity to IFC, but that IFC has deliberately and to the extent possible avoided involvement in issues of governmental policy and is, in any case, not equipped to ascertain the economic implications of government policies.

The Commission also observes that much of the substantial industrialization achieved by developing countries in the last two decades has been in the form of high-cost import-substituting industry and that, in many cases, new industries have become a burden rather than a benefit to

1/ Report, page 115. The proposal for reorientation of IFC policy is the subject of a separate memorandum.

the economies, with adverse effects on agriculture and on the prospects for increasing exports. Thus the advice to be given to developing countries on foreign investment policies is closely linked with advice on their industrial policies.

Analysis

In recommending that the Bank "expand further" its advisory role, the Commission implicitly recognizes that the role would not be a new one for the Bank. The principal vehicle for the provision of advice has been country economic missions. The resources devoted to the industrial sector on these missions have, however, been limited. From the beginning of 1967 to date, the total of industrial specialist resources devoted to such coverage has averaged only five man-years annually. There has been some increase in emphasis on industrial policy recommendations to individual countries in this work, exemplified by recent missions to, e.g., Argentina, Brazil and Mexico in the Western Hemisphere, and India, Indonesia, Iran, Korea and Pakistan in Asia. Appraisal and follow-up of industrial projects have also provided the occasion for advice on industrial policies.

The Bank's advisory role with respect to policies of individual countries towards foreign direct investment has not been well defined. In the course of the country economic work, such policies have been the subject of attention when they appeared to be hampering development. But these policies have not been systematically reviewed, nor has any specialist been employed to deal with them.

I fully agree with the Commission's recommendation that the Bank's advisory functions should be enlarged. Many developing countries need advice on trade, fiscal and other policies which will foster industrial growth and attract foreign private investment. Tariffs, import licenses, taxation, subsidies, price controls -- all can affect industrial progress to an extent often not fully appreciated by the government involved. Protection policies, which have been the subject of discussion by the Executive Directors in the context of some recent Bank Group operations, frequently foster the growth of uneconomic enterprises. The Bank ought to be in a position to advise its developing country members on the implications of particular policies and to assist them to make sensible choices.

It is my intention that comprehensive industrial sector studies shall in future form part of the Bank's economic reviews conducted under the direction of the Area Departments. As the economic missions now do for other sectors, they will be systematically analyzing the industrial capacity and strategy of individual countries and the relationship of industrial progress to over-all growth. This is a difficult process which will take some time to organize and to staff, and which will in due course have budgetary implications.

1/ Some of the general survey missions organized by the Bank included industrial specialists, but no survey mission has been sent out since 1964.
The Industrialization Division of the Economics Department was organized a year ago to undertake research concerning the industrialization process, and more recently we have created an Industrial Projects Department in the Bank which, in addition to its operational functions, is charged with making recommendations on industrialization problems and policies of member countries, including advice on industrial planning and priorities and on measures to stimulate efficient and sound industrial growth.

We shall also look to other international organizations for assistance in their fields of specialization. The United Nations Industrial Development Organization (UNIDO), since its establishment a few years ago, has been engaged primarily in providing technical assistance for specific industrial activities. It is now widening its advisory activities, and in view of my intention that the Bank should step up its own activities of that character, closer cooperation with UNIDO seems appropriate. Arrangements have accordingly been made with UNIDO for an exchange of information about matters of common interest, on an informal basis. The International Labour Organisation (ILO) and the Food and Agriculture Organization of the United Nations (FAO) are also concerned with some aspects of industrialization, and we shall be cooperating with these agencies as well.

I also believe that IFC could usefully play a role in considering and advising governments on measures to encourage the development of the private sectors of their economies, in particular the flow of foreign private capital. IFC has begun to collect some data bearing on this problem. As reported in the memorandum dealing with the Commission's recommendation for a reorientation of IFC policies, I have authorized IFC to appoint an Economic Adviser. This adviser will be expected to organize the data collection work more efficiently and to evolve proposals for systematic activity by IFC in providing advice to governments on their foreign investment policies.

As noted in another of this series of memoranda, an Industrial Coordination Committee is being created in order to coordinate work in the Bank Group on industrialization policies and measures to promote foreign private investment. This Committee will be composed of the Executive Vice President of IFC, as Chairman, the Directors of the Bank's Industrial Projects and Development Finance Companies Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

I am not now prepared, however, to endorse the tentative suggestion of the Commission that eventually all advisory activities on industrial and foreign investment policies might be performed, for the Bank Group, by IFC. Although, as indicated above, our plans call for IFC to play an important advisory role in connection with foreign investment policies, it seems likely that most of the Bank Group's advisory activities in the field of general industrialization policy, including the establishment of priorities for industrial development, will, at least in the foreseeable future, and probably over the long term, be undertaken by the Bank, where work in this field may be integrated with the guidance being given to member countries on other aspects of their development programs.
Conclusion

The plans for increased emphasis by the Bank Group on the provision of advice to member countries concerning the industrial and foreign investment policies of developing countries are fully consistent with the Commission's recommendation. No action by the Executive Directors is now required.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 15 Concerning Assistance to Development Banks, Industrial Parks and Agricultural Cooperative Credit Institutions

Recommendation

"... we recommend greater help to development banks and similar institutions in developing countries. In addition, assistance should be provided to such promising activities as industrial parks and agricultural cooperative credit institutions, designed to promote financing of the domestic private sector."1/

Background

In the context of its discussion of ways to make aid more effective, the Commission notes that "Smaller investment projects may also require support, and there is then a case for the assistance of national development banks and similar institutions, public and private."2/ These institutions, particularly the development banks, the Commission says, "are especially important because they can reach the small investor, their administrations are generally more decentralized and fast moving than larger enterprises, and they result in such important institution-building as the strengthening of local capital markets."3/ In its historical review of the last two decades, the Commission also notes the role of development banks in facilitating savings and investment,4/ and elsewhere in the report stresses the importance of the role of financial intermediary.5/

1/ Report, page 179.
2/ Ibid., page 179.
3/ Ibid., page 179.
4/ Ibid., page 31.
5/ Ibid., pages 64-65.
There is no mention or discussion of industrial parks per se in the Commission's report, beyond the statement in the recommendation that they constitute a promising activity. The closest reference occurs in the discussion, earlier in the report, of the problems of the private sector, where mention is made particularly of financial institutions to accommodate small entrepreneurs, and there is a passing reference to the need for legal and accounting facilities, suitable land tenure and management training as well.1/ All of these considerations arise in connection with industrial parks. There is no extended discussion of agricultural credit institutions, although it is noted elsewhere in the report that increasing agricultural production raises a demand for more farm credit.2/

For convenience, each of the three types of facilities mentioned in the recommendation -- development banks, industrial parks and agricultural cooperative credit institutions -- will be analyzed separately.

Analysis

A. Development Banks 3/

The Bank's involvement with development banks dates from 1950 when it assisted in the establishment of the Industrial Development Bank of Turkey and the Development Bank of Ethiopia. Ever since, the Bank Group has been heavily engaged in promoting, financing and extending technical assistance to such institutions. A few indications of this activity are cited below:4/

a. The Bank Group has helped to promote 12 development banks and to reorganize another six.


2/ Ibid., page 61.

3/ In view of the characteristics cited by the Commission (quoted in the text, above) to illustrate the importance of "development banks", it appears that the Commission had in mind the kind of institution known in Bank Group parlance as a "development finance company", in contrast to such institutions as e.g., the Japan Development Bank which is the government's agency for borrowing abroad and which serves as a conduit for funds to private industry, or the Corporacion de Fomento de la Produccion of Chile, created to devise and give effect to a plan to promote production in all sectors of the economy and to borrow abroad. Accordingly, the following description of the Bank's experience with "development banks" concerns institutions of the former type, devoted primarily to stimulating medium-sized and smaller enterprises in the private sector of the economy.

4/ The data includes companies in Austria and Finland although these countries fall outside the category of "developing countries". Both are Part I IDA countries.
b. The Bank Group has assisted in recruiting key personnel for a number of development banks. IFC is represented on the board of 13.

c. Fifty-five officials of development banks which have been financed by the Bank Group have received training in the Bank's Economic Development Institute; sixty-one have received training under special programs.

d. Gross commitments to development banks up to the end of September 1969 amounted to $954 million. This financing was extended to 28 companies in 24 countries and included Bank loans (93%), IDA credits (4%), and IFC investments (3%). These figures reflect a recent rapid acceleration of commitments. Until the end of fiscal 1963, commitments amounted to only $229 million; in the next five-year period they totalled $497 million. In fiscal 1969 alone, commitments reached almost $195 million. About 61% of gross commitments had been disbursed up to the end of September 1969. Allowing for repayments and redemptions of about $149 million, the disbursed amount outstanding was $430 million.

Bank Group policies towards development banks have been reviewed periodically, most recently by the Executive Directors in November 1968. Several significant changes have recently taken place. For example, in June 1968, the Bank, whose policy once prohibited lending to government-controlled development banks, decided it would be prepared to lend to such institutions provided their management was sound and autonomous in day-to-day decision making. Another policy departure, accepted in November 1968, involved the scope of operations of institutions financed by the Bank Group. Formerly they were eligible only if they were devoted primarily to manufacturing industry. Now they may be multi-purpose companies, financing not only industry but also tourism, housing, and other productive activities. Moreover, in the past year IFC has sponsored and helped bring into existence two companies which are primarily devoted to promoting new enterprise and to providing investment services, rather than finance.1/ These developments, all indicative of increased flexibility on the part of the Bank Group, reflect the importance which the Group attributes to institutions which can mobilize capital, allocate it for productive purposes, promote investment and generally act as intermediaries in the investment process.2/

1/ These companies, and IFC's investment in them, are not included in the figures cited in the previous paragraph.

2/ As noted in the memorandum concerned with IFC's preinvestment promotion work, IFC intends also to work with, support and help to finance such institutions as the Atlantic Development Community Group for Latin America (ADELA), the Private Investment Company for Asia (PICA) and other comparable organizations (including the investment company proposed for Africa), if these institutions need help, are well managed and are carrying on investment programs that will assist the development of the countries in which they operate.
The 28 development banks presently associated with the Bank Group are now committing the equivalent of about $130 million per annum in loans, investments, etc. These in turn contribute to a total investment estimated at about $900 million. The vast bulk of these investments assist the manufacturing sector. Judging by the size of the operations, it is fair to say that development banks are financing primarily medium-scale enterprises and, to some extent, small enterprises. If it did not work through such intermediary institutions, the Bank Group would be unable to reach a very significant part of the manufacturing sector of developing countries.

The principal objective of the Bank Group, however, is not simply to find retail outlets for dispensing external finance and technical assistance, but to help build effective investment institutions in developing countries. Hence, the Group encourages development banks to be active in mobilizing domestic capital, underwriting securities, subscribing to equities, selling from their portfolios in order to broaden ownership of enterprises, identifying and promoting investment opportunities and assisting entrepreneurs in formulating and carrying out investment proposals. While some progress has been made on these lines, a great deal remains to be done. Most development banks have not acquired much capability as mobilizers of financial resources and remain dependent on government funds, or on international institutions or on foreign aid. Furthermore, development banks, in the main, still respond to investment opportunities presented to them by their clients and only rarely do they do much in the way of identifying and promoting projects on their own initiative.

I fully accept the recommendation of the Pearson Commission that the Bank Group should provide more help to development banks.

The Bank's Five-Year Program already reflects this view. The plan for gross Bank and IDA commitments to development banks in the period 1969-73 is around $1,500 million, compared with $483 million in the preceding five-year period. As noted above, in fiscal 1969, the first year of the period, $193 million was committed. Although there is not yet a projection for IFC operations in this field, I have little doubt that IFC, too, will expand its role in financing development banks.

To achieve the objective of the Five-Year Program, the number of development banks associated with the Group will grow to perhaps twice the current number of 28.

The proposed expansion in the number of institutions, as well as in the volume of operations, is closely related to the recent changes of policy already mentioned, which make possible a significant expansion of activity in Africa and in Latin America. In particular, it is probable that three or four loans will be made to government-controlled development banks in the current fiscal year. We have begun a systematic exploration of existing small development banks in Africa and of the possibilities of financing such institutions.
This expansion of activity, in exploration, in appraisal of companies, and in actual lending, has placed an unusual strain on staff. In fiscal 1969 the number of professional staff in the Bank's Development Finance Companies Department increased by 50%, from 20 to 30; another 25% increase is expected in the current year.

As noted above, Bank Group policies towards development banks have in the past been periodically reviewed in the light of experience and as new problems emerged. I shall continue to bring to the Executive Directors proposals for further changes as and when they appear desirable.

B. Industrial Parks

Industrial parks, sometimes referred to as industrial estates, essentially consist of tracts of land provided with services and public utilities for the establishment and operation of a group of industrial enterprises. First employed in industrialized countries as a device for the planned location or relocation of industries, they have been widely used in developing countries since the 1950's primarily as a tool to foster small-scale and medium-sized industrial enterprises.1/ Experience has been widespread and interest is growing, but the results have been uneven.

Fundamentally, the industrial estate provides developed sites for the construction of factories, to be built by the entrepreneur or to be offered for sale or lease by the estate management authority. The resulting clustering of enterprises may facilitate working arrangements between enterprises and provide a focal point for other assistance needed by smaller industries. This assistance may take the form of financing; contracts with government regulatory agencies; training; advisory services; research; subsidies; testing facilities; common industrial, purchasing, or marketing services; or labor relations services. Thus industrial estates can serve to create external economies of scale, to make available serviced industrial land at reasonable cost, to produce a desirable pattern of location of industry, and to serve as a means of centralizing official assistance to industry.

In addition to the general-purpose industrial estate, a variety of other forms has evolved in developing countries. Some are large estates for both heavy, large industries and smaller, light industries, and may include major transport facilities such as ports or railway yards.2/ A newer type for particularly small industries is the estate consisting of "flatted" factories or lofts, for relocating squatter workshops or others covered by urban renewal programs; or for attracting foreign investment to labor-intensive activities such as electronic assembly.3/ There are "functional" estates specializing in one type of industry, e.g., metal working. "Satellite" estates have been

1/ Industrial estates are found in such diverse countries as Ireland, in Europe; Puerto Rico, Mexico and Brazil, in the Western Hemisphere; India, Pakistan, Malaysia, Singapore and Taiwan in Asia; Ghana and Nigeria in Africa.

2/ e.g., Jurong near Singapore with a potential area of 17,000 acres; Aratu near Salvador in Brazil with 110,000 acres.

3/ e.g., Hong Kong, Singapore.

4/ e.g., Singapore.
created for sub-contractors of larger industries. There are also estates set up in thickly populated rural areas to tap a new work force and decentralize industrial concentrations.\footnote{\textit{e.g.}, Taiwan.} Some countries have created export-oriented estates with customs-free bonding arrangements.

The ownership of industrial estates may be private or governmental, in the latter case at the local, regional or national level. In developing countries ownership must usually be public, although the hope is sometimes that the governmental initiative may induce similar operations by private entrepreneurs. Given public ownership at one or another level of government, the question arises, in relation to the Commission's recommendation, as to what kind of external assistance governments need and what role there can be for the Bank Group. Technical assistance, which can be used to good advantage for preinvestment studies and planning of industrial estates as well as for their operation, is available from the U.N. Industrial Development Organization (UNIDO) with financing from the United Nations Development Programme, and from bilateral sources, both public and private, such as USAID and the Ford Foundation. Finance is required for land acquisition, the provision of infrastructure, factory buildings and equipment, and for various kinds of services.

The Bank Group's potential role is obviously primarily one of providing finance. Our experience with industrial estates is limited to one IDA credit of $6.5 million, extended to Pakistan in 1962 to help develop two industrial estates. This particular project ran into difficulties, partly because the estates were not well sited and partly because the financing arrangements for the prospective tenants were inappropriate. Nevertheless, I believe that we should, consistent with the Commission's recommendation, be prepared to give assistance to appropriate projects involving the establishment of industrial estates. A follow-up of the Pakistan project is in fact in an advanced state of preparation and should come forward to the Board early in 1970.

As the Executive Directors know, we keep searching for ways in which the Bank Group of institutions, centrally organized as they are, can effectively help the small entrepreneur. The Commission is, in my judgment, entirely correct in pointing to industrial estates as a promising vehicle for such assistance. Of course, in each case we would need to weigh the relative merits and costs, social as well as economic, of helping to establish an industrial estate as against other possible ways of promoting the particular small industries concerned.

In the single instance in which we have thus far provided financing for an industrial estate, our funds were used primarily for importation of capital equipment for private factories located on the estates. The financing requirements for other cases may well be primarily for the public sector infrastructure. Each case will have to be judged on its merits. In most instances, it is likely to be desirable to associate our financing with technical assistance from other sources. We should also, I believe, be prepared to help in the planning of industrial estates projects for which Bank Group financing is contemplated. This might be done, in appropriate cases, in association with UNIDO.
C. Agricultural Credit Cooperatives

The Commission noted that increasing agricultural production in the developing countries has increased the demand for farm credit. It was particularly concerned about the needs of small farmers, who characteristically have difficulty in finding funds with which to buy imported seed, fertilizer, pesticides and implements and to improve the productivity of their property. In framing its recommendations, the Commission singled out for support, among the other various kinds of agricultural credit institutions, the credit cooperatives. The analysis which follows is, accordingly, similarly limited, although cooperatives are of course only one of several vehicles through which agricultural credit may be extended.1/

Agricultural credit cooperatives specializing in investment lending are rare in developing countries. More frequently multi-purpose cooperatives are found which extend credit in the form of seasonal inputs and collect payment through marketing the crops. There are also various forms of farmer associations, for example in Taiwan, Pakistan and West Africa, which are not cooperatives in a strict sense but which perform many of the same functions effectively. Even where specialized agricultural credit cooperatives do exist, the apex organization is usually not a cooperative, as is the case in Western Europe and North America, but a public agency or specialized banking institution designed to exercise control over the cooperatives and to channel government subsidies to them. In addition, agricultural credit cooperatives often deal mainly or only in short-term credit and, because of lack of experience and appraisal staff, find it difficult to provide longer term credit. That kind of credit is, instead, provided through specialized public agricultural credit institutions.

Within these limitations, the Bank Group has used both agricultural cooperative credit institutions and multi-purpose cooperatives as a channel for making funds available to their members, the ultimate beneficiaries. In some cases, these cooperatives have played an important role in the project as a whole by providing needed services rather than funds.

Experience with these projects has been mixed: some have been successful, others not. The critical factor has been the quality of the management of the cooperatives; if it is weak, as it often is, the project has not been fully effective. In one case, the management of a cooperative group which was expected to act as the channel for Bank funds was so weak that a proposed financing operation had to be postponed indefinitely.

Experience suggests that, in most cases, working through cooperatives imposes a sizeable workload on the Bank, in that substantial guidance and supervision appear to be required. I believe, nevertheless, that our use of

1/ A sizeable portion of the Bank Group's total financing of the agricultural sector has, over the years, been extended to agricultural credit institutions, to which we have also provided considerable technical assistance. Bank and IDA financing for agricultural credit aggregated $285.2 million as of June 30, 1969.
cooperatives has been worthwhile and that they are an important tool in carrying out our agricultural programs and particularly in reaching individual farmers and ranchers. They are not the only tool, however, and therefore the Bank Group must in each case choose the institutional vehicle most suited for carrying out its financing objectives.

When the Bank Group lends for projects which make use of agricultural cooperatives to provide credit and other services for farmers, provision normally has to be made for substantial technical assistance to supplement the provision of finance and to make it more effective. A recent example is the loan and credit of $9.5 million equivalent made to Senegal in February 1969 to provide (a) credit to farmers, through existing cooperatives, for various agricultural inputs; (b) management services to reorganize the cooperatives' supply and marketing organization and train local staff for its future operations; and (c) extension services to the farmers.¹/ Several agricultural credit projects in India are under consideration now, all of which include the use of specialized credit cooperatives as channels of funds and some of which involve substantial inputs of technical assistance.

I believe, however, that we could do more in this field by way of assistance in project preparation, perhaps most effectively in association with the international cooperative movement which has been active in helping cooperatives in the developing countries. I have therefore directed the staff to consider ways in which the Bank Group might support that movement by relating it more closely to Bank operations, and to come forward with proposals to that end.

Conclusion

I am in full agreement with the recommendation of the Commission that more should be done by way of support to the indicated types of intermediary institutions and facilities. Substantially increased assistance to development banks is already provided for in the Bank Group's program for the next five years. Assistance for industrial estates and agricultural cooperative credit institutions must necessarily proceed at a slower pace, for the reasons indicated. However, we are mindful of the potential in these areas. We shall be prepared not only to provide finance in support of industrial estate projects but to assist in the planning of projects of that character for which Bank Group financial support would be appropriate. We shall also be exploring the possibilities of helping to improve the management of agricultural credit cooperatives and of assisting governments in preparing agricultural credit projects involving the use of cooperatives, where appropriate, for Bank Group financing.

No action by the Executive Directors is now required.

¹/ Loan No. 584 SE; Credit No. 140 SE.
Subject: Pearson Commission Recommendation No. 16 Concerning Joint or Parallel Financing

Recommendation

"We recommend that multilateral agencies extend the practice of joint or parallel financing of projects."1/

Analysis

This recommendation comes in Chapter 9 dealing with ways of making aid more effective. It is one of a series of recommendations in the context of a sharp criticism of aid tying and is put forward as one way in which the multilateral agencies can help to mitigate the harmful effects of tying.

The Bank shares the view of the Commission that joint financing between multilateral and bilateral agencies, where feasible, can help borrowers to obtain the advantages of wide international competitive bidding while at the same time utilizing some of the tied bilateral assistance available to them. Joint financing between the Bank and co-lenders also has other advantages. It provides a means whereby funds from other sources are channelled into high-priority projects. Because of the responsibility taken by the Bank for project appraisal and supervision, the execution of jointly financed projects is likely to be more effective than might otherwise be the case. And joint financing with the Bank enables bilateral agencies, notably those in some of the smaller aid-giving

1/ Report, page 174. The Commission did not say what it meant by "joint or parallel financing." As used in the Bank, "joint financing," in its narrow sense, refers to arrangements under which individual contracts for a single project or program are financed partly by the Bank and partly by the co-lender(s). "Parallel financing," as used in the Bank, refers to arrangements under which the Bank provides all the external finance for individual contracts or separable facilities for a project or program and co-lenders provide all the external finance for other contracts or other facilities. For purposes of this memorandum, however, the term "joint financing" is used in a general sense to include all arrangements for co-lending.
countries, to ensure that their funds are being applied to sound projects without the necessity of building up large project appraisal staffs of their own. For all these reasons the Bank maintains a positive and flexible attitude towards joint financing wherever it can be carried out under conditions insuring wide international competition and without involving unduly complex procedures.

A recent review of the Bank's experience reveals a great diversity in the methods of joint financing that have been used. No one formula, and no one set of rules as to the detailed arrangements, can fit all circumstances. Attached as Annex 1 is a table showing the number of projects, total cost, foreign exchange cost, and the contribution of the Bank or IDA and co-lenders, respectively, in joint financing operations for 1955-1968 and up to October 15, 1969. The table indicates that, while joint financing has been a regular feature of Bank operations for many years, both the number of such operations and the amounts involved increased sharply in 1968 and 1969. This reflects both greater efforts by the Bank to find ways of associating Bank Group finance with funds available from bilateral sources and greater interest by a number of national aid and export financing agencies in becoming associated with projects appraised and partly financed by the Bank Group. There is being circulated separately a summary analysis of the kinds of joint financing arrangements in which the Bank or IDA has been involved through 1968.

Some types of joint financing arrangements have been quite difficult to work out and have imposed a significant administrative burden on the Bank, on co-lenders and on borrowers. Where funds of a bilateral co-lender are already untied, as are those of the Swedish International Development Agency, there is no significant administrative difficulty. On the other hand, joint financing with co-lenders providing funds tied in various ways and operating under different sets of constraints, as in the case of the Colombian power and water supply1/ and the Mexican power projects,2/ has involved extensive negotiations and detailed administration; this type of financing is therefore likely to be appropriate primarily for larger projects.

While several variations are possible, the basic necessity, if tied funds are to be "untied" by use of joint financing techniques, is to obtain credit offers from the countries likely to win orders under a system of international competitive bidding, each country so participating agreeing to finance the whole, or an agreed proportion, of the orders it receives. If international competitive bidding is to be open to all Bank members, credit offers have to be available from all the countries which are likely to be competitive.

If, however, only a few countries are prepared to participate, it may be necessary to restrict bidding to these countries. While even some

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1/ Loans 536 CO and 537 CO, June 3, 1968; Loan 575 CO, December 2, 1968.

In a joint financing operation, the terms on which countries are prepared to provide credit are important. It is understandable that capital goods-exporting countries wish to avoid a credit race involving ever-increasing periods of credit and subsidized interest rates. It would, however, greatly facilitate joint financing if countries were prepared to adjust the terms of their lending to a reasonable extent so as to have a minimum term and a maximum interest rate agreed to by all participating countries, so that orders can be allotted purely on the basis of price. The longer this minimum term is, the more suitable the joint financing will be for the needs of the less developed countries.

Progress by potential co-lenders towards lengthening and standardizing credit terms for projects financed jointly with the Bank would facilitate increased use of joint financing, as suggested by the Pearson Commission, thus effectively extending the field of competitive bidding and enabling borrowers to make the best use of the tied funds available to them.

Conclusion

The staff has been instructed to examine every project with a heavy requirement of external financing to see whether it has possibilities for joint financing. Such joint financing is facilitated by the Bank's practice of maintaining close contacts with both development aid and export financing agencies in the principal capital-exporting countries that are potential co-lenders. Since the Bank's policies are consistent with the Pearson Commission's recommendation, no action by the Executive Directors is necessary.
<table>
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<th>Year</th>
<th>No. of Projects</th>
<th>Foreign Exchange Cost</th>
<th>Bank/IDA Contribution</th>
<th>Co-lender contribution</th>
<th>% Total Cost</th>
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**Indus Basin and Tarbela**

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<th>No. of Projects</th>
<th>Foreign Exchange Cost</th>
<th>Bank/IDA Contribution</th>
<th>Co-lender contribution</th>
<th>% Total Cost</th>
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1/ Includes some estimates.
2/ Excluding public issues but including private placement through banks.
3/ The saving of $324 million in the Indus Basin Fund has been deducted from both the total cost and the co-lenders' amount and pro rata, 60% from the foreign exchange cost.
4/ Amounts likely to be utilized following pattern of award of contracts.
MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 31 Concerning Need For Organizational Changes in IDA

Recommendation

"... we recommend that the President of the World Bank undertake a review of the need for organizational change of the International Development Association as its functions increase." 1/

Background

Although the recommendation is addressed to IDA's organization, the report makes clear that in fact the Commission was concerned with IDA's policies, which are described as "almost indistinguishable" from those of the Bank.2/ The Commission comments that the Bank's policies reflect constraints imposed by the Bank's reliance on the private capital markets. It reasons that, since IDA does not go to the market, these constraints do not apply to IDA and accordingly IDA's policies need not be the same as the Bank's. In the Commission's view, however, the integration of IDA into the Bank's organizational structure has effectively precluded IDA from developing its own policies -- in such areas, for example, as non-project lending, local cost financing and debt relief. The Commission suggests that the recommended expansion of IDA's resources 3/ and the enlarged scope of activity which could be expected to follow would provide a suitable occasion for considering the need for a change in IDA's organizational structure.

The report itself does not indicate what kinds of organizational change the Commission thought might facilitate an independent approach by IDA. It appears from papers prepared by the Commission's staff that some or all of the following were suggested to the Commission as possibilities:

(a) a separate IDA president, or an IDA executive vice-president responsible for developing lending policy;

1/ Report, page 226.
2/ Ibid., page 223.
3/ Ibid., page 224.
(b) a separate IDA policy-making staff, to function independent of, although in consultation with, Bank staff;

(c) separate IDA Executive Directors (at the option of governments); and

(d) a Bank/IDA coordinating committee composed of the presidents of the Bank and IDA and a number of Directors nominated by the Boards of Governors.

Analysis

The recommendation by its terms does not call for any immediate action, since it relates possible organizational change to a substantial increase in IDA's resources and to an expanded scope of operations. However, since we are undertaking a general review of all of the Commission's recommendations relating to the Bank Group, it seems desirable to analyze the issues which this particular recommendation poses, assuming for purposes of the analysis that the recommended expansion of IDA's resources will take place.

The issues raised by the Commission's recommendation are (a) whether it is desirable that IDA follow policies different from those of the Bank, and (b) if so, whether and what kind of organizational changes are required to put IDA in a position to do so. If the answer to the first is in the negative, it is not necessary to consider the second.

The Commission is correct in stating that in most major respects the Bank and IDA follow identical policies. Both finance only projects or programs of high economic priority, which are economically and technically sound and which appear likely to be successfully carried out and operated. They apply the same standards in determining which projects or programs satisfy these criteria.

Compatibility, if not identity, of policies was a specific objective of the design of IDA's organization. The resolution of the Bank's Board of Governors requesting the Bank's Executive Directors to prepare Articles of Agreement for an IDA directed that the institution should be affiliated with the Bank but left open the manner of affiliation.1/ The Bank staff, preparing to work on a first draft of Articles, proposed following the pattern set by the IFC Articles to the extent of providing that Bank Governors and Directors should serve IDA ex officio. However, the staff also proposed a departure from the IFC pattern of a separate chief executive and staff by providing that the President of the Bank should serve as IDA's President and that Bank staff should serve IDA as well. The latter proposal was justified on the ground that, since IDA operations would be close to those of the Bank, the absence of unified direction at the level of the top management, as well as the Board, might be confusing and that it would be desirable to avoid conflicting lines of policy. The existence of a separate executive would be likely to lead to creation of a separate staff; although it might be necessary to recruit additional Bank staff to

handle IDA work, it was desirable not to label staff as either "Bank" or "IDA".\textsuperscript{1/}

Among the alternatives or modifications suggested by Directors during the Board discussions were that IDA's Articles should permit, rather than require, the President of the Bank to serve as president of IDA,\textsuperscript{2/} and that provision be made for the possibility of a separate management \textsuperscript{3/} and a separate staff.\textsuperscript{4/} However, the consensus favored the original approach, modified only to provide that Bank officers and staff should serve IDA "to the extent practicable".\textsuperscript{5/}

IDA and the Bank are complementary institutions, both intended to promote economic development. They differ only in the terms on which they lend, the spectrum of developing countries to which they provide finance and the source of their funds. The Commission felt that the latter difference, the fact that the Bank borrows in capital markets and that IDA does not, justifies a difference in approach. The report does not specify how IDA's policies might differ from the Bank's but it appears that the Commission had in mind at least that IDA should be prepared to do more program lending and more local currency financing than the Bank will do.

Although in its early days the Bank was concerned to establish itself in the market and its policies necessarily reflected that concern, I believe it fair to say that our policies are now determined, not by considerations of market appeal, but primarily by what the Bank regards as the best use of its funds from the standpoint of the developing countries, subject only to creditworthiness considerations. The market, for its part, is primarily concerned with the guarantees behind the Bank's bonds and with the Bank's creditworthiness criteria; as long as the Bank's lending procedures continue to provide satisfactory assurance that Bank funds are used sensibly, the market pays scant attention to the specific sectors for which the Bank lends or to the Bank's position on such

\textsuperscript{1/} IDA/R59-1, dated October 9, 1959, para. 6; IDA/R59-2, dated October 22, 1959, page 5.

\textsuperscript{2/} IDA/R59-2, dated October 22, 1959, page 5.

\textsuperscript{3/} IDA/R59-2, dated October 22, 1959, page 5.

\textsuperscript{4/} Ibid., page 4.

\textsuperscript{5/} IDA Articles of Agreement, Article VI, Section 5(b). In consequence, it may be noted, it would require an amendment to the Articles to permit the optional designation of separate IDA Directors or to give IDA its own president. The other changes mentioned in the Commission staff papers -- an IDA vice president for policy, a policy-making staff and a Bank/IDA coordinating committee -- could be brought about without amending the Articles.
issues as program lending or local currency financing. Moreover, it is clear
that the source of the funds to be lent is irrelevant to the economic case
either for or against program lending or local currency financing.

If the Bank were indeed subordinating the development interests of its
borrowers to market considerations -- which would mean, because IDA follows
the same policies as the Bank, that IDA borrowers would also be prejudiced --
the proper solution, in my opinion, would be to change the Bank's policies,
ot to set IDA free to follow an independent course. What is best for the
borrowing country should be the determining factor in both Bank and IDA
operations. Any policy, except those having to do with creditworthiness,
which can be justified for IDA as consistent with its development function
can, I believe, equally be justified for the Bank, and the Bank should adopt
it.

This is not to say that the circumstance of a substantial increase in
IDA resources might not be the occasion for some modification of IDA poli-
cies, the allocation criteria in particular. But any changes of this type
can readily be considered within the existing IDA organizational framework,
as demonstrated by the full-scale reviews of IDA lending policy which have
taken place periodically in the past.1

Conclusion

No change in IDA's organization is now, or is likely to become, neces-
sary to achieve the objectives sought by the Commission and I do not believe
any such change would be desirable.

1/ "IDA Lending Policy", IDA/FPC 64-8, July 30, 1964; IDA/FPC 64-9,
August 10, 1964; IDA/FPC 64-10, August 12, 1964. "IDA Policies", June 24,
1968 and July 16, 1968; IDA/SecM68-81, August 8, 1968 and IDA/SecM68-81/1,
August 15, 1968.
TO: Area Directors  
FROM: J. Burke Knapp  
SUBJECT: Pearson Commission - Recommendations

For your personal and confidential information (not to be distributed beyond you and your Deputy) I am transmitting to you herewith draft memoranda to the Executive Directors prepared by Mr. Demuth's office relating to the Pearson Commission Recommendation papers Nos. 7, 9, 10, 15, 16 and 31.

I propose to raise these for discussion at our meeting this afternoon.

Attachments

cc: Mr. Cope
Mr. Pearson addressed the Second Committee on November 20. A copy of his statement is attached. Following his address several delegates asked questions and he replied to most of them in his closing remarks.

Mr. Pearson first recounted the history of the creation of the commission and emphasized several times its independent character - the report is its own and does not represent the views of any government or any international body. The Commissioners, he said, were faced from the outset with three main questions. Can the LDC's attain self-sustained growth by the end of the century; can external aid effectively assist in attaining that objective, and should the richer countries confirm their commitments for that purpose? The Commission's answers to these questions are affirmative.

The Commission found that a "weakening of will" on the part of the donor countries is one of the principal obstacles to development at the present time and he urged, therefore, that special attention be given to those parts of the report dealing with the justification of aid. In his view, the most significant is the recommendation that the 1% transfers should be attained by 1975 and, more important still, that 0.7% of such transfers should be in official aid which represents the real burden on the taxpayer (private transfers, while of value, cannot be termed as such).

He then emphasized the need to improve the aid machinery for which purpose a link should be established between aid and performance to be monitored by both sides which would make it more acceptable. He also referred to the need for continuity of assistance, program lending, the untying of loans and the increase in multilateral aid. Technical assistance, he said, should be more closely related to capital assistance than in the past and he referred to the measures proposed to avoid the political difficulties related to private investment. Easing the burden of debt of many LDC's is necessary and should be considered a form of aid. On population he limited himself to note that the report's recommendations are along the lines of those previously made by others at the UN.

He spent more time on the relationship between trade and aid pointing out that political pressures are such that some times aid may well be considered the "softer option." However, barriers and discriminations must be removed and the LDC's should be given a one-way advantage until they can do away with it.

In closing Mr. Pearson referred to the growing need for softer loans and to IDA's important role in that field. He appealed for more government support of IDA in a manner that will insure its continued operation over an extended period of time.
In the ensuing discussion, the delegate from Sweden praised the report in general terms but noted that in his view the treatment of the flow of external resources, which is based on DAC figures, may not present an accurate picture. The reverse flows (interest payments and investment income) are not always properly treated. He added that the report did not give sufficient significance to the social aspects of development and highlighted the references in the report to the need for coordination of pre-investment activities and financial assistance. He expressed the hope that the Jackson Capacity Study would throw additional light on this question.

The representative from Iran asked Mr. Pearson whether the 1% transfers of GNP could in fact be accomplished by 1975. He noted that this had been questioned on general economic terms and that the likely forthcoming economic recession in the developed countries and the continued armaments expenditures, which could not reasonably be expected to be reduced, seemed to be serious obstacles. Furthermore, he asked, would a 6-7% annual growth of gross product be sufficient to bridge the gap between the developed and the less developed countries.

The representative of Chile, noting that it had been the group of 77 who had suggested that Mr. Pearson be invited, praised the report in many respects and expressed the hope that the "political will" to implement its recommendations will be there. He felt that communication between the Bank and the governments of the less developed countries is not sufficiently close and hoped that this could be improved.

The population question was mentioned by the delegates of Uruguay and Brazil. They noted that 85% of the world's human resources are not being fully exploited. Over-emphasis is being given to population to the neglect of other solutions - a commission on population is being suggested, the Bank and WHO are being asked to launch a campaign, etc. The problem in their view should be left to national authorities and, in any event, wouldn't it be better to improve the existing conditions of life, to effect a better distribution of income than to attack the question of human fertility?

The Mexican Ambassador and the delegate from the United Arab Republic asked whether the work of the Commission could not be extended for an additional period of time, particularly with a view to making its recommendations more widely known and to give some further study to certain questions that had not been fully dealt with, such as the problem of political ties on loans and the possible contribution by the Bank to the Capital Development Fund?

The delegate from the USSR took the floor for almost an hour to describe in much detail the economic relations between the socialist countries and the third world and gave numerous examples of the benefits that had been obtained by the latter from that relationship. He sharply criticized the report to which he referred repeatedly and with emphasis as the "report of the Bank's Commission." This is just one more effort by the capitalist countries to impose their economic philosophy. It neglects the deficiencies of the present
social structure and social conditions in the less developed countries. The report makes no effort to relate economic development to world peace. It simply represents a restatement of neo-colonialism - and as such it is a worthless document.

The representative from Italy commented that the Commission should have undertaken a deeper analysis of the difficulties facing the developed and developing countries in attaining the objectives of accelerated development. He also felt that the reports of the Committee for Development Planning (the Tinbergen Committee) and of the Pearson Commission identify themselves as far as the objectives are concerned. However, the reports propose different actions. The Pearson Report gives more weight to economic factors whereas the Tinbergen study emphasizes social improvement. He implied that the Pearson Report had neglected the social aspects of development. He then noted that the Commission had given much emphasis to performance and that the Bank was being given the leadership in assessing that performance. He asked how the Bank would carry out that function, and assuming that it would increase its activities in the social field, how would those activities be coordinated with those of other UN agencies. He recalled that the Commission had proposed that the President of the Bank convene a conference to discuss the creation of improved machinery for the coordination of aid and asked how this related to action in this regard now being considered by the Preparatory Committee for the Second Development Decade, ACC, the Committee for Development Planning, etc.

Mr. Pearson attempted to answer the foregoing questions in the very limited time that was left for him to do so. He re-emphasized at the outset the independence of the Commission and said that he and his colleagues were fully conscious of the omissions and inadequacies of the report which were due, in large measure, to time limitations - one more year might have been helpful. He also pointed out that the Bank is not universal and recognized that, unfortunately, the recommendations of the report are not of that nature. This, however, had been taken care of, in large measure, by the recommendations that additional multilateral aid be provided through the UN.

He felt that it was not accurate to say that the Commission had ignored social factors. The opposite had been stated repeatedly in the report and the Commissioners had been conscious at all times that, as stated by Gunnar Myrdal, development is "the whole social movement upwards." He admitted that the report had been mainly concerned with the transfers of resources but pointed out that in so doing the Commissioners had had very much in mind that such transfers would facilitate social progress.

As to the possibility of attaining the 1% target by 1975 and the validity of the assumption that it could bring about a rate of growth of around 6%, he noted that it was not possible to make precise predictions. He believed,
however, that the report's assumptions were not unreasonable and that if all action contemplated in it were taken it would not be unrealistic to expect that self-sustained growth might be achieved by the end of the century. He emphasized, however, that this would require continuity of action. Mr. Pearson did not feel that a better use of existing life, which he obviously favored, could be a substitute for adequate population measures. Both should be integral parts of a world strategy.

Regarding the coordination of the Bank's work and that of other agencies and the UN he suggested that this had to be worked out by the appropriate authorities. The Commission had limited itself to making some general suggestions on the need for more effective coordination and it was conscious of the fact that this question was being considered by the Preparatory Committee for the Second Development Decade and others. The Commission, therefore, had not ventured to say precisely how this should be done. It had suggested in general terms a high level meeting and this meeting might wish to consider the creation of an agency at the highest possible level whose major responsibility would be to assess progress in aid and performance efforts. It would do this in various ways including the assessment of reports to be presented to it yearly by both the developed and the less developed countries. Because of its importance he did not believe that this should be considered as just one more agency. It would have a significant task to perform.

As to the extension of the life of the Commission he said that this was, of course, up to the UN and to the agencies concerned. He would do his best to be of help but recalled that he was already retired and that the other Commissioners were busy people whose normal occupations might prevent them from continuing this type of work.

Encl.

cc: Messrs. Demuth/Hoffman
    Mr. Kamarck
    Mr. Consolo

EFH:mmcd
"AID FOR DEVELOPMENT"

The following statement was made by the Right Honourable Lester B. Pearson, Chairman of the Commission on International Development, before the Second Committee (Economic and Financial) of the United Nations General Assembly at United Nations Headquarters, New York, on Thursday, 20 November, 1969.

The Pearson Commission has produced a report, Partners in Development, reviewing the recent history of economic development aid and suggesting guidelines for assistance efforts over the next two decades.*

Mr. Chairman, Members of the Committee:

I consider it a privilege to have been able to accept your invitation, Sir, on behalf of the Committee, to address the Committee as the Chairman of the Commission on International Development.

It is a good many years, Mr. Chairman, since I have had the privilege of addressing a United Nations meeting in an official capacity, and I am very happy to be back again in this building. There has at least been one important change for the better since my days at the United Nations — to my amazement, your Committee starts on time, and that certainly is a change.

Perhaps I had better begin by saying a few words about our Commission, how it came to be appointed, its terms of reference, and then you would perhaps expect me to discuss briefly its report. I would like, before doing so, however, to tell you, Mr. Chairman, that I have with me the Secretary-General of the Commission, Mr. Hamilton, whose staff and himself are responsible for so much of the work that we were able to do and without whose expert assistance — and it was an international staff — we would certainly not have been able to complete our work within the year.

* A summary of the recommendations of the report is contained in Development Decade Note No. 11, issued by the Centre for Economic and Social Information (CESI). Reference copies of the report may be seen at CESI, Room 250, United Nations, New York.
The Commission arose out of an invitation addressed to me by the Head of the World Bank, Mr. McNamara, speaking on behalf of the Bank—an invitation to form a commission to inquire into the problem, the very important problem, of international development, aid for development, the experience in this field over the last 20 years or so, an analysis of the successes, and there have been some great successes, and an analysis of the failures, and there have been some failures of course, and they normally get the most publicity, and then to make a report on our investigations with recommendations which might be helpful to the Governments concerned, and the international agencies concerned, in dealing with these problems in the future.

I accepted this invitation and invited seven distinguished individuals to join me on the Commission, men who have had experience in this field, who also had experience in public administration, who had knowledge of the problems and the possibilities of economic development, and who came from various parts of the world. We all served, I should emphasize, in our individual capacities; we were independent in the sense that we did not have any instructions from any Government, or any international agencies; we were asked to make these inquiries, to make this investigation, to make this report, and we did so. We presented our report to the international agency which asked us to do the job, on 1 October.

That report is our own, we take responsibility as individuals for it. Its inadequacies are to be blamed on us. We can only hope that, as a result of the investigations we have made, it may be of some help to the Governments and the agencies who are facing these problems.

During the course of our work, I, as Chairman of the Commission, with a colleague or colleagues who might be available, travelled a good many thousand miles on various continents to discuss informally with Governments concerned the problems that we were asked to deal with, and during the course of these journeys, I had the privilege of exchanging views with the representatives of 70 different Governments and private individuals, academicians, officials and business and financial representatives.

Our first problem, of course, when we came to write our report, based on our investigations, our travels and our talks, was to deal with the history of the development effort over the last 20 years or so, to decide on the basis of that history whether the record was such as to encourage the maintenance and, indeed, the strengthening of the efforts for international development based on internation...
co-operation in the future, and to give our own views as to what the objectives for international co-operation should be.

We asked ourselves three main questions: whether the transfer of resources outside one's own country for the development of poorer countries -- that is, poorer economically -- was a commitment that should be confirmed and discharged by those countries who were in a position, because of their economic development and their wealth and their resources, to take that commitment.

We asked ourselves also whether the development of these developing countries was important to the world community and, if this is so -- and we certainly came to the conclusion you will realize, that it was so -- does the record show that it is feasible to reach the goal of self-sustaining growth in the reasonably near future, say by the end of this century? It was that objective -- self-sustaining growth -- that we considered to be the objective of international co-operation for development.

And we asked ourselves whether external aid had played, and could play in the future, an effective role in that development. Our answer to these questions is contained in our report, Partners in Development.

The answer in each case, of course, was in the affirmative.

I would like, Mr. Chairman, to express here, as Chairman of the Commission, my feeling of gratitude and appreciation for the co-operation I received from those with whom we were able to discuss these matters, both governmental representatives and private citizens, and as spokesmen for international agencies -- and naturally we did our best to keep in touch with international agencies, particularly those connected with the United Nations. We were very much aware of the fact that investigations along the lines we were following were being conducted by other committees, other commissions of the United Nations and elsewhere, and it was very helpful to us to get the views of these other committees and agencies who were concerned with inquiries into this problem.

One of our difficulties, and I think it is a difficulty that has had to be faced by all those who are interested in dealing with these problems of development was the difficulty which we refer to in the early pages of our report, the difficulty of semantics.

We talk about developed and developing countries, underdeveloped countries, we talk about poorer countries and richer countries, we talk about donor countries (more)
and recipient countries, we talk about aid-givers and aid-receivers, but none of these expressions really are satisfactory, and some of them are quite unsatisfactory, because, as we all know, there is a great deal more to development than gross national product. And there are countries in the world which are very highly developed in that sense and are called developed. There are other countries that are highly developed in other ways, which are called underdeveloped. But for the purposes of clarification and of classification, we followed the procedure that is now being followed by international committees and agencies and Governments, and even at the risk of some misunderstanding we have divided the world into the developed and the developing countries. But we are quite aware of the inadequacy and the unsatisfactory character of these terms.

Our report provides not only concrete recommendations, which perhaps I might touch on before I finish, but it does attempt at least to provide a rationale, or, if you like, a philosophy and a justification for international co-operation for development at a time when, I believe, in donor countries or some so-called donor countries it is important to establish that rationale, because there is a weakening of will in certain quarters, a weakening of will in regard to expenditures for international development and for aid programmes.

And so we have attempted in our report -- and I believe it is an important part of our report -- to establish a justification, a rationale, a reason for co-operation for development. And actually, the question which is being asked these days in some countries, why aid, why should economically-developed countries help those not too powerful economically, when their own problems are increasing in magnitude and complexity and when these things are crowding in upon them -- so much to do at home -- what is the justification for giving a high priority, which we believe it should have, to the transfer of funds from one country to another in the interest of world economic development? I am not going into the answers we gave to that question; they are in our report.

Our report also makes proposals for an over-all strategy of international co-operation for development which is fitted into the general framework of the international economy. The inadequacy, if it has been an inadequacy, of contributions for international development in recent years has not been only an inadequacy in the transfer of funds themselves, but a weakness in organization and administration of these funds on both sides, receiving and donor countries. Our report makes, or rather integrates, proposals often advanced previously in isolation (more)
into this strategy for development, which covers so much more than the transfer of funds and gives indications, makes certain recommendations, how these may be specifically implemented. It offers what I hope is a balanced picture of the respective responsibilities of the developing and the developed countries in building up, in a more meaningful way perhaps than has been possible in the recent past, a partnership of development. And it brings out, I hope, the significant progress which the developing countries have achieved, the lessons which have been learned and which show that under-development is not only an evil in national and international society, but an evil that man has the power, if he has the will, to eradicate.

This progress, we think in our Commission, has been encouraging and far from being used as it occasionally is used, as an argument for weakening or withdrawing from the effort. The record is an argument for continuing and strengthening this effort. As I said a few minutes ago, however, in discussing the record those who may not believe as much as others in the importance of this operation pick out of that record the failures and emphasize these failures as an indication that perhaps we should not do so much in the future.

Having regard to the record, having regard to the importance of co-operation in this field, our Commission makes certain concrete recommendations, which I am sure you know about, that in terms of transfer of funds from industrially-developed countries to developing countries, the commitment — which all countries have now, I believe, formally accepted — the commitment of 1 per cent of GNP should be again formally accepted and, far more important, should be carried out, and that a Government, in accepting this 1 per cent commitment to be reached by 1975, should report each year on the progress they are making and the plans they are undertaking to make sure the commitments they have given, insofar as they can be made sure, should be carried out.

Perhaps even more important than the goal of 1 per cent is the fact that our Commission has also laid down a goal for official development aid of 0.7 per cent. The 1 per cent figure of total aid includes private investments, as well as official transfers, non-official transfers, which make up something over 40 per cent of the total. Of $12,800,000 or $12,900,000 last year, something over $5 billion, between $5 and $6 billion, I believe, would be considered as private transfers of one kind or another. And while these may have their value, and do have their value, for development in the countries that receive the transfers, it is our feeling that

(more)
they should be distinguished from official aid, because they do not after all involve a burden on the taxpayer of the donor Government. And while they may be of help, and are of help, they are not "aid" in the technical sense. And when we talk, as we do in our countries if we are in this developed category, about "the burden of aid", we should realize that this burden is not nearly as heavy as may be implied from the figures that are sometimes given in the effort to reach the 1 per cent goal. We try to make that emphatically clear in our report and so, to convey that clarification into commitment, we recommend an 0.7 per cent for official transfers.

We also attach a very considerable importance to improving the techniques of aid, to improving the organization, to improving the administration, to the building up, as I said a few moments ago, of a more meaningful partnership in international co-operation for development, and there are various ways in which we thought this could be done.

One, for instance, is to link the transfer of resources to performance, but not only performance on the part of the so-called receiving countries, but performance on the part of those who make commitments to transfer their resources. And not only performance on both sides which will be monitored by one side, but a performance which would be monitored multilaterally through international agencies, on which both sides, the receiving and the donor sides, would be represented, and which, in that sense, should make monitoring more acceptable.

We also emphasize that it would be an important step forward if those countries who are receiving assistance could have a greater feeling of security in the continuity of the assistance, and this brought up the whole question of other restrictions on the transfer of funds. Indeed, some of these also reduce the value of the 1 per cent contribution, if it is reached. I am thinking, as you are thinking, of the tying of aid. We make a good many concrete proposals which we hope will remove some of the difficulties and the problems and the disadvantages of tied aid -- something, however, that will have to be done on a collective basis and not on an individual basis.

We come out strongly for an increase in multilateral aid. We are realistic enough to realize that if we recommended all aid should be multilateral, apart from the fact that it might not be desirable in itself, it would be quite impracticable.

But we do think there should be a much higher proportion of aid allocated through international channels on a multilateral basis. The figure for that is now (more)
about 11 per cent of aid. We recommend that it should be increased to 20 per cent by 1975, which would bring the figure of aid, on the projection of present allocations for multilateral purposes, up to about $3 billion.

We place emphasis on programme aid, as opposed -- not opposed, but supplementary -- to project aid. And we have a good deal to say in our report about technical assistance, a very important form of aid, but one which we think should be more closely integrated with capital assistance than had been the case, and which we think should be made in all of its aspects more relevant to the conditions of the country receiving it than has sometimes been the case in the past.

And of course we realize, and you realize, that there is a great deal more to development co-operation than the mere transfer of resources or funds from one country to another. There is the question of private investment which I have talked about, and when operated in the appropriate way -- and we have made some proposals which we think will remove some of the objections in receiving countries to some forms of private investment and encourage in the investing countries more private investment -- we think private investment can play an increasingly important part in the development of developing countries, without incurring the political difficulties that at times in the past, as we all know, have existed, and not only in so-called developing countries.

We are very conscious of the importance for development of the burden of debt that has been incurred by a good many developing countries. The responsibility for this is not always easy to determine, and certainly should not be placed exclusively on one side or the other. But whoever may be responsible for this, the fact is now that the burden of debt is so crushing in some countries that it more than neutralizes any assistance, any new assistance, being received from outside. We have some proposals that we hope will be effective, where it is required in if not removing at least making easier to bear this burden of debt. We believe that these proposals for easing this burden should be considered as a form of aid.

We have something to say about an important aspect of development, but a very delicate and difficult one to discuss to everybody's satisfaction -- the question of population, and our recommendations in that regard are in line, I think, with discussions that have been taking place in the United Nations in recent years.

We also naturally have a good deal to say about trade as a form of development assistance. We often hear the phrase, "trade not aid". There is a validity about
that concept in the sense that the purpose of aid is to make it unnecessary for the countries receiving the aid to depend on it any longer than is necessary.

I know, and you know, that the so-called developing countries are just as anxious to get out of this dependence on outside assistance, more anxious to get out of it, perhaps, than the developed countries are anxious to continue it. And one way of freeing themselves from the necessity of depending on outside assistance is to develop their own trade, and without that kind of development their dependence on help from outside will be longer than they would wish, or we would wish. But, while that is all very true, the fact remains that it will take a good many years for this trade increase to be effective, to make aid of the kind I have been talking about unnecessary. And therefore it is not a question of "trade or aid", at the present time; it is a question of trade as a supplement to aid, so that eventually it will be able to take the place of aid. This requires important changes on the part of the industrial exporters who now dominate the export trade market. We have a good many recommendations which will open up the markets, we hope, of these rich trading countries to the products of the developing countries, and I hope, because it is so important, that progress can be made in this field. We do not underestimate the difficulties of this -- these recommendations may be the most difficult ones that we make for Governments to implement, certainly in their entirety.

As one who has been the head of a Government, I appreciate that there are times when, from the point of view of domestic political pressure, which you cannot ignore, there are times when it is easier to transfer $100 million of capital, of capital assistance, to another country than it is to import from that country 10 million shirts made from the factory which that capital may help to build. And that is why, I suppose, some politicians have referred to aid as the "softer option".

But, nevertheless, the willingness of the developed countries to open their markets more liberally to imports from developing countries especially will be a very major test of their sincerity and their will to continue and strengthen international co-operation for development.

I can understand the feelings of Governments of developing countries when they realize that not only are they asked to compete in these markets on terms of equality but that, for instance, in the case of manufactured and semi-manufactured goods, they are actually discriminated against. Our report expresses the hope that not only will these discriminations be removed but that the developing (more)
countries will be given one-way preferences, that they will have an advantage in developed countries, until the time arrives when they will not need that advantage any longer. I hope Governments will give attention to recommendations of this kind which, of course, they are receiving from other sources than our particular report.

Mr. Chairman, there are a lot of other things in the report that I could talk about. We have a great deal to say about a new and stronger mechanism for international co-operation -- we consider a very important agency in the future in regard to this co-operation could be the International Development Agency, which is part of the World Bank, but that part which deals with concessional loans and concessional assistance.

I mentioned a little while ago the importance of the debt problem. That importance emphasizes the necessity of avoiding the mistakes, if we can, in the future in regard to loans that we have made at times in the past. And one of our recommendations -- if it were accepted by Governments, it might be as important as any that we have made -- is that in the future on all official loans the maximum rate of interest should be 2 per cent, the period for repayment should be from 35 to 45 years, and the grace period from 7 to 10 years.

We think that kind of recommendation could not only help to avoid some of the difficulties that have been created in the past, but would be of very great assistance in the future to those countries who are not always able to pay the rates of interest that are sometimes required on other levels of lending. And we think in this connexion that the IDA can be a very important agency; it should be given, we think, by Governments more official support and over a longer period of time, so that it would be able to operate at least with the assurance of some support over that time.

Now, these are only some of the recommendations we have made, Mr. Chairman and members of the Committee. All that we can hope is that they will be useful in themselves as recommendations and that our analysis of the problems with which they deal will similarly be useful to those who are concerned. And I don't know, apart from the ultimate problem of peace and war, and if you like, peace and war and pollution, that there is any more serious problem in the world today than the widening gap between the low-income and the high-income world. The consequences of that gap and, above all, the consequences of its widening to the point where the rich are getting richer and the poor are getting poorer, relatively, may not be (more)
facing us next year or the year after that, but they will be facing us in the future and in a not far distant future.

And whatever may happen -- we hope that a lot of things will happen -- to solve the political difficulties that divide the world, but whatever may happen in this field, there will be no peace or security or progress or opportunity for a decent life for all men in the world if we do not do something about this widening gap. It is in the hope that our report may make some contribution, some modest contribution, to the solution of that problem that we felt honoured and privileged to be asked to take on this responsibility.

It is in that spirit that we have made our recommendations. Now, as one who has been in public life on the official and on the political level for something more than 40 years, and who has participated in a great many commissions, both domestic and international, and who has helped to write a great many reports, as an expert, as a secretary, and as a chairman, I know, as I said in presenting this report to the World Bank, that the road to nowhere is paved with reports, and some very good reports, too.

So, whether our report and our recommendations are of any value will depend on what Governments do about them. And what Governments do about them, in the last analysis, will depend on the public opinion that can be brought to bear on those Governments to take the steps that are required. And whether public opinion will be able to do this depends also, Mr. Chairman, on the deliberations of the kind of committee that I have the privilege to appear before this morning. Thank you.

* *** *
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Correspondents / Participants
L. Nurick to Andrew H. Gantt II

Subject / Title
Reporting of Special Studies

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DATE: November 21, 1969

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TEXT:
FOR STEPANEK/CANTOR BANK POSITION ON PEARSONS RECOMMENDATIONS BEING PREPARED STOP REGRET UNABLE TO DISCUSS AS REQUESTED STOP ARRIVING ELEVEN FORTYFIVE MONDAY MORNING VIA AF738 STOP HAVE RESERVATION AT INTERCONTINENTAL

MACNEALY

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MESSAGE AUTHORIZED BY:
NAME Charles E. MacNealy
DEPT. Economic Development Institute

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November 21, 1963

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    OTTAWA 4, ONTARIO

DATE: NOVEMBER 19, 1969

COUNTRY: CANADA

CLASS OF SERVICE: FR

TEXT:

THE FOLLOWING MESSAGE RECEIVED HERE TODAY FROM LIBREVILLE
QUOTE POUR PRESIDENT LESTER B. PEARSON 51194 REFERENCE VOTRE TELEX
EN DATE DU 30 OCTOBRE. ACCORD AUDIENCE SOLLICITEE ALBERT BERNARD BONGO
UNQUOTE

WORLD BANK

As agreed with Mr. Fulton

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MESSAGE AUTHORIZED BY:

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DEPT: Administration

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CLERK OF COURT

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OTTAWA, ONTARIO

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TEXT:

The following message received here today from President

Please inform Senate that Senate adopts the

In date of 30 October, according to Senate resolutions, Senate receives bonds

NORDBANK

As agreed with Mr. Filion.

COMMUNICATIONS

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MESSAGE AUTHORIZED BY

NAME: H. E. Leahey

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Signature

[Signature]

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DATE AND TIME OF CABLE: NOVEMBER 19, 1969 236PM

LOG NO.: RCA TELEX / 19

TO: FRIEDMAN INTRAFRAD

FROM: RIO DE JANEIRO

ACTION COPY: MR. FRIEDMAN

INFORMATION COPY:

DECODED BY:

TEXT:

EVEN THOUGH DEEPLY APPRECIATING YOUR REMINDING MY NAME FOR THE PAPER ON LATIN AMERICA, HOPE YOU WILL UNDERSTAND DUTIES AT CENTRAL BANK LEAVE ME NO MATERIAL TIME TO PREPARE A CONTRIBUTION WORTHY OF THE OCCASION. PLEASE EXPLAIN BARBARA WARD MY POSITION KINDEST REGARDS

PAULO PEREIRA LIRA

BANCENCAMBIO
OFFICE MEMORANDUM

TO: Mr. Richard H. Darrah
FROM: P. H. Henderson
DATE: November 18, 1969

SUBJECT: The Pearson Commission Recommendation on the Allocation of IDA Funds between Recipient Countries

A. Introduction

At the end of its concluding chapter, the Report of the Commission on International Development makes the following recommendation with respect to the operations of IDA:

"IDA should formulate explicit principles and criteria for the allocation of concessional development finance and seek in its policies to offset the larger inequalities in aid distribution."

The two parts of this recommendation are to be taken together: the main allocative principle that IDA is urged to adopt is that of taking into account, as far as possible, what the Commission regards as the inequalities which are created as a result of the way in which official bilateral aid is distributed between countries.

3. A number of problems and difficulties arise from this recommendation. Some of these are matters of interpretation. Since the precise meaning and implications of the recommendation are by no means clear from the report, it would appear that on any plausible interpretation, acceptance of the recommendation would involve a significant departure from the present criteria and practice of IDA.

4. The argument that follows is divided into three main sections. In the first of these an attempt is made to examine the recommendation with reference to what is said in relation to it in various parts of the report, and to point out some of the difficulties that seem to arise in giving it a reasonably precise content. In Section C a particular specific interpretation is taken, and its possible implications for the distribution of IDA funds are set out in some detail. The results of this exercise are necessarily very tentative and open to question. Because of the problems of interpreting the recommendation, and for other reasons also, they can be treated only as illustrating a particular possibility. But since the realism and acceptability of the recommendation depend to a large extent on the nature of the effects that its acceptance would give rise to, it seems worthwhile to introduce figures even though these must inevitably be very speculative.

5. From the calculations made here it appears that - contrary perhaps to expectation - it would not necessarily follow, if the recommendation were accepted, that India and Pakistan would obtain a larger share of funds than they would under existing arrangements. But this conclusion is dependent on the particular assumptions made.
5. In the concluding section, the recommendation is considered more broadly, and without reference to problems of interpretation, in relation to the existing criteria and practice of IDA and to recent discussions concerning possible changes in these criteria. Finally, an attempt is made, necessarily in cautious terms, to suggest a possible line of action that might be followed with respect to the recommendation.

B. What Exactly Did the Commission Mean?

6. The recommendation has to be considered in relation to the very substantial increase in IDA lending which the Commission hopes will be realized over the next five years: the Report mentions figures of $1.0 billion in 1972 and $1.5 billion by 1975. But it is not clear whether the recommendation is meant to apply to all IDA credits, or only to additional credits over and above the present level, as and when the amounts provided by donor countries increase. From the actual wording of the recommendation itself, it would appear to be the total amount that the Commission has in mind. On the other hand, both in the concluding chapter itself (on page 227) and at an earlier point in Chapter 6 of the Report (page 134), the wording of the argument suggests that it is only the anticipated future increase in lending that should be allocated in accordance with the principle of achieving a fairer international distribution. As will be seen, this principle would be easier to accept if it were interpreted as relating to additional funds only, and not to the total amount of IDA lending.

7. Another ambiguity seems to exist in the Report concerning the nature of the inequities that IDA should try to redress. From the wording of the recommendation, and from the discussion which relates to it in the concluding chapter of the Report, it seems reasonable to infer that IDA funds are to be distributed in a way that will make the distribution of all official development assistance more equitable. When however one looks at Chapter 6 of the Report another interpretation suggests itself. Here at a number of points the statement is made that it is additional official aid, rather than the total amount, which should be allocated more fairly. Moreover, this form of words is explicitly used in relation to the role of multilateral agencies:

"... distribution of additional aid primarily according to performance can be assured only if multilateral agencies try to fill gaps left by bilateral preferences, while still adhering to the performance principle" (page 134).

If the recommendation were taken to apply only to future increases in official bilateral aid, this would imply a much more modest redistributive goal for IDA.

8. On a further point of interpretation, namely the way in which the flow of aid is to be defined and measured, the Report provides no guidance.
Some figures relating to the international distribution of official aid are quoted in Chapter 6, and these in fact refer (though the point is not explicitly made) to total net receipts. But this is a questionable measure of assistance, since it takes no account of the composition of the flow of funds to developing countries, as between grants and loans of varying degrees of softness. It is thus arguable that a more appropriate measure of aid, and hence of its distribution among recipient countries, is derived by taking the estimated grant equivalent of official flows. Since it is known that the grant element varies widely as between different developing countries, the choice is by no means a purely formal matter. Moreover, in order to calculate the grant element it is necessary to look at the gross rather than the net flow, and the existing D.A.C. estimates are in fact based on total gross commitments, as opposed to net receipts. This problem of definition has to be resolved before a view can be formed of what the Commission's recommendation might amount to in practice.

9. The ambiguities so far referred to might be described as technical, and in consequence they could in principle at any rate be satisfactorily dispelled. More serious issues of interpretation, and indeed of policy, arise in connection with the Commission's ideas on the subject of what would constitute a more equitable international distribution of aid.

10. The main references to this question occur in Chapter 6 of the Report, where it is argued that aid which is given for economic reasons should be allocated primarily in accordance with assessments of economic performance. Such a proposal raises two issues of some complexity, both of which are controversial. First, can performance be measured in some clear and acceptable way? Second, can any useful rules be devised for translating the assessments of performance into an actual distribution of aid among recipients?

11. On the first issue, the Report takes an extremely confident line. It is argued that performance can be adequately measured in terms of two key indicators only, namely "adequate and sustained increases" in the ratio of savings to national income and of exports to imports. This however is at once qualified by the admission that

"... sensible judgments cannot rely solely on these indicators and must also take into account the specific obstacles to change, political and social as well as economic, which are faced by the particular country in question" (page 132).

This at once reintroduces some formidable problems. However, the Report argues that a good deal of progress has recently been made in judging performance, and that in any case it is unnecessary to arrive at a "precise rating" for each country.
Those who report on performance do not need to award an over-all mark; and those who allocate funds will have little difficulty in distinguishing between good, mediocre and bad performance.

12. This brings us to the second question, which is that of deciding what a distribution of aid according to performance would look like. From the passage just quoted, it can be seen that this is a problem that would be inescapable for IDA as opposed to all other agencies. Other donors may or may not take into account performance; insofar as they do, they could very well be content with the rough classification suggested above. It is only IDA, under the system of allocation suggested by the Commission, which could not avoid the task of translating performance assessments into a corresponding international allocation of aid, since it is charged with the task of achieving such a distribution so far as its funds permit.

13. It is therefore a matter of some concern to know how one might arrive at some approximate figures for an equitable distribution from a classification of countries into good, mediocre and bad performers. Here again the Commission provides no guidance. Although it is argued in the Report that the existing distribution of aid is anomalous and unfair, no attempt is made to suggest how the application of performance criteria should actually be used to derive something better.

14. Matters are not made easier by the fact that the criterion of performance is given primary rather than exclusive emphasis. While in Chapter 6 of the Report no other criteria are mentioned, two at any rate are brought in at a later stage of the argument.

15. Thus in Chapter 7 on "Development Debts", reference is made to the need for concessional aid for countries where serious debt servicing problems are likely to arise. If the view is taken that the amount of aid should be defined and measured in terms of the grant element of transfers, rather than total flows whether gross or net, then this becomes an argument for giving more aid to countries where insufficiency of creditworthiness may be a problem. Moreover, in the same chapter, in connection with the terms of official loans, it is suggested that "developing countries with very low incomes per head should receive the most favorable terms". Here again, if aid is defined with reference to the terms on which it is made available as well as to the nominal amount, the statement implies that poverty is a factor that should also be taken into account in deciding what the distribution of aid between countries should be. This impression is confirmed in the final chapter of the Report, in connection with the discussion of the principles of allocation that IDA should adopt. Here we are told that
"Subject to the overriding performance principle, countries which receive relatively little bilateral aid on concessional terms, or little aid from other international organizations, should get relatively large assistance from IDA and vice versa, and countries at a lower level of development should receive more assistance per head than countries further along the development scale. However, this principle must be conditioned by the fact that the least developed countries often have a limited capacity to absorb external resources" (page 227; italics added).

Although this excerpt raises a number of problems of interpretation, and is indeed a choice specimen of imprecise drafting, it is at least clear from it that IDA should take account of poverty as well as performance in deciding what should be done by way of redressing inequities. What is less clear from the report is how this is to be done, and what should be the relative order of magnitude of the relative weighting given to poverty, performance, and to other factors.

16. One aspect of this latter point is that, although the report makes a passing (and inaccurate) reference to the per capita income figure of $300 which is used by IDA as the limit beyond which countries will not normally be eligible for IDA credits, it is not stated whether in following the Commission's recommendation IDA should continue to impose a poverty test, and if so at what level and how rigidly.

17. To sum up what has been said, it is unclear from what the Commission has to say:

(i) what is meant by aid and hence the distribution of aid;
(ii) what distribution of aid - however aid is defined - IDA should try to rectify;
(iii) what proportion of IDA funds are to be devoted to this task;
(iv) what would be the approximate form of a distribution of aid allocated largely or entirely in accordance with the allocative principle that the Commission mainly emphasises, namely economic performance;
(v) how and in what degree allowance is to be made for other factors which the Commission does not wish to see ignored; and hence
(vi) how IDA is to form more than a very hazy judgment concerning what changes in distribution ought to be made.

18. It is thus hard to know what to make of the recommendation except as a very broad and general statement of principle. As such, it will be briefly considered in the final section. Before this, however, some illustrative estimates are given to show how IDA credits would probably be allocated between countries on one specific interpretation that might be adopted.
C. An Illustrative Calculation

19. For the purpose of deriving some figures, the following assumptions have been made:

(a) IDA has $1 billion a year at its disposal for redistributive purposes. (For the purpose of this exercise, it is not necessary to resolve the ambiguity referred to in paragraph 6 above).

(b) Aid is to be defined in terms of the grant equivalent of gross official commitments. As a corollary, and since the grant equivalent of an IDA loan is 83 per cent, IDA is regarded as having $830 million of "grant-equivalent" funds for distribution in a given year.

(c) The "existing distribution of aid" which is to be modified is taken to be that of the year 1967 as derived from the D.A.C. 1967 Terms Matrix. From Table IV of the matrix was calculated the amount of official aid, measured in grant-equivalent terms, committed by donors in that year in respect of each "eligible" developing country. IDA credit was excluded from this measure, which was divided by population figures (taken from the World Bank Atlas) to arrive at official assistance per head for each country. This measure constitutes the distribution of aid among "eligible" countries, other countries being ignored.

(d) Developing countries are regarded as "eligible" - i.e. eligible in principle for IDA assistance - provided that

(i) their per capita income is below $300; and
(ii) the Bank has at present a lending program in relation to them.

The number of eligible countries comes to 62. The information as to per capita income and the presence or absence of a Bank lending program was derived from a table recently prepared by the Creditworthiness Studies Unit.

(e) The amount of $830 million was distributed among eligible countries in such a way as to make the overall distribution of total official aid more equal with respect to countries that reach a given level of performance.

20. The last item needs a word of explanation. Using the Creditworthiness Studies table just referred to, the eligible countries were classified into three groups according to the performance rating that they are currently given by the Bank, namely marginal, adequate and good. The following set of
rules was then applied:

(i) no country whose performance was marginal should receive less than $2.4 per head of assistance from all official sources, including IDA;

(ii) no country whose performance was adequate should receive less than $3.2 per head; and

(iii) no country whose performance was good should receive less than $4.0 per head.

The $830 million of (grant-equivalent) IDA funds were allocated among the countries in each performance category which fell below the respective minimum levels, so as to insure that in all cases the minimum was attained. The minimum amounts of per capita aid were chosen in such a way as to use up the available $830 million.

21. As a corollary of these rules, countries within each performance class which received in 1967 more than the corresponding minimum amount of official assistance per head were disqualified from receiving IDA credits. Of the 62 countries that were in principle eligible, only 28 would actually have qualified for assistance from IDA on this particular test.

22. Thus the aim was to differentiate according to performance, while reducing the degree of inequality within each performance category. The process of calculation, and the resulting allocation of IDA funds, are set out for the 28 qualifying countries in Table 1 on page 8.

23. The minimum allocation for each country, shown in the fourth column of this table, is derived by multiplying the population figure by the minimum amount of official per capita aid for the relevant performance group - i.e., $2.4 per head for those in the marginal category, $3.2 for the adequate, and $4.0 for the good. The allocation of IDA funds in grant-equivalent terms, set out in the last column of the table, is arrived at by subtracting the grant-equivalent official aid actually received in 1967 (net of IDA credits) from the minimum allocation.

24. Although no great significance can be attached to the notional allocation thus arrived at, it is interesting to see how it compares with the actual distribution of IDA credits in the past.

25. A comparative distribution as between the main recipient countries is shown in Table 2 on page 9, which lists in terms of percentage shares the ten leading beneficiaries of IDA assistance, as measured by the share of the cumulative total of IDA credits up to June 1969, and the top ten countries in the last column of Table 1. The countries are listed in each case in descending order according to size of share.
<table>
<thead>
<tr>
<th>Country</th>
<th>Performance Rating</th>
<th>Population ('000s)</th>
<th>Minimum Allocation ($M)</th>
<th>Actual Receipts of Official Aid, 1967 ($M)</th>
<th>Notional IDA Allocation (Grant-Equivalent) ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chad</td>
<td>Marginal</td>
<td>3,361</td>
<td>8.1</td>
<td>7.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Congo (Kinshasa)</td>
<td>&quot;</td>
<td>15,986</td>
<td>38.4</td>
<td>35.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>&quot;</td>
<td>23,000</td>
<td>55.2</td>
<td>22.5</td>
<td>32.7</td>
</tr>
<tr>
<td>Mali</td>
<td>&quot;</td>
<td>4,654</td>
<td>11.7</td>
<td>5.6</td>
<td>6.1</td>
</tr>
<tr>
<td>Sudan</td>
<td>&quot;</td>
<td>13,980</td>
<td>33.5</td>
<td>24.7</td>
<td>8.6</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>&quot;</td>
<td>15,980</td>
<td>38.3</td>
<td>37.0</td>
<td>1.3</td>
</tr>
<tr>
<td>India</td>
<td>&quot;</td>
<td>498,600</td>
<td>1,196.8</td>
<td>1,042.2</td>
<td>154.6</td>
</tr>
<tr>
<td>Syria</td>
<td>&quot;</td>
<td>5,400</td>
<td>13.0</td>
<td>11.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Malagasy Republic</td>
<td>&quot;</td>
<td>6,200</td>
<td>19.8</td>
<td>15.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Malawi</td>
<td>&quot;</td>
<td>1,035</td>
<td>12.9</td>
<td>10.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Nigeria</td>
<td>&quot;</td>
<td>53,700</td>
<td>124.0</td>
<td>60.4</td>
<td>164.9</td>
</tr>
<tr>
<td>Tanzania</td>
<td>&quot;</td>
<td>11,833</td>
<td>37.9</td>
<td>32.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Uganda</td>
<td>&quot;</td>
<td>7,740</td>
<td>24.8</td>
<td>15.2</td>
<td>9.5</td>
</tr>
<tr>
<td>U.A.R.</td>
<td>&quot;</td>
<td>30,147</td>
<td>96.5</td>
<td>20.1</td>
<td>76.4</td>
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<tr>
<td>Ceylon</td>
<td>&quot;</td>
<td>11,491</td>
<td>36.8</td>
<td>32.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>&quot;</td>
<td>107,000</td>
<td>312.4</td>
<td>158.6</td>
<td>183.8</td>
</tr>
<tr>
<td>Iran</td>
<td>&quot;</td>
<td>25,550</td>
<td>61.8</td>
<td>38.5</td>
<td>43.3</td>
</tr>
<tr>
<td>Iraq</td>
<td>&quot;</td>
<td>8,380</td>
<td>26.8</td>
<td>4.6</td>
<td>22.8</td>
</tr>
<tr>
<td>Nepal</td>
<td>&quot;</td>
<td>10,294</td>
<td>32.9</td>
<td>7.9</td>
<td>25.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>&quot;</td>
<td>33,177</td>
<td>107.1</td>
<td>67.3</td>
<td>39.8</td>
</tr>
<tr>
<td>El Salvador</td>
<td>&quot;</td>
<td>3,037</td>
<td>9.7</td>
<td>7.1</td>
<td>2.6</td>
</tr>
<tr>
<td>China</td>
<td>Good</td>
<td>12,810</td>
<td>51.2</td>
<td>48.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>&quot;</td>
<td>9,725</td>
<td>36.9</td>
<td>35.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>&quot;</td>
<td>31,968</td>
<td>127.9</td>
<td>83.4</td>
<td>44.5</td>
</tr>
</tbody>
</table>
Table 2
Comparative Shares in IDA Lending of Main Recipient Countries

<table>
<thead>
<tr>
<th>Shares in Cumulative Total of IDA Lending</th>
<th>Shares in Notional Allocation of IDA Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>% Share</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>1. India</td>
<td>47.8</td>
</tr>
<tr>
<td>2. Pakistan</td>
<td>17.4</td>
</tr>
<tr>
<td>3. Turkey</td>
<td>4.3</td>
</tr>
<tr>
<td>4. Indonesia</td>
<td>2.4</td>
</tr>
<tr>
<td>5. Korea</td>
<td>2.0</td>
</tr>
<tr>
<td>6. Kenya</td>
<td>2.0</td>
</tr>
<tr>
<td>7. Tanzania</td>
<td>1.9</td>
</tr>
<tr>
<td>8. Nigeria</td>
<td>1.6</td>
</tr>
<tr>
<td>9. Tunisia</td>
<td>1.5</td>
</tr>
<tr>
<td>10. Ethiopia</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total of above countries</strong>: 61.2</td>
<td><strong>Total of above countries</strong>: 53.2</td>
</tr>
</tbody>
</table>

26. A striking feature of this comparison is the very much smaller shares obtained in the notional or derived distribution by India and Pakistan, as compared with their share of actual IDA credits to date. From the right-hand column it can be seen that India received less than 20 per cent of the notional future allocation. This is due in part to a low performance rating, but also to the fact that a number of other large countries received in 1967 significantly smaller amounts of official aid per head. Pakistan gets nothing at all in the notional allocation, despite a performance rating of "adequate", since its level of aid per head in 1967 just exceeded the limit for this performance category of $3.2 per head.

27. Because of the recent changes in IDA lending policies, and the emergence of Indonesia as a leading recipient of IDA credits, the distribution of total cumulative lending is an unreliable guide to the immediate future. But even allowing for this, very substantial differences between the two distributions would remain. In particular, the prospective shares of India and Pakistan, though smaller than in the past, greatly exceed those in the notional allocation, while on the other hand the Indonesian ceiling of 12½ per cent is well below the share of 22 per cent in the right-hand column of the table. Further, while the proportion of prospective IDA credits going to the top three countries (India, Pakistan and Indonesia) somewhat exceeds that obtained by the top three countries in the national allocation, the degree of concentration would almost certainly be less if the shares of the top ten were compared. On the right-hand side there is a number of
medium or medium-to-large countries which would qualify for substantial allocations according to the principle applied here, whereas apart from the "big three" the prospective future allocation of IDA credits is much wider and more evenly spread, particularly in view of the recent decision to try to ensure a wider geographical distribution.

28. Countries which appear in the top ten under the notional scheme but which have not yet received any IDA assistance are the U.A.R., Thailand, Iran, the Philippines and Iraq, while Nepal has only just obtained its first IDA credit. Some of these countries have no doubt been ruled ineligible on the ground that they were fully creditworthy for Bank lending, whereas in the illustrative system of allocation presented here sufficiency of creditworthiness is not treated as a disqualification. Conversely some countries which have received IDA credits partly perhaps on the grounds of insufficiency of creditworthiness, such as Korea, Turkey and Tunisia, failed to qualify for a share in the notional allocation because they received relatively high amounts of aid per head in 1967.

29. It would appear from this comparison that if something along the lines of the Pearson Commission's recommendation were adopted, while at the same time insufficiency of creditworthiness ceased to be virtually a necessary condition for receiving IDA credits, the chief single beneficiary would be Nigeria, which would have received a very substantial allocation under the notional scheme even if its performance rating had been lower. At present Nigeria is regarded as creditworthy for Bank lending.

30. It is also possible to compare the different distributions of IDA credits with respect to the main regions of the developing world. In view of the recent changes in IDA lending policies, two sets of figures are given for the actual past distribution between regions: one relates as before to the cumulative total of credits, and the other to credits in the fiscal year 1968-69. Table 3a gives comparative shares by the three main regions, i.e. Africa, Asia and Latin America and the Caribbean.
Table 3a
Comparative Shares in IDA Lending of Three Principal Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Actual IDA Credits</th>
<th>Notional Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative Total</td>
<td></td>
</tr>
<tr>
<td>1. Africa</td>
<td>17.8</td>
<td>20.0</td>
</tr>
<tr>
<td>2. Asia (including Turkey)</td>
<td>76.1</td>
<td>76.2</td>
</tr>
<tr>
<td>3. Latin America and Caribbean</td>
<td>6.1</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

31. It can be seen that the notional system of allocation outlined here, as opposed to the distribution of past or recent IDA credits, would have involved a very substantial increase in the share going to the African continent. In view of the fact that African countries are generally regarded as being relatively favored by bilateral donors, this is at first sight a rather surprising result. Part of the explanation may lie in rather lower allocations of official aid to some African countries in 1967, the year chosen as a basis for fixing the notional allocation. But the main factor is that some of the larger African countries, such as Nigeria and the U.A.R. and Ethiopia, are far from being favored in terms of official bilateral aid.

32. It is also apparent that the share of the Latin American and Caribbean countries in IDA lending, which was low in the past and was lower still in the latest fiscal year, is reduced to insignificance in the right-hand column of Table 3a.

33. A point that is not brought out in Table 3a is that the notional allocation scheme implies a spectacular increase in the share of IDA lending that would have gone to a number of countries in the Middle East. Those countries that enter into the comparison comprise the U.A.R. and the Sudan in the African continent, together with Iran, Iraq, Jordan, Syria and Turkey since Israel, Cyprus and the Lebanon neither received IDA credits in the past nor qualify under the notional scheme - in Asia. An alternative regional grouping which gives separate figures for this group of countries is shown in Table 3b below.
<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage Shares</th>
<th>Actual IDA Lending</th>
<th>Notional Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative Total</td>
<td>1968/69</td>
<td></td>
</tr>
<tr>
<td>1. Africa (excluding Middle East)</td>
<td>16.8</td>
<td>20.0</td>
<td>26.2</td>
</tr>
<tr>
<td>2. Asia (excluding Middle East)</td>
<td>71.0</td>
<td>73.0</td>
<td>55.2</td>
</tr>
<tr>
<td>3. Middle East (including Turkey)</td>
<td>6.1</td>
<td>3.2</td>
<td>16.2</td>
</tr>
<tr>
<td>4. Latin America</td>
<td>6.1</td>
<td>3.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

34. When the actual and the notional shares are compared on this basis, the gain to African countries is somewhat reduced, though it still remains very considerable because of the large increase in funds allocated to Nigeria, and to a lesser extent Ethiopia. The fall in the Asian share is appreciably greater if Middle Eastern countries are excluded. This however is more than accounted for by the reduction in the shares going to India and Pakistan, and it masks very considerable gains, which have been noted above, to Indonesia, the Philippines, Thailand and Nepal. The notional allocation also implies a very dramatic increase in the share of IDA funds received by the Arab countries (apart from the Lebanon and the Maghreb states) and by Iran.

35. The number of countries qualifying for inclusion in an allocation of this kind, and the distribution of IDA assistance between them, will depend on the total amount of funds assumed to be available and the performance ratings assigned to a number of large countries which tend to receive low amounts of aid per head. Moreover the particular method of allocation adopted here is only one of a large number of related possibilities. There are however two features of any such system which are worth noting.

36. First, it is of course not accidental that the notional scheme, despite the fact that no single country receives a share even close to the present ceiling for IDA credits to India, results in a higher concentration of assistance on a limited number of countries. The whole object of any Pearson-type scheme, whatever the precise formula for implementation, is to concentrate the aid supplied by IDA on a limited number of deserving cases. This is directly contrary to the principle recently adopted by IDA, of trying to secure a wider geographical distribution as an end which has value in itself. Of the eight countries which received IDA credits for the first time in the fiscal year 1968-69, five would have been disqualified on the criteria adopted for the
notional allocation, on the grounds that they were already receiving relatively large amounts of official assistance from other sources. This suggests that, as noted in paragraph 6 above, the Pearson Commission recommendation might prove more acceptable if it were interpreted as applying only to additional IDA funds.

37. Second, the specific allocation of IDA funds under any Pearson-type scheme may be significantly influenced by the particular distribution of other official aid which is taken as the reference point. Countries do not receive the same relative amounts of aid from year to year, and in any given case very large sums may depend on which period is chosen for comparison. This means that the choice of a base period might well become a highly contentious issue. Moreover, any past period may be a dubious guide to future intentions and outcomes, since the aid programs and philosophies of bilateral donors are modified over time. Thus the choice of a reference period is not at all a straightforward matter. Here again the Report of the Pearson Commission gives no guidance.

38. As a rough test of the sensitivity of the results to the choice of base year, consideration was given to the effect on the allocation scheme outlined above of taking the two years 1966 and 1967 together, rather than 1967 alone. The differences seem to be not very striking, since with a few exceptions the pattern of official aid did not markedly change between the two years. The main single difference would have been a considerable increase in the share of funds allotted to Indonesia, which had a much lower amount of official per capita aid in 1966 than in 1967. A number of francophone African countries, which did much better in 1966 than in 1967, would have disappeared from the list in Table 1 above, while a few other countries (Burundi, Rwanda, Sierra Leone and possibly Pakistan) would have qualified for small amounts. The Indian share would probably have been a bit lower on this basis, while the U.A.R. and Ethiopia would certainly have done rather worse.

39. In concluding this section, it may be noted that it would also be possible to devise systems of allocation which conformed with the broad principle of the Pearson Commission's recommendation while applying it in a rather different fashion. The principle is that IDA should allocate its funds in such a way as to make good the injustices that are created between countries by the actions of bilateral donors. In the Commission's view, this injustice principally consists in the lack of correspondence between official aid receipts and economic performance. Hence the notional scheme outlined above gives considerable weight to performance ratings. But this particular redistributive criterion could be discarded while the broad principle was maintained. Thus it could be argued that while IDA should try to redress the effects of bilateral aid policies, it should not go by performance assessments, but instead try to reduce the degree of inequality in aid receipts per head among all countries attaining a basic minimum standard of performance. This would have the advantage that IDA would not itself have to make any judgments of performance other than those which it is already prepared to make; and it would be spared the responsibility of translating
performance assessments, whether its own or those of other bodies, into a
desired distribution of aid.

40. A redistributive system of this kind could be operated very simply.
At the bottom end of the scale, IDA could fix a minimum level of aid per
head below which no country which satisfied the basic performance criterion
should fall. The size of this figure would depend on the amount of IDA
funds available for this purpose, and on the distribution of other official
aid between countries - particularly a few big countries. Thus the minimum
figure would probably have to be adjusted from year to year. But the prin-
ciple of an international minimum standard of aid, to be ensured by an
appropriate allocation of IDA credits, would be fully compatible with
flexibility as to the actual figure.

41. Such a system could be brought more closely into line with current
IDA practice by making eligibility depend not only on basic minimum per-
formance but also on insufficiency of creditworthiness. The scheme would then
be effectively restricted to those countries that are already eligible to
receive assistance from IDA under the present arrangements. It would therefore
amount to giving some degree of preference or special attention, within this
group of countries, to those who were receiving conspicuously small amounts
of aid from other official sources.

42. A possible extension of this equalizing system would be for IDA
to regard any country which received more than a certain relatively large
amount of per capita assistance from other sources as ineligible for IDA
credits. On the other hand, such a rule might arouse a good deal of op-
position without redistributing much aid, since the countries potentially
affected would be numerous but mainly rather small.

43. It would be a fairly simple matter to work out specimen allocations
in accordance with the criterion just outlined, and the result might be of
some interest.

D. Some Broad Conclusions and Suggestions

44. This particular recommendation of the Pearson Commission clearly
raises a good many issues and problems. The main single issue, however, is
how far IDA credits should be allocated in accordance with the principle of
redressing the balance of aid between countries.

45. There is probably no dispute as to whether the effects of the aid
policies of other official donors should be taken into account. In a paper
which the President presented to the Board last year, the point is explicitly
made that IDA "can hardly escape giving consideration to the amount of assis-
tance that prospective IDA borrowers may be receiving from other sources of
finance". But it is a very long step from giving "consideration" to this
factor to giving it exclusive or even primary emphasis. For a number of
reasons, it seems very unlikely that in present circumstances at least, or even perhaps if larger amounts became available to IDA, it would be possible to go as far as the Pearson Commission would wish.

46. First, as was seen in paragraph 36 above, such a change in policy, unless applied to additional funds only, would be directly contrary to the policy that has recently been adopted of trying to secure a wider geographical spread of IDA assistance.

47. Second, the distribution of other official assistance between different developing countries is determined by the actions and policies of bilateral donors. These are the very countries which would have to supply the funds that IDA would be using in order to carry out the policy which the Pearson Commission recommends. It is hard to suppose that they would be enthusiastic about greatly increasing the amounts they provided for IDA, if it was known that the main purpose for which the money would be used would be to offset the consequences of their own assistance programs.

48. Third, the question as to whether IDA should pay greater regard to the availability of aid from other sources was explicitly raised and discussed at a Board meeting last year. Out of 21 Executive Directors who contributed to the discussion on that occasion, only six appear to have expressed an opinion on this particular issue. Of these three representing the U.K., India, and Canada and associated countries) were in favor, and three (representing the U.S., France, and Australia and associated countries) were against. Moreover, it is possible that those in favor may have been influenced by the belief that if IDA followed such a policy the main beneficiaries would be India and Pakistan, which has been seen in the previous section of this paper to be not a necessary consequence.

49. It does not follow, however, that the only reasonable course of action would be to reject the recommendation as impracticable. While it seems impossible for IDA to go as far as the Pearson Commission would like in trying to redress the balance of aid, it is arguable that rather more weight than at present should be given to this aspect of the situation, at any rate as and when it becomes possible for IDA to engage in a larger total lending program.

50. If this principle were accepted, it would be necessary to give consideration to the best means of putting it into effect: indeed, the degree of acceptability of the principle might depend in part on whether it could be put into practice in a simple way and with clearly desirable results. Here two broad possibilities suggest themselves. One is to follow the Pearson Commission line, by trying to make the distribution of aid correspond more closely to what is thought would be a reflection of countries' economic performance. An alternative would be to adopt some notion of a minimum international standard of per capita aid for all eligible developing countries, along the lines suggested in paragraphs 39-41 above. This second possibility has the advantage of being simpler, and appears to represent less of a departure from the present philosophy and practice of IDA.
A possible course of action would be as follows. The President would put before the Board a paper relating to this recommendation. The paper might make the following main points:

(a) The recommendation provides a welcome opportunity for a further review of the criteria that IDA should use for allocating aid between countries, on the assumption that it will be receiving and disposing of larger amounts.

(b) The main issue of principle that arises from the recommendation is whether and to what extent IDA should take into account, and deliberately try to redress, the international allocation of aid from other official sources.

(c) If it were agreed that serious consideration should be given to the possibility of allocating significant amounts of IDA funds in accordance with the criterion of reducing apparent inequities, then it would be necessary to consider also the best way of giving practical expression to this criterion.

The paper could thus be quite short; but it could be extended, if this were thought useful, by setting out in relation to the issues raised above the possible quantitative implications of different alternative policies that might be adopted.

PMDHenderson/db

cc: Mr. Irving S. Friedman
    Mr. Andrew M. Kamarck
Mr. R. H. Demuth

G. B. Baldwin

Board Papers on Pearson Commission Recommendations Nos. 14, 17, and 18

November 17, 1969

1. Attached please find drafts of the three papers listed, done by Peter Engelmann with, in the case of No. 17, the help of Vincent Riley.

2. I shall call you or Mrs. Boskey on Friday, November 21, to learn whether you want these to go directly (perhaps with stylistic surgery in your office) to the Review Committee that met on other papers last week or would like further work done at this level before sending them to that Committee. I have not had a chance, before leaving town, to do more than read over Mr. Engelmann's drafts; i.e. I have not measured them against the Pearson text to judge their responsiveness. Mr. Engelmann has suggested that you may want to "hold" papers on technical assistance until we have had a chance to read the Jackson Report, due in the Bank about November 28th, he understands.

Attachments - 3

GBaldwin:lfb

cc: Mr. Chadenet
Mr. Baum
Mr. Engelmann
Mr. McNamara

Richard H. Demuth

Pearson Commission Papers

November 17, 1969

Attached is a draft memorandum from you to the Executive Directors, transmitting the first group of memoranda dealing with Pearson Commission recommendations relating directly to the Bank. There are eight memoranda in the first group. If these papers seem to you generally in order, I suggest that you may wish to distribute them to members of the President's Council for comment. They have been prepared on the assumption that, when they are distributed to the Directors, the Industrial Coordination Committee which is referred to in several of the memoranda will have been created, but that the revised IFC policy statement will not have been issued. If either of these assumptions proves, in the event, to be wrong, minor amendments will be needed in two or three of the memoranda.

Although I will be away from the Bank from November 18 through November 28, Mrs. Shirley Boskey in my office is familiar with these documents and can make any desired revisions in them.

Attachment
ATTENTION PAULO PEREIRA LIRA

MY FRIEND BARBARA WARD IS ORGANIZING THE COLUMBIA UNIVERSITY CONFERENCE ON DEVELOPMENT IN THE SEVENTIES IN RESPONSE TO THE RECOMMENDATION OF THE PEARSON COMMISSION (STOP) SHE WONDERS WHETHER YOU COULD BE PERSUADED TO ATTEND THE CONFERENCE BETWEEN FEBRUARY FIFTEEN AND TWENTYFIRST AND ALSO TO CONTRIBUTE A PAPER ON THE IMPLICATIONS FOR LATIN AMERICA OF THE AIM OF ACHIEVING A SUSTAINED SIX PERCENT RATE OF GROWTH (STOP) THE FEE FOR THIS PAPER OF BETWEEN FIVE AND SIX THOUSAND WORDS IS ONE THOUSAND DOLLARS AND THE HOPED FOR DEADLINE IS JANUARY ONE 1970 (STOP) ALL EXPENSES CONNECTED WITH THE CONFERENCE ARE NATURALLY COVERED (STOP) ROBERT McNAMARA PIERRE PAUL SCHWEITZER AND OTHER DISTINGUISHED FIGURES ARE ASSOCIATED WITH THIS CONFERENCE (STOP) I MYSELF SHALL ATTEND (STOP) BOTH SHE AND I VERY MUCH HOPE THAT YOU CAN CONTRIBUTE THE PAPER AND BE WITH US FOR THE DISCUSSIONS KINDEST REGARDS

FRIEDMAN
INTRARRAD
Mr. G. Baldwin  

Peter Engelmann  

November 14, 1969  

Board Papers on the Pearson Commission Recommendations

I attach drafts of board papers on the three Recommendations for which you requested my contribution in your memorandum of October 14.

The draft for Recommendation 17 has been prepared jointly by Mr. Riley and myself. I believe the issue of local recurring expenditures is of particular interest to the Education Department and I suggest that you include that Department in the small group for "testing" this particular draft.

Peter Engelmann  
Attachment
Chapter 9. Page 190, Recommendation 14: "MULTILATERAL AND BILATERAL TECHNICAL ASSISTANCE SHOULD BE MORE CLOSELY INTEGRATED WITH CAPITAL ASSISTANCE."

The Bank is in complete agreement with this recommendation. In its support of technical assistance work through grants and loans, in acting as the Executing Agency for studies financed by the UNDP, and in its advice to member countries in the course of project preparation, the Bank tries consistently to work toward strengthening the link between assistance services and the investment process. This effort is being made by the Bank not only in preinvestment work at the sector and project levels, but also in the management and organisation advisory services and studies which are considered pre-requisites for future financing of projects.

An attempt to further integrate multi-lateral and bi-lateral technical assistance with capital assistance is now being initiated by the Bank, in cooperation with the UNDP and other UN agencies, through efforts to prepare programs of preinvestment studies. These programs, which can only be completed in a gradual process over a period of years, should establish a more systematic approach to the formulation of preinvestment strategies, on a country by country basis. By preparing preinvestment study programs in cooperation with other UN organizations, the Bank Group intends to:

(1) assist its member countries in defining and scheduling studies which accord with the countries' development objective;

(2) provide the UNDP and other agencies with a sound basis for allocating funds in preinvestment assistance; and

(3) accelerate and improve the preparation of development projects for financing by the Bank Group and other lenders.

November 14, 1969
Chapter 9. Page 190, Recommendation 17: "DONORS SHOULD GIVE FINANCIAL ASSISTANCE FOR LOCAL RECURRING EXPENDITURES AND FOR EQUIPMENT, TRANSPORT, AND OTHER SUPPLIES IN CONNECTION WITH TECHNICAL ASSISTANCE PROJECTS."

Two ideas are expressed in this recommendation: (1) the financing of "local recurring expenditures" and (2) the financing of "equipment, transport and other supplies." Separate comments on each are given below.

1. Local Recurring Expenditures

This proposal of the Commission has major relevance only for certain types of technical assistance, as in education and training facilities or applied research institutes, which involve large amounts of recurring costs for operation, maintenance and support. This form of technical assistance is an important component of the UNDP's activity, but so far has had only a minor part in the projects in which the Bank had been engaged as an Executing Agency of UNDP or as a direct provider of technical assistance funds. Most technical assistance with which the Bank has been associated has been in the nature of preinvestment studies which are generally exercises of short duration in which the biggest cost item is the team of foreign experts who carry out the study and who produce a report. Financing of local recurring expenditures has been discussed frequently in the UNDP Governing Council, but UNDP still generally refrains from providing such financing. Where the building of a permanent institution is a major aspect of technical assistance with which the Bank is associated, financing of local recurring expenditures can be a relevant consideration.

The arguments offered against financing local recurring expenditures are:

(a) It is frequently difficult to assess the amount of "local recurring expenditures" directly attributable to technical assistance projects
and to differentiate between this type of cost and the normal budgetary allocations which governments would make without the technical assistance. If permanent institutions are to be established, the running costs of their operation must ultimately fall entirely on the government, when the technical assistance ends. It is logical, therefore, that the government should have a responsibility for an important part of these costs from the beginning.

(b) Many donors have held the view (which still has currency in the Bank today) that the host government should make a contribution to and have some financial stake in the technical assistance being given, lest grant-financed activity be considered "entirely the work of outsiders" and its impact diminished. The UNDP, for example, takes as a basic premise that its projects are "government projects" toward which UNDP provides certain defined and limited inputs of assistance.

(c) The overall funds available for technical assistance are limited in most cases and the funds' administrators must choose which projects are to be supported. Financing local recurring costs of some projects would consequently reduce the total number of projects which could be undertaken with available funds.

2. **Equipment, Transport and Other Supplies**

The financing of equipment, transport and other supplies connected with technical assistance is normal practice in the Bank's experience. UNDP grant-financed studies usually include adequate financial provisions for these costs, and call on governments only to provide those materials, equipment and supplies which are available within the country. The UNDP also meets local transport costs, although a "government contribution toward
local operating costs," calculated on a formula and required for all UNDP projects, is in effect a partial payment from the government to the UNDP toward these and other local expenses.

Bank loans and grants for technical assistance normally cover all foreign currency costs which, in addition to the cost of the experts themselves, include transportation costs of personnel and their families to and from the country of the study, the cost of vehicles that have to be imported, and other equipment and supplies which are not available locally.
Chapter 9. Page 190, Recommendation 18: "LOANS FOR PROJECTS SHOULD INCLUDE A GREATER COMPONENT OF TECHNICAL ASSISTANCE."

Current Bank practice is moving in the direction of this recommendation. A recent analysis by the Development Services Department indicates that Bank Group lending in the first nine months of this calendar year included approximately US$400-million equivalent for technical assistance.

A perennial problem with the inclusion of technical assistance funds in project loans is the determination of alternative sources of finance which may be more advantageous to the recipient country. The argument normally advanced in favor of including technical assistance with loans for projects is administrative efficiency. The counter argument is the additional strain on the country’s financial resources if the same technical assistance could be provided on a grant basis from another source.

The Bank currently has an agreement with the UNDP whereby the latter has "first call" on the financing of technical assistance; i.e., the Bank will consider financing technical assistance only if the UNDP is unable expeditiously to provide the grant funds needed for the assistance. This agreement would have to be modified if a major increase in Bank financing of technical assistance is contemplated.

In support of Recommendation 18, the Commission’s Report states: "This would also be a reminder that technical assistance experts are far from being free of cost to recipients." It appears that this reasoning is similar to the argument cited against the financing of local recurrent expenditures in our response to Recommendation 17 of the same chapter of the Commission’s Report (see para. 1(b) of the draft response).

Pfundmann:vor
November 14, 1969
Mr. Harold N. Graves

D.S. Ballantine

November 13, 1969

Pearson Commission Recommendation No. 26 Concerning Education

I am in agreement with all the major substantive points of this paper and I think it covers the various questions adequately. I have a little difficulty with the second paragraph on page 3 dealing with incentives but I am not sure I can suggest a better alternative.

I have done a little editorial fiddling with the text and have introduced one or two minor substantive points which you may wish to consider.

As you will see from my note on page 6, I wonder whether the immediate distribution of the paper as recommended here is consistent with the original conception of it and wouldn't have the effect of "highballing" it through.

Att.

DSB: afu
Special Projects Department

November 13, 1969

Dear Lady Jackson:

My many thanks for your letter of October 16th on the Conference to take place next February on the Pearson Commission's report. I am very happy to accept the invitation and enclose a picture and a biography for the Conference's Who's Who?

With my best wishes,

Sincerely yours,

Harold B. Dunkerley
Special Adviser

Attachments: (3)

Lady Jackson
Albert Schweitzer Professor in International Economic Development, Columbia University in the City of New York
School of International Affairs
622 West 113th Street
New York, N.Y. 10025

HBDunkerley:jm
Mr. W.C. Baum  
November 13, 1969  

W.A. Wapenhans  

Pearson Commission Recommendation No. 15 - Agricultural Cooperative Credit Institutions

1. The proposed chapter C gives only a partial picture and could be misleading. Apex institutions do exist and receive support. However, their corporate structure is frequently that of a public entity or bank designed both to exercise the necessary control and to channel Government subsidies to cooperatives. In addition credit cooperatives often deal only with short-term financing and would find it difficult to do investment banking because of lack of appraisal staff and experience. In the majority of the cases the latter is done through specialized agricultural credit institutions. For investment financing they are usually a more effective means of reaching individual farmers and I would dispute the contention on page 13 that cooperatives are often "...the most effective channel".

2. Specialized credit cooperatives in the true sense of the word are rare. More frequently multi-purpose coops are found who extend credit in the form of seasonal inputs and collect debts through their marketing activities. In many of our projects they are thus a very important adjunct though not necessarily a channel for Bank Group funds. It must also be recognized that there are numerous forms of farmer cooperatives which would be just as useful but may not fall under the definition of a cooperative. For example, farmers' associations are the dominant form in Taiwan, in Pakistan the Union Councils have virtually replaced cooperatives, and village communities in West Africa have a cooperative appearance but are better understood as comprehensive village entities based on family and village ties.

3. It is not quite clear what the rather detailed account of the Tanzania case on page 13 is supposed to demonstrate. These institutional difficulties could be shown as well for other forms of credit institutions. To the contrary we could demonstrate on some states in India a superior performance of cooperative structures even in the field of investment lending. Essentially I think it all boils down to a case-by-case approach, emphasizing the suitability of a particular channel in relation to the objectives of Bank Group financing. I would also be extremely reluctant to accept the argument of "beneficial psychological side effects"; in Pakistan, for instance, these resulted in deteriorating financial conscience of members, over time making the cooperative system defunct.

WAWapenhans: fh
November 12, 1969

The Honorable
Robert MacNamara
President
World Bank
Washington, D.C.

Dear Bob:

Columbia University in cooperation with the Albert Schweitzer Chair of International Economic Development is holding a Conference in New York on February 20 and 21, 1970 to provide a forum for the discussion of development strategy in the Seventies. In particular, it will respond to the recommendations and analyses of the Report Partners in Development issued by the Commission on International Development under the chairmanship of the Right Honorable Lester Pearson.

This Report is one of a number of major evaluations of the development effort which include the Jackson Report, the Prebisch Report and the work of the Tinbergen Commission for the United Nations Second Committee. All these analyses point to the need for new direction and new policies in the coming decade. All made specific recommendations. All demand a certain measure of coordination. It seems, therefore, opportune to invite a group of leaders in development, directly responsible for decisions in this field, to meet together with a group of other development experts and discuss possible ways in which governments and multilateral agencies can together respond to the new needs of the Seventies.

We are, therefore, inviting to this meeting Ministers of Development, Heads of International Agencies and Presidents of Regional Development banks as well as economists and experts from a wide variety of countries and disciplines. Among those who have agreed to participate are: Saburo Okita, André Philip, Edward Mason, Hollis Chenery, Paul Streeten, Max Millikan, Dudley Seers, I.G. Patel, Mahbub ul Haq, Philip Ndegwa and E.N. Omaboe.
We very much hope you will be able to join us for these discussions. We believe that the evolving of a strategy for development for the rest of this century is the international community's first order of business. We hope, therefore, that this opportunity for leaders to meet together and discuss the issues raised by the various Reports will both increase public interest in development and also provide a forum where those directly engaged in the process can discuss the problems of organization and coordination involved.

We are particularly anxious to secure your attendance since we understand that the Canadian Government, with the support of Mr. Robert MacNamara proposes to invite you to a completely informal consultation in Canada on certain of the next steps needed for the coordination of a development strategy in the Seventies. The talks will open at the Seignory Club, Montebello, Quebec, on Sunday, February 22 and continue through Monday, February 23, 1970. The Canadian Government would, it seems, be most happy to entertain the group from Saturday afternoon onwards so that personal talks can precede the rather more official discussions. Mr. Robert MacNamara and other international officials will, of course, attend and it is their earnest hope that this informal encounter between Ministers and officials responsible for development can help to clarify issues of coordination and organization between governments and agencies in the coming decade. Both the arrangements and the program - first at Columbia University and then in Canada - are being closely coordinated to make sure that the best use is made of our relatively short visit and of your extremely valuable time.

May I say again how much we all hope that you can be with us next February.

Yours sincerely,

Lady Jackson

Albert Schweitzer Professor of International Economic Development
The Honorable
Robert MacNamara
President
World Bank
Washington, D.C.

Dear Bob:

I am sending you the formal invitation so that you can see what progress we have made so far. The talks in Canada went extremely well and Mitchell Sharpe did see the point of getting some personal but high level discussions going.

I will be in touch with you as soon as you come back. In the meantime thank you so much for all you have done to help us.

Yours sincerely,

Barbara Jackson
Lady Jackson
Albert Schweitzer Professor of
International Economic Development
Dear Dick:

Pearson Report

At the DAC meeting on Friday November 7, DD-113 was considered dealing with the five recommendations in the Pearson Report specifically directed to the DAC. I happened to mention that DAC was lucky to have only five recommendations to deal with as there were 33 recommendations directed to or bearing on the work of the World Bank Group. Ed Martin said he would be interested in knowing what these were and I gave him, on a personal basis, a copy of Sec. 69-472.

Martin rang me up again on Friday to say that the list of 33 points was most useful and interesting to him. A number of these points also referred to bilateral donors or work to be done on the national level. For example, he drew attention to items 4, 22 and 27.

This raised in his mind the question of the best method of consulting together on the work which the Bank will be doing and the work which perhaps ought to be done by DAC on these subjects. As you are to be in Paris for a few days before the High Level meeting, that would provide an opportunity for Martin having a talk with you on that subject.

In the meantime, he thought it would be useful if I dropped you this note so that you could be thinking about the point.

Yours sincerely,

G. Cartter

Mr. Richard H. Demuth, Director
Development Services Department
International Bank for
Reconstruction and Development
Washington, D.C.
November 12, 1969

Lady Jackson
School of International Affairs
Columbia University
622 West 113th Street
New York, N. Y. 10025

Dear Barbara:

Thanks for your letter of November 7 giving me the dope on our dinner meeting on November 24.
I am looking forward to being there.

Yours,

William S. Gaud
Executive Vice President
OUTGOING WIRE

TO: INTBAFRAD
LONDON

DATE: NOVEMBER 10, 1969
CLASS OF SERVICE: NLT

COUNTRY: ENGLAND

TEXT: 3
Cable No.:

FOR MR. MCNAMARA LADY JACKSON ADVISES MR. MITCHELL SHART AGREES ENTHUSIASTICALLY TO HAVE MEETING IN CANADA FEBRUARY TWENTYTWO AND TWENTYTHREE AND IS ISSUING INVITATIONS TO DEVELOPMENT LEADERS AND HEADS OF FUNDING AGENCIES.

Muriel Lee

MESSAGE AUTHORIZED BY:
NAME Muriel Lee
DEPT. Office of President

SIGNATURE (Signature of Individual Authorized to Approve)

CLEARANCES AND COPY DISTRIBUTION:

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(IMPORTANT: See Secretaries Guide for preparing form)

Checked for Dispatch: R

For Use by Archives Division
OUTGOING WIRE

TO: INTERNATIONAL FINANCE
DATE: NOVEMBER 18, 1969
CLASS OF SERVICE: 3
COUNTRY: ENGLAND
TEXT:

REQUESTED THAT I COMMUNICATE TO MR. JACOBSON, WHO IS ATTENDING THE SYMPOSIUM ON THE ROLE OF INSTITUTIONAL INVESTMENT AND RESTRUCTURING TO HAVE MEETINGS IN CANADA TO DISCUSS THE FOLLOWING SUBJECTS AND ISSUES:

1. NEEDS OF FUNDING ORGANIZATIONS.

NAME: [Redacted]
UNITED STATES DEPARTMENT OF COMMERCE

[Signature]

COUNTERPART COPY (FOR DISTRIBUTION):

[Signature]

[Note: This document is not to be transmitted.]
Pearson Commission Recommendation

I attach herewith my observations on Recommendation No.2 of the Pearson Commission concerning "Population, Education and Research".

I understood that the original paper on this, prepared by Mr. Hawkins, had to be submitted urgently and as I did not have sight of the paper, it was suggested that I let you have my comments now. This I now do.

Attachment

cc: Messrs. Chadenet
    Kamarck/Stevenson
    Hawkins
Recommendation No.2 of the Pearson Commission concerning "Population, Education and Research" on p.195:

"Bilateral and international agencies should press in aid negotiations for adequate analysis of population problems and of the bearing of these problems on development programs."

This recommendation, in its implementation by the Bank, should be read as complementary with the preceding recommendation on this same page that "developing countries identify their population problem, if they have not already done so, recognize the relevance of population growth to their social and economic planning and adopt appropriate programs."

To date, the Bank's involvement in the population field so far has not caused any Government to shift their position on population policy or implement a program. We have been directly involved so far with Jamaica, Colombia, Mauritius, Tunisia and Indonesia. In the case of Colombia in fact there has been a reversal of the Government position since our initial association in this field. It is, however, likely that the development of the Jamaican project may lead to changes that could give a better program by improvement of institutional facilities and emphasis on better management. An attempt is now being made in Mauritius to persuade the Government to announce an official policy and follow up with the introduction of a national program. These two small countries have been "testing grounds" in this sense for development of Bank strategy.

Economic reports alone, showing the implications of population growth, will not cause Governments to shift their position unless it is tied or related to some benefit. A strategy depending on the phase of development of a population policy needs to be worked out in the Bank and implemented on a case-by-case basis.

To achieve this strategy, there is a need to plan the pattern of the dialogue that goes on with a country with regard to its population policy from the very initial stages of economic analysis through the stages of policy formation, program development and eventually Bank project development. This strategy will no doubt take into account the need for recognition of the varied religious, political and cultural sensitivities involved in each case.

I would conclude by taking the view that bilateral and international agencies should take full cognizance of the population situation in a country and the performance of the Government on the analysis of population problems and of the bearing of these problems on development programs.

K. Kanagaratnam
November 10, 1969
Mr. William Diamond

Ravi Gulhati

Columbia University Conference

I have received a letter from Lady Jackson (Barbara Ward), Albert Schweitzer Chair, Professor in International Economic Development at Columbia University inviting me to attend a conference to discuss the Pearson Commission Report. This conference is expected to take place in Williamsburg, Virginia and New York and will start on Sunday, February 15, 1970. The conference expects to conclude on the following Saturday, February 21, 1970. The object is to respond to the Pearson Commission Report and to discuss its recommendations in a series of meetings between experts, academic and otherwise, drawn from both developed and developing countries. The conference will cover all expenses of the participants.

I realize that I am spending far too much time on matters which do not directly concern the Development Finance Companies Department. Nevertheless I would very much like to attend this meeting if you agree. I am quite prepared to use my annual leave for this purpose if you consider it appropriate. I have to let Lady Jackson know whether I can attend or not before the beginning of December.

R.Gulhati:plm
November 7, 1969

Mr. William Gaud
World Bank
1818 H Street NW
Washington, D.C. 20433

Dear Bill:

We very much look forward to seeing you on November 24. The dinner will be at the Carlyle Hotel at 7:30 p.m. - informal, of course - and those who are joining us in the discussions are:

Dean Courtney Brown, Columbia University
M. Philippe de Seynes, United Nations
Mr. John Duncan, W.R. Grace & Co.
Mr. Edward Hamilton, Commission on International Development and Brookings Institute
Dean George F. James, Columbia University
Mr. Richard Kaufman, Chase Manhattan Bank
Professor Warren J. Keegan, Columbia University
Mr. John Lyons, Chase Manhattan Bank
M. Jacques Maisonrouge, IBM
Mr. Donald E. Meads, IBEC
Professor Stefan H. Robock, Columbia University

We also hope that Mr. Bruce Palmer, President of the National Industrial Relations Board and Mr. Alfred Neil, President of the CED will also join us.

In the course of next week we shall be circulating a short note suggesting a number of possible points for discussion in the light of the Pearson Report and development needs in the Seventies.

We very much look forward to seeing you on the 24th.

Yours sincerely,

Barbara Jackson
Lady Jackson
OFFICE MEMORANDUM

TO: Mr. Richard H. Demuth
FROM: Irving S. Friedman
SUBJECT: Pearson Commission Recommendations

I note that Mr. Kamarck has sent you a paper on the World Bank and IMF Unified Country Assessments Recommendations.

There seems to have been a slight misunderstanding between Mr. Kamarck and myself as I did wish to comment on this paper before it was sent to you. I will be sending you a revised version in the next few days or else talking to you about it.

If you wish to speak to me I am at home today.

cc: Mr. Kamarck
    Mr. Stevenson
OFFICE MEMORANDUM

TO: Files
FROM: Irving S. Friedman
SUBJECT: Pearson Commission Recommendations

DATE: November 7, 1969

To avoid any misunderstanding I would like to make the following brief comment on Mr. Kamarck's memorandum to the Files of November 4.

As Mr. Kamarck indicated I do not intend to clear these papers in the usual sense of the word. However, I do wish to see each paper before it is sent to Mr. Demuth to give me an opportunity to comment and to suggest revisions if needed.

cc: Mr. Demuth
Mr. Stevenson
Miss Brigg
Mr. Kalmanoff
Mr. Hawkins
Mr. Henderson
Mr. Miller
Mr. Singh
Mr. Richard H. Desmut

William Diamond

November 7, 1969

Draft Paper on Pearson Commission Recommendations

Attached herewith is a revision of the "Pearson Paper" on development banks. Except for filling in the blanks, the changes are trivial.

Attachment

cc Mr. Mathew
Mr. Gulhati
DFC File

WDiamond: us
1. Text of Recommendation

"We recommend greater help to development banks and similar institutions in developing countries" (page 179).

2. Background of Recommendation

This proposal appears in a section dealing with project and program aid and follows the main recommendation urging aid-givers, including the World Bank Group, to "recognize the great value, in many cases, of more program aid." In this context, greater use of development banks is viewed by the Commission as another way of mitigating the inefficiencies of the conventional project approach: the latter tends to be biased in favor of large-sized investments to the detriment of the relatively small and widely scattered productive enterprises; this bias can be corrected by channeling aid through development banks situated in developing countries; these institutions can acquire detailed knowledge of local conditions and respond speedily to the needs of the medium and small investors.

Development banks are seen by the Commission not only as convenient retail outlets for dispensing aid from high-income to low-income countries. Their role in strengthening the local capital market is also underscored. In its historical review of the past two decades, the Commission noted the contribution made by such companies in facilitating savings and investment (see page 31). Elsewhere in the report, the importance of the function of financial intermediation is stressed (see pages 64, 65).

3. The World Bank Group's Activity

The World Bank's involvement with development banks dates from 1950 (FY 1951) when it assisted in the establishment of the Industrial
Development Bank of Turkey and the Development Bank of Ethiopia. Ever since, the World Bank has been heavily engaged in promoting, financing and extending technical assistance to such institutions. A few summary indicators of this activity are cited below to provide a bird's eye view:

a. Altogether, the World Bank Group has helped promote 12 development finance companies and helped reorganize another 6.

b. The World Bank Group has assisted in recruiting key personnel for some development banks and IFC is on the boards of 13 of them.

c. Officials of development banks have received training in the EDI or under special programs.

d. Gross commitments to development banks up to the end of September 1969 amounted to $954 million in 28 companies in 24 countries, consisting of Bank loans (93%), IDA credits (4%) and IFC investments (3%). This sum reflects a rapid acceleration of commitments. Until the end of Fiscal 1963, commitments amounted to only $229 million; in the next 5 years, they totalled $497 million; and in Fiscal 1969, commitments reached $195 million. About 61% of gross commitments had been disbursed. Allowing for repayments and redemptions of about $149 million, the disbursed amount outstanding was $430 million.

a/ The data includes companies in Austria and Finland although these countries fall outside the category of "developing countries". Both are Part I IDA countries.
World Bank Group policies towards development banks have been reviewed periodically, most recently by the Board in November 1968; and several significant changes have recently taken place. For example, in June 1968, the Bank, whose policy once prohibited lending to government-controlled development banks, decided it would be prepared to lend to such institutions provided their management was sound and autonomous in day-to-day decision-making. Another policy departure, accepted in November 1968, involved the scope of operations of institutions financed by the World Bank Group. While they once had to be devoted primarily to manufacturing industry, they may now be multi-purpose companies, financing not only industry but also tourism, housing, and other productive activities. Moreover, in the past year, IFC has sponsored and helped bring into existence two companies which are primarily devoted to promoting new enterprise and to providing investment services, rather than finance. (These companies, and IFC's investment in them, are not included in the figures cited in the previous paragraph.) These developments, all of them involving increased flexibility on the part of the World Bank Group, reflect the importance which the Group attributes to institutions which can mobilize capital, allocate it for productive purposes, promote investment and generally act as intermediaries in the investment process.

The 26 development banks presently associated with the World Bank Group, commit the equivalent of about $430 million per annum in loans, investments, etc.; and these in turn contribute to a total investment estimated at about $900 million. The vast bulk of these investments assist the manufacturing sector. Judging by the size of the operations, it is fair to say that development banks are financing primarily medium-scale enterprises and, to some extent, small enterprises. Without the intermediation of such institutions, the World Bank Group would not be able to reach a very significant part of the manufacturing sector of developing countries.
The principal objective of the World Bank Group, however, is not simply to find retail outlets for dispensing external finance and technical assistance, but to help build effective investment institutions in developing countries. Hence the Group encourages development banks to be active in mobilizing domestic capital, underwriting securities, subscribing to equities, selling from their portfolios in order to broaden ownership of enterprises, identifying and promoting investment opportunities and assisting entrepreneurs in formulating and carrying out investment proposals.

While some progress has been made on these lines, a great deal remains to be done. Most development banks have not acquired much capability as mobilizers of financial resources and remain dependent on government funds, or on international institutions or on foreign aid. Furthermore, development banks still, in the main, respond to investment opportunities presented to them by their clients and only rarely do they do much in the way of identifying and promoting projects on their own initiative.

Proposed Position with Respect to Recommendation

The World Bank Group fully accepts the recommendation of the Pearson Commission and intends to help development banks to the maximum extent feasible.

The Bank's Five-Year Program already reflects this view. The target for gross Bank and IDA commitments to development finance companies in the period 1969-73 is around $1,500 million, compared with $433 million in the preceding five-year period. In Fiscal 1969, the first year of the period, $193 million were committed. Although there is not yet a projection for IFC operations in this field, there is no doubt that IFC, too, will expand its role in financing development finance companies.

To achieve the target of the Five-Year Program, the number of development finance companies associated with the Group will grow to perhaps twice the current number of 28.
The expansion in the number of companies, as well as in the volume of operations, is closely related to the changes of policy introduced in the past 18 months and referred to above, which make possible significant expansion of activity with development banks in Africa and in Latin America. In particular, the possibility of lending the government-controlled companies has resulted in the probability that three or four loans will be made to such companies in the present fiscal year. And, systematic exploration has begun of existing small development banks in Africa and of the possibilities of financing such institutions.

This expansion of activity, in exploration, in appraisal of companies, and in actual lending, has placed an unusual strain on staff dealing with development finance companies, a strain which the Bank has already taken measures to deal with. In Fiscal 1969 the number of professional staff in the Development Finance Companies Department increased by 50%, from 20 to 30; another 25% increase is expected in the current year.

As mentioned above, World Bank Group policies towards development banks are reviewed periodically as experience accumulates and new problems emerge. In view of the Commission's recommendation to extend greater help to development banks, present policies will be reviewed to make such changes as are necessary to implement the broad development strategy envisaged by the Commission.
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<td>Mr. Stevenson</td>
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<td>Mr. Doyle</td>
<td>C-209</td>
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<td>Mrs. Luke</td>
<td>C-209</td>
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**REMARKS**

From: H. E. Dyer
January 7, 1970

Dr. Helgard Planken Graham
79 rue de la Faisanderie
Paris 16, France

Dear Dr. Graham:

Thank you for your letter of December 17 and for your kind wishes for the new year, which of course I heartily reciprocate.

I am pleased to confirm our earlier discussions about your contract study for the Pearson Commission. It may be used by you for publication in whatever form you deem appropriate. You are, of course, fully free to add to or subtract from the document you submitted to us. By copy of this letter to the World Bank, I am advising them accordingly.

Sincerely yours,

Ernest Stern

Assistant Administrator for Program and Policy

cc: Mr. Dyer, IBRD
Department of State
Agency for International Development
Washington, D.C. 20523

Assistant Administrator

January 7, 1970

Mr. Hiram Blumberg, Garamond

28 Rue de la Paix, Paris, France

Dear Mr. Blumberg:

Thank you for your letter of December 17 and your kind wishes for the new year, which of course I heartily accept.

I am pleased to continue our earlier acquaintance and I may mention that the President Commission is very interested in your statement that you have seen the report of the General Assembly on the question as to whether or not a new treaty is needed. This report is available to us. My copy of the letter to the World Bank, I am sending you.

Sincerely yours,

[Signature]

[Position and Name]

[Date and Time]
December 23, 1969

Dear Mr. Lessey:

Sir Denis has asked me to acknowledge your letter of December 17, asking for a copy of the study on the untying of aid which is mentioned in the Pearson Commission report. Enclosed is a copy of that study, entitled "The Multilateral Untying of Economic Aid" by Edwin Truman.

Sincerely,

Shirley Boskay
Development Services Department

Mr. Julian Lessey
The Confederation of British Industry
21, Tothill Street
London, S.W.1, England

Enclosure

cc: Sir Denis Rickett
December 5th, 1969

Dear Mr. Eller:

The Department of Economic Affairs is currently preparing a report on the nutrition of children in the area of "The Multicultural Nutritional Needs of Economic Affairs by Britain's Prisoner". The report will be presented to the Department of Social Services Department.

Sincerely,

[Signature]

Mr. John Green
The Corporation of British Industries
St. Totten Street
London, E.1 W.1, England

Communications
General File

December 24, 12 34 PM 1969

Cc: Dr. Peter Michal

Received
Our Ref: Vb

Sir Denis Rickett, KCMG, CB
Vice-President,
International Bank for Reconstruction and Development,
1818 H Street, NW,
WASHINGTON DC 20433,
U.S.A.

Dear Sir Denis,

The Appendix to Chapter 9 of the Pearson Commission Report describes a system for untying aid and mentions (p.191) a study which the Commission sponsored of the possible extent of a "zero balance of payments effect" scheme. The Commission, it states, has requested the World Bank to make the study available to interested persons.

I should be most grateful if you could let me have a copy of the study.

Yours sincerely,

Julian Lessey
Overseas Directorate.
Dear Sir, People,

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Air Letter

AN AIR LETTER SHOULD NOT CONTAIN ANY ENCLOSURE; IF IT DOES IT WILL BE SURCHARGED OR SENT BY ORDINARY MAIL.

Sir, Denis Hackett, KCMG, CB

Vice-President, International Bank for Reconstruction and Development

Washingdon DC 20423

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21, Totihill Street

Washington, D.C.
December 10, 1969

Mr. Thomas Rabeson
Presidential Task Force on
   International Development
1900 L Street, N.W., Room 712
   Washington, D.C. 20036

Dear Mr. Rabeson:

I am enclosing a list of the Commission Contract Studies and Staff Papers For Commission Report of the former Commission on International Development.

Sincerely yours,

P. J. Doyle, Acting Chief
   Records Management Section

Enclosure

cc: Mr. H. E. Dyer
   Mrs. N. Harris
December 10, 1969

Mr. Donald S. Green
Presidental Task Force on
International Development
1900 L Street, N.W., Room 712
Washington, D.C. 20036

Dear Mr. Green:

In response to your letter of December 3, 1969, we are sending you a copy of the following papers:

1. *Attitudes a l'Egard de la Cooperation*, by COPRENGA (in English)


4. *Interest Subsidy*. We do not have a paper with this title. We have a staff paper entitled *Proposal for Interest Subsidy*. If you would like to receive the staff paper, please let us know.


Yours sincerely,

P. J. Doyle, Acting Chief
Records Management Section

cc: Mr. H. E. Dyer
Mrs. N. Harris

PJDoyle1rg
Mr. Peter J. Doyle  
Administration  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433

December 3, 1969

Dear Mr. Doyle:

Mr. Stern of the Agency for International Development (A.I.D.) sent me a copy of his letter to you of November 24 concerning our use of staff papers and contract studies of the Pearson Commission. In accordance with his views it is our intention to use these papers as information but we shall not make public any of the papers.

Would you please provide us with copies of the following papers:

1. *Attitudes a l'Egard de la Cooperation*, by COFREMCA (only if English translation is available).
4. *Interest Subsidy* (miscellaneous staff paper).

Yours truly,

Donald S. Green
Dear Mr. Smith,

I am pleased to inform you of the recent development in the field of transportation technology.

The recent advancements in transportation technology have led to significant improvements in efficiency and reliability. The new system has been designed to reduce travel time and increase capacity, making it ideal for use in urban environments.

I hope this information is helpful for your planning purposes.

Sincerely,

[Signature]

[Name]
November 24, 1969

Mr. Peter J. Doyle
Administration Department
International Bank for Reconstruction and Development
Room C209 - 1818 H St., N.W.
Washington, D.C. 20433

Dear Mr. Doyle:

The staff of the Presidential Task Force on Foreign Aid has asked to consult certain of the staff papers of the Commission on International Development. I perceive no objection to their use of the staff papers and the contract studies. The latter of course with the understanding that no public use will be made of them without the consent of the authors. I do not believe it would be appropriate to release the minutes of the Commission meetings or of the Regional meetings.

Sincerely yours,

Ernest Stern
Assistant Administrator
for Program and Policy
OFFICE MEMORANDUM

TO: Mrs. Luke or Mrs. Harris
FROM: Yvonne Allen
SUBJECT: Pearson Commission Records

DATE: November 7, 1969

With reference to Mr. Twining's memorandum of November 4, will you please let Mr. Barend A. de Vries (Room G-1038) have copies of the following Pearson Commission records:

- Pakistan Growth and Development Policies
  Author: G. Papanek

- A Brief Survey of the Turkish Economic Development
  Author: Oktay Yenal

- Foreign Aid to Colombia
  Author: Richard D. Mallon

Staff Papers for Commission Report

- Targets for Aid Financing
  Date: 2/25/69

- Aid Relationship
  Date: 2/27/69

- The Present Debt Structure and Rescheduling
  Date: 2/26/69

- Private Foreign Investment
  Date: 2/18/69

- Multilateral and Bilateral Aid
  Date: 2/69

- Multilateral Soft-Loan Agency (W. Arthur Lewis)
  Date: 2/69

- Aid Magnitudes
  Date: 6/69

- Aid Policies and Procedures Part I - Tying
  Date: 2/69

- Aid Policies and Procedures Part II - Tying Revised
  Date: 6/69

- Allocation of External Funds
  Date: 6/69

- Partial Revision of Debt Paper
  Date: 6/69

- Export Credits
  Date: 6/69
OFFICE MEMORANDUM

TO: Mr. Hugh B. Ripamonti
FROM: Ernest Stern, Deputy Staff Director
SUBJECT: Pearson Commission Files

DATE: October 16, 1969

As you know, the Commission on International Development is closing its office on October 31. In the course of our work, we have accumulated a good deal of documentary material which may be of interest to members of the Bank staff and others. In addition there are the normal administrative files.

Since it would be desirable to retain most of this material for at least some period of time, we have discussed with your staff the desirability of depositing our records with the Bank. In view of these discussions, we would like for the Bank to take custody of the Pearson Commission records. We have screened the material and it is being sent over in six cartons. It consists of the following categories:

I. Contract Studies

These papers are studies which the Commission paid for. They can be made available to interested members of the Bank staff. Although the legal ownership of these papers rests with the Commission, the authors of such papers must be consulted in advance, if any public use is to be made of their material.

A number of these reports are of high quality and might be of interest to the Bank in its publication of Occasional Papers. We would, therefore, suggest that the editors of the Occasional Papers review these materials and if any are found suitable for publication, contact the author for permission.

I wish to draw your particular attention to the paper by Edwin Truman, The Multilateral Financing of Economic Aid, which is specifically referred to in the report, as being available on request from the World Bank. I understand that several requests have already been received. You may wish to reproduce this paper as soon as possible and designate someone in the Bank to be in charge of distribution.

II. Staff Papers

The Commission staff produced these papers to obtain decisions of the Commissioners on proposed recommendations. These papers also formed the basis for substantive chapters in the report. The papers were presented to the Commissioners in the meetings in Rome, March 1969 and Copenhagen, June 1969. These papers may be made available to interested members of the Bank staff upon request and to outsiders with a legitimate interest in the history of the Commission.
III. Records of Regional Hearings and Commission Meetings

This category of documents represents notes taken at the regional hearings conducted in Santiago, Abidjan, Kampala, Rawalpindi, New Delhi, Singapore, and Ankara, as well as governmental papers submitted to the Commission. The discussions were intended as confidential between the participants and the Commission and access to these papers should require the prior consent of either Mr. Hamilton or myself. Also included are minutes of the Commission meetings in Mont Gabriel, Rome, and Copenhagen. Access should be the same as for category II.

IV. Miscellaneous Papers

This category consists of two types: (a) memoranda and other background material prepared by the Commission staff and (b) documents furnished the Commission by outside organizations or individuals. Access to these documents should be on the same basis as category II.

V. Administrative Material

All personnel files will be sent to Central Files which will forward them to Personnel as appropriate.

Correspondence, miscellaneous files, contracts, vouchers, etc. will be screened by us and forwarded to Central Files for appropriate disposition.

The material included in categories I-IV are listed on the attached pages for ready reference. If there are any questions about the handling of this material, I suggest you contact Mr. Hamilton or myself. (Mr. Hamilton can be reached at the Brookings Institution, telephone MU 3-8919, after November 1, and by these number is Code 101-20482.) In addition, we are forwarding published documents which the Commission obtained to Research Files for their use.

Attachment

Mr. Leeming
Mr. Eyer
Ms. Luke
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<td>Pakistan Growth and Development Policies</td>
<td>G. Papanek Development Advisory Service</td>
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<td>Walter Falcon</td>
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<td>Joseph Stern</td>
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<td>Scope and Limitations of Aid Policy Formulation in the Context of the British Environment</td>
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<td>James Lambe</td>
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II. STAFF PAPERS FOR COMMISSION REPORT

Targets for Aid Financing 2/25/69
Aid Relationship 2/27/69
Structural Changes 2/26/69
Debt and Aid Terms 2/25/69
Scientific Research and Technology 2/69
Transfer of Technology 2/25/69
The Present Debt Structure and Rescheduling 2/26/69
How the "Debt Servicing Capacity" Approach Works in Practice 2/69
Issues in Trade Policies 2/26/69
Private Foreign Investment 2/18/69
Multilateral and Bilateral Aid 2/69
Multilateral Soft-Loan Agency (W. Arthur Lewis) 2/69
Outline of the Report 2/69
Papers on Rationale 2/69 - 6/69
Aid Magnitudes 6/69
Draft - Chapter 1 6/69
Volunteers: National and International 6/69
Aid Policies and Procedures Part I - Tying 2/69
Aid Policies and Procedures Part II - Tying Revised 6/69
Proposal for Interest Subsidy 6/69
Guidelines for Future Terms 6/69
Population Growth 6/69
Projects, Programs and Priorities 6/69
Allocation of External Funds 6/69
Partial Revision of Debt Paper 6/69
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<td>Food Aid - Past and Present</td>
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<td>Research and Development in Less Developed Countries</td>
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<td>Possible Use of Reverse Flows on Official Bilateral Loans for the Automatic Replenishment of IDA</td>
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III. COMMISSION MEETINGS AND REGIONAL HEARINGS

A. Commission Meetings

Mont Gabriel 12/68
Rome 3/69
Copenhagen 6/69
Geneva 9/69

B. Regional Hearings

Santiago 1/69
Abidjan 3/69
Kampala 3/69
New Delhi 3/69
Rawalpindi 3/69
Singapore 4/69
Ankara 6/69

C. Government Submissions

Yusuke Kashiwagi - Ministry of Finance (Tokyo)
David Horowitz - Bank of Israel

Economic Aid to Low-Income Countries - CED Conference April 11, 1969
Assisting Development in Low-Income Countries - CED Conference April 11, 1969
IV. MISCELLANEOUS PAPERS

A. STAFF PAPERS

Country Study - Brazil
Country Study - India
Country Study - Thailand
Tables on Development Experience of Developing Countries
Comparison of the Draft CID Report Recommendations with U.N. Proposals for the Second Development Decade
Results of Projection Exercises for Gross Flows, Debt Service Payments and Net Transfers
Aid Auditing Procedures
Self-sustaining Growth
Estimates of Foreign Capital Requirements

Press Brief
Notes on Sir Robert Jackson's Tentative Conclusions
The Target for Total Net Financial Flows
Notes on Visit to Germany of Lester B. Pearson, Chairman
A General Critique of the Draft
Statistical Data on Aid Magnitudes
Draft Statistical Data for Commission Report
Political Linkages and Economic Development

B. OTHER PAPERS

Report on a Trip by an ITCAP Subcommittee to India and Pakistan
FAO's Participation in Agricultural Research in Africa
The Administrative Needs of a Rural Reconstruction Program
FAO Machinery for Dealing with Science and Technology
Industrial Research as a Factor in Economic Development - National Academy of Science
Contraceptive Research

Additional Foreign Aid for Socially Oriented Government Programs

Reflections on International Cooperation for Latin American Development

Preparation of Guidelines and Proposals for the Second U.N. Development Decade

Notes on India's Opportunities and Needs in the 70s.

The AID Population and Family Planning Program

The Malthusian Spectre in India

A Proposal for Providing Development Aid through Equity Investments and Mutual Funds

Address by Gabriel Valdes - "Latin American Consensus of Vina del Mar"

El Financiamiento Externa Para el Desarrollo de la America Latina
TO: Deputy Directors, Bank & IFC Departments

FROM: J. E. Twining, Jr.

DATE: November 4, 1969

SUBJECT: Pearson Commission Records

At the request of the Pearson Commission, the Bank has agreed to take custody of the Commission's records which have been received and turned over to Central Files. Access to the records is subject to the conditions mentioned below.

These records fall in four principal categories:

1. Contract Studies, of which there are nineteen. These can be made available, on request, to interested members of the Bank Group staff. They may not be made available outside the Bank, except for the paper by Edwin Truman, The Multilateral Untying of Economic Aid. Some may merit consideration for Occasional Papers and, if so, permission of the author must be sought before publication.

2. Staff Papers, of which there are forty one, prepared by members of the Pearson Commission staff. These, like the Contract Studies, formed the basis for substantive chapters in the Commission's report. They may be made available, on request, to interested members of the Bank Group staff, and to those outside the Bank who have a legitimate interest in the history of the Commission.

3. Miscellaneous Papers, such as memoranda and other background material prepared by the Commission staff, along with a few documents furnished the Commission by other organizations or individuals. Access to these papers is on the same basis as Staff Papers mentioned above.

4. Records of Regional Hearings and Commission Meetings. These records contain confidential information obtained by the Commission at its hearings and meetings. Access to them is limited to those staff members who have been assigned responsibilities by Mr. Demuth to make preliminary studies of the Commission's 33 recommendations which are directed to, or bear upon, the activities or policies of the Bank Group.

Attached is a list of the titles of the papers included within each of the foregoing categories. Copies of the individual studies and papers are available on request from Central Files (Mrs. Luke or Mrs. Harris, extension 2454).
Any general questions which you may have regarding records of the Pearson Commission should be referred to Mr. Doyle of the Records Management Section, extension 2711.

The Information and Public Affairs Department will service requests from the general public for copies of the Edwin Truman study on Multilateral Untying of Economic Aid.

Please bring the foregoing to the attention of members of your staff who may have a need to consult these records.

HEDyer:hh

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October 31, 1969

Betty:

Originals of Forwarding Addresses of Commission, and Original Listing of File Materials for your records and for distribution if you feel necessary.

Thank you for all your trouble. If Copenhagen meeting notes are not forthcoming from Mrs. Blair, I would just say that you did not receive any and suggest party call Mr. Stern or Mr. Hamilton.

Judy
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<td>8. - Assistance in appraising terms of export credits</td>
<td>Rovani</td>
<td>Dec. 1</td>
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<td>9. - IFC promotional activity</td>
<td>Gaul</td>
<td>Nov. 1</td>
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<td>10. - Advice on industrial and foreign investment policies</td>
<td>Fuchs</td>
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<td>11. - &quot;daily working system&quot;</td>
<td>Haley</td>
<td>Nov. 3</td>
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<td>12. - Multilateral groupings</td>
<td>Hoffman</td>
<td>Nov. 1</td>
<td>Nov. 22</td>
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<td>13. - Discussion of IFC members' plans for achieving the Commission's aid target</td>
<td>Bocchi</td>
<td>--</td>
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<td>14. - Debt rescheduling</td>
<td>Silla</td>
<td>Nov. 17</td>
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<td>15. - Assistance to development banks, industrial parks and agricultural cooperative credit institutions</td>
<td>Diamond/Kahanoff/King</td>
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<td>16. - Joint or parallel financing</td>
<td>Hoffman</td>
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<td>18. - Program aid</td>
<td>Mason</td>
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<td>19. - Integration of technical and capital assistance</td>
<td>Tzagourni</td>
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<td>20. - Financing for local monetary expenditures and for supplies in connection with technical assistance projects</td>
<td>Tzagourni (with Hilley)</td>
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<td>21 - Technical assistance components (with Riley)</td>
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<td>22 - Creation of technical assistance corps</td>
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<td>24 - Identification of research needs</td>
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<td>25 - Population problems</td>
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<td>27 - Research institutes</td>
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<tr>
<td>28 - Economic-reporting</td>
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<td>29 - Burk/TDA blending</td>
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<td>30 - Burk/TDA coordination in country assessment and policy advice</td>
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<td>31 - Changes in TDA's organisation</td>
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<td>32 - TDA allocation criteria</td>
<td>Henderson</td>
<td>Hosting for March 15</td>
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<td>33 - Conference on coordination machinery</td>
<td>Donath</td>
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<td>March 15</td>
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</tbody>
</table>
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<td>Pakistan Growth and Development Policies</td>
<td>G. Papanek Development Advisory Service</td>
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<td>Walter Falcon, Joseph Stern, Harvard University, Cambridge, Mass.</td>
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<td>Aid Philosophy and Mechanisms - Japan</td>
<td>Japanese Economic Research Center, Tokyo, Japan</td>
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<td>Helgard Graham-Planken, Washington, D.C.</td>
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<td>Oktay Yenal, Robert College, Istanbul, Turkey</td>
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<td>Foreign Aid to Colombia</td>
<td>Richard D. Mallon Development Advisory Service, Harvard University, Cambridge, Mass.</td>
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<td>An Assessment of the Economic Development of Singapore</td>
<td>Lim Chong Yah, University of Singapore, Singapore</td>
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<td>Second Post-War Restructuring</td>
<td>Gustav Ranis, Yale University, New Haven, Conn.</td>
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<td>Costs and Benefits of PL480 Programs</td>
<td>David DaPice, Harvard University, Cambridge, Mass.</td>
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<td>Scope and Limitations of Aid Policy Formulation in the Context of</td>
<td>Overseas Development Institute, London</td>
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<td>the British Environment</td>
<td>James Lambe, John White</td>
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<td>Edwin M. Truman, Yale University, New Haven, Conn.</td>
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<td>S. Bhoothalingam, Hindustan TIMES, New Delhi, India</td>
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<td>Indian Institute of Statistics New Delhi, India</td>
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<td>Indian Economic Growth: Plan Priorities and Centre-State Relations</td>
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<td>Ajit Bhattacharjea</td>
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<td>France</td>
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Targets for Aid Financing 2/25/69
Aid Relationship 2/27/69
Structural Changes 2/26/69
Debt and Aid Terms 2/25/69
Scientific Research and Technology 2/69
Transfer of Technology 2/25/69
The Present Debt Structure and Rescheduling 2/26/69
How the "Debt Servicing Capacity" Approach Works in Practice 2/69
Issues in Trade Policies 2/26/69
Private Foreign Investment 2/18/69
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Multilateral Soft-Loan Agency (W. Arthur Lewis) 2/69
Outline of the Report 2/69
Papers on Rationale 2/69 - 6/69
Aid Magnitudes 6/69
Draft - Chapter 1 6/69
Volunteers: National and International 6/69
Aid Policies and Procedures Part I - Tying 2/69
Aid Policies and Procedures Part II - Tying Revised 6/69
Proposal for Interest Subsidy 6/69
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Population Growth 6/69
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Note on Domestic Private Sector 6/69
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Food Aid - Past and Present 6/69
Is A New International Agency Necessary? 6/69
Draft - Introduction 5/69
Donors' Balance Sheet of Proposed Changes 6/69
Final Draft - Geneva Meeting 9/69
Copy of July Draft of Report 7/69
Miscellaneous Background Papers 2/69 - 9/69
Report Outline
Research and Development in Less Developed Countries 5/69
Possible Use of Reverse Flows on Official Bilateral Loans for the Automatic Replenishment of IDA 5/69
III. COMMISSION MEETINGS AND REGIONAL HEARINGS

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Rome 3/69
Copenhagen 6/69
Geneva 9/69

B. Regional Hearings

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Abidjan 3/69
Kampala 3/69
New Delhi 3/69
Rawalpindi 3/69
Singapore 4/69
Ankara 6/69

C. Government Submissions

Yusuke Kashiwagi - Ministry of Finance (Tokyo)

David Horowitz - Bank of Israel

Economic Aid to Low-Income Countries - CED Conference April 11, 1969
Assisting Development in Low-Income Countries - CED Conference April 11, 1969
IV. MISCELLANEOUS PAPERS

A. STAFF PAPERS

Country Study - Brazil
Country Study - India
Country Study - Thailand
Tables on Development Experience of Developing Countries
Comparison of the Draft CID Report Recommendations with U.N. Proposals for the Second Development Decade
Results of Projection Exercises for Gross Flows, Debt Service Payments and Net Transfers
Aid Auditing Procedures
Self-sustaining Growth
Estimates of Foreign Capital Requirements
Interest Subsidy
Press Brief
Notes on Sir Robert Jackson's Tentative Conclusions
The Target for Total Net Financial Flows
Notes on Visit to Germany of Lester B. Pearson, Chairman
A General Critique of the Draft
Statistical Data on Aid Magnitudes
Draft Statistical Data for Commission Report
Political Linkages and Economic Development

B. OTHER PAPERS

Report on a Trip by an ITCAP Subcommittee to India and Pakistan
FAO's Participation in Agricultural Research in Africa
The Administrative Needs of a Rural Reconstruction Program
FAO Machinery for Dealing with Science and Technology
Industrial Research as a Factor in Economic Development - National Academy of Science
Contraceptive Research

Additional Foreign Aid for Socially Oriented Government Programs

Reflections on International Cooperation for Latin American Development

Preparation of Guidelines and Proposals for the Second U.N. Development Decade

Notes on India's Opportunities and Needs in the 70s.

The AID Population and Family Planning Program

The Malthusian Spectre in India

A Proposal for Providing Development Aid through Equity Investments and Mutual Funds

Address by Gabriel Valdes - "Latin American Concensus of Vina del Mar"

El Financiamiento Externa Para el Desarrollo de la America Latina