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822/2/1

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 4, 1977

FROM: James M. Kearns, Dir., OPD

SUBJECT: Notes on the January 3, 1977 President's Council Meeting

1. Had you asked me at the start to make a record, I would be able to do a better job of it. Here is what I get from my notes and memory.

2. Except for Knapp's mention that the IBRD interest rate for the next quarter would probably be 8.5%; Chadenet's announcement that January 20 -- Inauguration Day -- would be a Bank holiday (reminder -- you want to mention this to the Board on Thursday); and Benjenk's announcement that Lebanon will make its payment to the Bank; the entire session was devoted to the guidelines for the FY78-79 program.

3. The main points you made at the start were:

-- a longer term program was essential, the basic rationale being a three-year lead-time for loans and credits;

-- the guidelines were based on the program prepared in the Spring of '74 with add-ons of the Third-Window (a bump), IDA V and project size standards;

-- results are a very tight IBRD program ($6.1 billion in '78 and no increase in numbers of projects) largely because of previous restrictions on the IBRD budget which, given the project lead-time, is a severe restriction, but a sharp increase in IDA volume and number of projects with the number increase possible because S.A. had been producing below full staff capacity for last year or two given IDA funds shortages. For the whole period, IBRD growth will be about 12% nominal and 6% real.

-- Next step is for Knapp to work with RVPs on regional allocations of the overall guidelines and then prepare regional program iteration.

4. You went on to stress that the overall and the regional plans must be based on the fundamental premise that slippage due to uncertainty is inevitable and all program plans must take account of the uncertainty. The reasoning goes like this:

-- the LDCs need and can absorb far more resources than the Bank can provide;

-- there are very high degrees of country and project uncertainty;

-- therefore, operations must be overprogrammed if maximum available resources are to be provided each year to the LDCs and the Bank must be willing to pay the price of overprogramming in its administrative budget.

5. You went on to stress that the WSJ, the Washington Post, Hori and Cooper did not understand this. You stressed that the members of the President's Council must understand it and support it. If anyone has questions or a better way of doing it, you said, let's discuss it as long as is necessary to come to a consensus.

6. Much discussion ensued, the main points being:

-- Benjenk said that the appropriateness of the level of overprogramming is related to the "pressure to lend" and "quality" issues.

-- Gabriel asked if the basic overprogramming premise had been explicitly stated to the Board and staff. You said yes and, if not, it should be.

-- Baum asked if you were really willing to put an appropriate level of overprogramming in the budget bottom line. You said yes, but qualified it, saying that we've always had overprogramming. Someone said yes, but we've been tighter in recent years. You said overprogramming should be between 30-50% and that you felt our standard costs were both overstated (traditional projects) and understated (new style projects) and that the supervision level has been, and will continue to be, discussed and debated as will other standard cost questions.

-- Bell asked whether we are prepared to err on the upside or downside on the question of standard costs. You said the budgets will continue to be tight, citing governmental attitudes about public expenditures.

Bell asked whether you are prepared to go over the \$5.8 billion IBRD ceiling. You said yes, but not to the extent of hurting the Bank's financial soundness, and cited your Manila speech in this regard.

-- Benjenk asked why we were unwilling to increase project size which would serve to meet the LDCs resource needs without undue pressure on the Bank's administrative budget and staff availabilities. You responded, citing an LAC example, that budgets and programs should be optimal development use of available financial resources, and not be based on notions of staff or budgetary constraints.

-- Damry mentioned that the EDs are concerned about the pressure on them to review increasing numbers of projects, and he advocated a sharp increase in Special Procedure projects. I said the EDs, while willing to increase the Special Procedure limit, did not consider it a final solution. What they want is debunching and they are firm about respecting the limit of 10 regular plus 2 SP projects a week. You said bunching was inevitable, but we should work hard to reduce it, that you could see the SP limit going up somewhat if for no other reason than inflation, and that we would have to deal with the Board on their workload problems which were manageable.

-- A number of other comments were made about variations in regional slippage experience, the cost of premature appraisals, the number of projects lost before and after appraisal, the problem of making overprogramming a reality for divisional staff where the differences between standby and lending projects tend to disappear, and the mid-year review will not foreshadow the FY78 program and budget, but the "Future of the Bank" paper will.

JMKearns;mld;DW

822/2/2

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. R.S. McNamara

DATE: January 10, 1977

FROM: James M. Kearns, Dir., OPD

SUBJECT: Note on the 1/10/77 President's Council Meeting

1. Although you didn't ask, I thought as Sven is still away that you might want a note for your file on the P.C. Meeting this morning.

2. Those in attendance were: Adler, Baum, Bell, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Damry, Gabriel, Goodman, Kearns, Clark, Krieger, Stern, von Hoffmann, Wapenhans and Weiner.

3. You started by saying that you had to leave early to catch a plane and you had one thing on your mind: Should we, and can we, use the next 90 days of program and budget preparation to focus on some of the many issues that have been around for some time: quality vs. quantity, adding that quality always should come first, but not everyone seems to understand that; pressure of the plan; unwieldy procedures, doubts about the planning process. You said that obviously all this can't be solved quickly, but maybe a start can be made and you wanted to know:

- what role all the VPs should play

- what role they want you to play.

4. At your invitation, Gabriel started first saying the first thing to do is get the involvement of managers at all levels to ensure their understanding and commitment and, where there is disagreement, to make sure that choices are proposed and discussed -- in short, a more collaborative and participative process. Georg then went on to list some issues he sees from the P&B side: guidelines for non-operational unit budgets; overtime; etc.

5. Baum brought up the work of Chadenet's Group with Bernard chiming in to indicate that a paper would be ready for you by the end of this week and that the thinking of the group, while not inconsistent, is moving at a slower pace.

6. You and a number of others spoke on the subject of involving division chiefs in the process more fully -- with several of the RVPs stating this is being done. Benjenk raised a substantive question relating to average size of project flexibility and you said that the development assistance needs of the country, and not staff or budget constraints, should be the determining factor. Chaufournier raised the point about workload factors being refined so that we can be more confident in them. You agreed that our factors should take account of differences between types of projects -- small R.D. and large plantation projects.

7. Baum intervened to say that the question was how to get more commitment and while the Divisions do participate in discussions, and it is they who formulate the program, the starting point is whether all managers understand the assumptions and guidelines, and whether those are proper -- citing the statement Georg had made earlier about no growth for support departments. You said that you did not agree with Georg's statement and had always allowed support departments to grow if their work were driven by growth in operations -- e.g., Controller's disbursements unit.

8. Upon leaving, you set a meeting for a follow-up discussion on planning assumptions on Tuesday, January 11 at 2:00 p.m.

9. After you left, some further discussion ensued with several feeling that it was too soon to have a follow-up discussion and others wishing to go ahead. I understand this matter was further discussed at the Operational VPs' Meeting. They favor going ahead tomorrow and are circulating some questions to the P.C. to serve as a basis for the discussion.

JMKearns:DW

822/2/3

President's Council Meeting, January 17, 1977

Present: Messrs. McNamara, Adler, Baum, Bell, Bart, Broches, Goodman, Chadenet, Chaufournier, Chenery, Clark, Damry, Krieger, Stern, Wapenhans, Weiner, von Hoffmann, Kearns, Gabriel

Mr. Clark said that Mr. McNamara had launched the idea of the Brandt Commission in his speech to the World Affairs Council in Boston on January 14. Comments from the international press would be circulated to PC members during the day.

Mr. McNamara said that the paper on the Future Role of the Bank and Mr. Broches' paper on Voting Rights would be circulated to PC members on January 17. He would like to discuss the papers with PC members on Friday, January 21, at 2:00 p.m. The discussion might focus on what the lending program should be for FY78 and FY79, on when the paper should go to the Board, and on how we should deal with a possible capital increase. If the discussion of the capital increase were deferred, should other related issues still be discussed with the Board and how should the lending program for FY78 and FY79 be justified? In this connection, he asked PC members to read page 31 of his Manila speech. Mr. Damry said that 40,000 votes were still required to reach agreement on the selective capital increase and he did not think it would be possible to receive these votes before February 10. Hence, he did not think that the paper on the Future Role of the Bank should be circulated to the Board before that date. Mr. McNamara asked Mr. Damry to talk to Mr. Goodman about this but said that he was not sure we could wait with the distribution until February 10.

Mr. Goodman said that the Kuwait meeting of the IDAV Deputies on the whole had been good. There was now agreement that the traditional donors would contribute $7.2 billion and would make good the shortfalls from Switzerland and Ireland. An agreement on bridging also seemed possible and could be reached during the Vienna meeting in March 1977. Two major problems remained: (a) the French contribution was still $63 million short of the Nairobi share and other donors would not make up for the French shortfall; and (b) the Saudi Arabians had suggested a contribution of only $250 million and the United Arab Emirates of $50 million. Along with the Kuwait contribution of $180 million on the "OPEC account," this would lead to an unacceptable level for the OPEC countries. Mr. McNamara said that the French attitude would present the toughest problem. He asked Mr. Goodman to contact Messrs. Cargill, Chaufournier and Vibert about this.

The meeting then discussed Mr. Chadenet's paper on Staff Attitudes and Perceptions. Mr. Chaufournier said that the staff was not so much concerned about the quality of projects as about the loss of good investment opportunities. Promotion was not as easy as it had been during the rapid expansion of the Bank and other professional rewards were, therefore, required. We should create an atmosphere in which creativity and innovation could be rewarded. This was mainly a question of style and procedures. Personally he had initiated meetings throughout his region where improvements could be discussed. Mr. Chenery said that there were serious lateral communication problems in the Bank. Hence, discussion of such matters were of interest to all PC members and discussions thereof should take place in PC. Messrs. Baum, Chadenet and Damry agreed. Mr. Wapenhans also agreed and said there was no voluntary spirit of cooperation between the Regions and CPS and DPS. Furthermore, cooperation between the Regions and Public Relations was also deficient. Mr. Clark welcomed closer cooperation between the Regions and his Department to help overcome the frequent misconception of the Bank as being run from Washington by Washingtonians. Mr. Adler said that it was the failure of managers to deal with specific complaints from staff members which led to broad generalizations, such as the alleged decline in quality of projects. Mr. Goodman said that staff felt left out of the decision-making process in the Bank. Mr. Krieger said that this was inevitable, since involving 2,000 professionals in decision-making very soon would turn the Bank into what he called a "Latin institution." The real problem in his opinion was procedures which led to overcontrol. Mr. Stern said that PC discussion of the basic questions listed in Mr. Chadenet's paper would be desirable but should not be a prerequisite for improving communications at the lower levels of management. Mr. Broches was afraid that the suggestions in the paper could lead to prolonged and wasteful discussions in the PC. Mr. McNamara said that he agreed with Mr. Stern that PC discussion should not be a requirement for action but could lead to a unified view. He suggested that the planning, programming and budgeting processes be discussed at the PC meeting on January 24. If any PC member had written comments, they could be sent to Mr. Chadenet for distribution but confidentiality should be strictly preserved.

cc: Mr. Knapp

SB
January 18, 1977

822/2/4

President's Council Meeting to Discuss Future Role of the Bank, January 21, 1977

Present: Messrs. Knapp, Adler, Baum, Bell, Bart, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Krieger, Blobel, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Goodman, Wood

Mr. McNamara asked the PC the following three questions:

(a) Could a capital increase be deferred for 18 months without any adverse effect on the lending program;

(b) If a capital increase were deferred for 18 months, should a paper on the future role of the Bank still go forward to the Board as a basis for discussion of issues related to a capital increase; and

(c) Should we now attempt to obtain agreement from the Board on an IBRD lending program of $6.1 billion for FY78 and $6.8 billion for FY79?

The PC gave an affirmative answer to all three questions. Mr. Knapp said that we could defer the capital increase for 18 months but we should seek acceptance of the "nondisruptive" concept now. He felt that the suggested $6.8 billion lending program for FY79 could present some problems, since the Board in the absence of a capital increase might consider such a level of lending as "disruptive." Mr. McNamara said he was not worried about the proposed $6.8 billion lending program for FY79 since we would know before June 30, 1978, whether we would have a capital increase, and, in case we didn't, the $6.8 billion could be dropped to a lower figure. Mr. Chenery said that the paper was persuasive and could lead to a good discussion. The probability of an agreement on the suggested lending program was, in his opinion, high. Mr. Baum was troubled with the definition of "nondisruptive" in the draft paper. He felt that many people would consider a 50% real decrease in lending as disruptive. Mr. Broches said that he would stress the small cost of planning for $6.8 billion in FY79 to the Board. If we had to reduce the figure, this would simply mean that we replenished our pipeline of projects. Mr. Adler said that the EDs expected a major paper now on the future role of the Bank and we should permit them adequate time for discussion. Mr. Goodman said that a postponement of the discussion of the capital increase itself for 18 months would fit well with the IMF timetable for the next quota increase.

Mr. McNamara suggested that Mr. Broches paper on voting rights should be annexed to the main paper on the future role of the Bank. Voting rights were not a practical but a political problem. It would be a very sensitive and emotionally charged issue. He would like to discuss it further with interested PC members on January 24.

PC members then gave their major comments to the draft paper. It was decided that these comments should be forwarded in writing to Mr. Wood by end of business on January 24, 1977. Mr. Wood would then revise the paper by January 27.

SB
January 24, 1977

President's Council Meeting, January 24, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Bart, Broches, Cargill, Chadenet, Chaufournier, Chenery, Damry, Krieger, Blobel, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Mrs. Boskey

The discussion focussed on paragraphs 3 through 7 in the "planning, programming and budgeting processes" in Mr. Chadenet's memo to the PC dated January 14, 1977. Mr. Chaufournier said that the CPP should basically be an instrument of planning. It had now become an instrument of resource allocation and hence an advocacy document for the Regions. The Bank-wide lending program should not be a summation of CPP programs. Mr. McNamara said that it was a misunderstanding that the Bank-wide program was derived in this manner, although Attachment 1 of the CPP's of course was an inportant building block. Mr. Chenery said that the present programming system was improper, overconstrained and overloaded. Arbitrarily cutting the lending programs suggested in CPPs was not an optimal allocation of scarce resources. Mr. Baum said that the forecast in CPPs often were too optimistic. Our budgetary process functioned also as a constraint as far as allocation of staff was concerned. The issue was not really whether we should use input-output coefficients and be accountable for what we did but rather how we went about doing it. Mr. Bell said that the CPPs should be part of an over-all program for the Bank and not function as a "wild card." The only way in his opinion to achieve this would be to review CPPs simultaneously, at least within Regions. Mr. Krieger said that the present system was all right but we should return to the Bank-wide 10%-15% overprogramming, hence giving the Regions more flexibility. Mr. Wapenhans said that staff commitment had been eroded through what he described as a "dual system," whereby we attempted to allocate funds both by country and by sector.

Mr. McNamara asked Mr. Gabriel to chair a small group consisting of Messrs. Chaufournier, Chenery, Adler and Kearns. Mr. Gabriel should identify the issues which had been discussed at the meeting and send them to PC members for comment. After having received the comments and prepared a final list, Mr. Gabriel and his group should prepare a paper on the issues for further review by the PC. Mr. McNamara suggested that the following issues had emerged from the morning's discussion:

(a) proper definition and adequacy of standbys and slippage;
(b) are scarce resources allocated optimally among countries;
(c) does DPS adequately review forecasts in CPPs;
(d) is the flexibility in our present programming system adequate;
(e) do we have a single or a dual programming system;
(f) is production-oriented staff allocated on the basis of work coefficients or is an arbitrary budget constraint involved; and
(g) what processes are actually followed within Regional offices in planning and programming.

Mr. McNamara asked the PC to meet again at 9:00 a.m. on January 31 to discuss "quality considerations" as outlined in Mr. Chadenet's memorandum of January 14.

After the PC Mr. McNamara met briefly with Messrs. Knapp, Broches, Cargill, Damry and Nurick to review Mr. Broches' paper on voting rights dated January 17, 1977. It was decided that Mr. Broches would forward a revised paper to Mr. Wood by end of business on January 24.

SB
January 25, 1977

President's Council Meeting, January 31, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Bart, Nurick, Cargill, Chadenet, Chaufournier, Chenery, Damry, Krieger, Blobel, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Mrs. Boskey

Mr. McNamara urged PC members to study the survey data for Staff Compensation 1977 and particularly note the level of salary and benefits combined, so that they could answer questions from the staff about these matters.

Mr. Chadenet said that there would be no shortening of the Bank working week due to the energy shortage. However, the thermostats would be set on 65°F and that could lead to even cooler temperatures in part of the Bank.

Mr. McNamara said that the Brandt Commission was moving ahead. Messrs. Pronk and Hopper had agreed to at least partly finance the Commission. It was too early to say whether the Bank should also finance some of the expenditures of the Commission.

Mr. McNamara thanked PC members for their comments on the "Future Role of the Bank" paper. The comments had been very helpful but not so substantive as to warrant another meeting on the paper.

The PC then discussed "quality considerations" along the outline presented by Mr. Chadenet on page 3 in the annex to his memorandum of January 14, 1977. Mr. Baum said that there was a lively interest among the staff in the issue of quality of projects. He would define quality as the capacity and extent to which projects responded to the development objectives of our borrowing countries. Mr. McNamara said that he would add that the funds should be used efficiently to achieve the direct investment objective of the projects. Mr. Baum said that quality had been consistently increasing and continued to do so. There was no tradeoff in the long run between quality and quantity, as long as the necessary resources were provided. Projects were riskier than in the past but they were also reaching the right beneficiaries. We had improved our procedures and standards over time. We might have been a little less tough and quality conscious right after the reorganization but that was certainly no longer the case. However, our monitoring and control procedures led many staff to believe that management stressed time rather than quality. In the short run, of course, there was a tradeoff between time and quality because resources could not be shifted immediately and time itself had a cost attached in terms of resources which could be used for other purposes. The Regions were clearly responsible for the quality of projects, while CPS and DPS should extend functional control to see that things worked properly. However, there was insufficient delegation of responsibility at all levels. He had recently talked to the 5:30 Group where someone had said it was impossible to disagree with Mr. Baum's opinions on quality but the person had stated that, if Mr. Baum were right, "why do we then feel the way we do about the Bank." This in Mr. Baum's opinion was the essence of the problem. Mr. Knapp said that the problem of quality was indeed a problem of perception and it was the responsibility of supervisors to get the equal importance of quantity and quality in our project work across to the staff. Staff perceptions about quality were concentrated in three areas: (a) that we were pushing loans which stretched the creditworthiness of the borrowers; (b) that we were pushing loans which were not meeting minimum priority standards; and (c) that the conditions attached to the projects were not adequate to achieve the objectives. Our projects had definitely become risky over time but this was quite proper, since we were now benefiting the right people. Mr. Wapenhans felt that the functional control exerted by CPS was a problem, since it was not limited to technical standards but often second-guessed regional staff who knew more about the projects than CPS. Issues were too often raised to the Loan Committee level. Guidelines for project work were important but should be written in simpler language and be more illustrative so that they could be used to train new staff who were not familiar with Bank jargon. Mr. Cargill said that more responsibility for project work should be delegated to the RVPs. Mr. Bell said that loan officers were often too insecure and took Loan Committee decisions as a verdict from above which could not be discussed. Mr. Blobel agreed and said that when loan officers were called from Mr. Knapp's office on project matters they were unlikely to disagree. Mr. Chadenet said that we had created an "advocacy atmosphere" and that more responsibility should be delegated to the RVPs. Mr. McNamara said that he wouldn't recommend doing what Mr. Chadenet suggested at this stage, although he foresaw that long-term growth could make such delegation necessary. Mr. Chenery said that we should have clearer standards on such matters as local-cost financing, grace periods and maturities. He said that "development objectives" in Mr. Baum's definition of quality were hard to establish. CPPs should be more explicit on country objectives. Mr. McNamara asked Mr. Chenery to work with P&B on this problem. Mr. Kearns said that loan officers too often were caving in to time and pressure as a result of uncertainty and ambiguity in our project standards. Mr. Chaufournier said that the problem was related to the growth of the Bank. Mr. McNamara said that he did not see the problem as structural in the sense described by Mr. Chaufournier. Mr. Adler said that it was the manner in which quality control often was exerted as a last minute interference which was resented by staff. Clever loan officers found it to their advantage to do things with the minimum of controversy. Mr. McNamara stressed the importance of having independent-minded people in the Bank. Mr. Bart said that the alleged docility of the staff was exaggerated. The problem was that issues were escalated to the highest level in the Bank and that clear guidelines on many issues were lacking. Mr. Krieger did not think that we had much of a problem with respect to quality. We should, however, have more competent advisory staff in CPS to help inexperienced staff in the Regions. Mr. McNamara asked Mr. Baum to chair a group consisting of Messrs. Chadenet, Stern and Benjenk to identify the issues which had emerged on quality control during the discussion. The issues should be sent to PC members for comment and a paper then prepared for review by the PC. Among the issues to be considered would be:

(a) What should be the limites of functional control;
(b) Which responsibilities should be delegated where and to whom;
(c) What were the proper responsibilities of the loan officer;
(d) What was the role of the Loan Committee; and
(e) Did we need more precise standards and definitions on such matters as local-cost financing, grace periods and maturities.

SB
February 1, 1977

822/2/7

President's Council Meeting, February 14, 1977

Present: Messrs. McNamara, Knapp, Baum, Bart, Broches, Cargill, Clarke, Gue, Chenery, Clark, Damry, Husain, van der Meer, Blobel, Wiehen, von Hoffmann, Kearns, Gabriel

Mr. McNamara said that he would meet informally with the EDs on February 15 at 4:00 p.m. to talk about how the Future Role of the World Bank paper could best be discussed in a sequence of meetings. He did not think that the EDs were ready to agree on the proposed lending programs for FY78 and FY79, but other subjects, such as graduation policy, voting rights and the role of commercial banks could usefully be discussed at this stage.

Mr. Damry mentioned the very positive statements by Messrs. Rota, Sen and El-Naggar at the Board Meeting on February 8. They had said that the borrowing prospects for the Bank were excellent and that there had been no sacrifice on quality of our projects. Mr. Sen felt that the EDs should not remain silent in the face of press criticism. Messrs. Wahl, Janssen and Drake had generally agreed but said that we should ignore the press criticism.

Mr. Damry said that many EDs had shown interest in the work of the Trilateral Commission. Mr. McNamara asked Mr. Damry to obtain copies of the Commission's reports and have them available for the EDs in his office.

Mr. McNamara said that bunching was again becoming a serious problem and had been mentioned by many EDs during the Mid-Year Review of the budget. Some EDs felt that the project work of the Board should be reduced by introducing a screening committee or increasing drastically the number of Special Procedure projects. Mr. McNamara was not sympathetic to these ideas, since all projects should be the responsibility of the Board; but he felt that the Board could concentrate more on the essential elements of projects. Mr. Cargill said that he would have a paper ready on bunching by February 18 for discussion by PC members at a later meeting.

Mr. McNamara said that many EDs had been critical of IFC for not meeting its FY77 program. Although IFC had done everything humanly possible to achieve its program, Mr. McNamara considered this a perfect illustration of the fact that one should never make a plan which was unrealistic. It would only lead to criticism when the plan was not fulfilled.

Mr. McNamara said that launching the Brandt Commission would be postponed until after the forthcoming CIEC meeting in Paris. Some developed countries were wondering whether the Commission would be constructive, whereas many government leaders in the LDCs had been supportive of the idea. The LDC negotiators in CIEC were concerned that the Commission might weaken the OECD willingness to come to fruitful conclusions of the CIEC meetings. Development experts and economists were generally enthusiastic about the Commission since they felt that the intellectual foundation for the North/South Dialogue was very weak.

Mr. McNamara said that "program monitoring and control" should be discussed at the PC meeting on February 28.

Mr. McNamara said that tax reimbursement for U.S. citizens was perceived by many expatriate staff members as being inequitable. Hence he had asked Mr. Clarke to arrange a survey of U.S. staff members to be undertaken by an outside accountant. It would not be mandatory for U.S. citizens to respond to the survey unless the accountant, Arthur Anderson, found that the survey was not representative. Mr. von Hoffmann suggested that a solution to the problem might be to waive the immunity of some expatriate staff thereby making it possible for them to pay U.S. taxes. Mr. McNamara asked Mr. Clarke to examine this. Mr. Kearns said that staff members were meeting on a national basis within the Bank to discuss staff compensation. He thought it was disgraceful that staff members in effect would discuss Bank policy from a nationalistic point of view. Mr. McNamara asked Mr. Clarke to consider how this matter might be handled.

Mr. McNamara said that the FY78 budget estimates submitted by the Regional Vice Presidents and others were way too high. He asked the Vice Presidents to reconsider their budgets, keeping appropriate input/output relationships in mind. Mr. Damry said that he would include an allocation in the FY78 budget which would permit us to go back to the old arrangement of offices at the Annual Meeting.

Mr. Knapp said that he would report about IFAD at the next PC meeting.

Mr. Cargill said that he did not have the paper on a bridging arrangement for IDA ready as promised. He thought this should be mentioned to the EDs under other business at the February 15 Board Meeting.

Mr. Chenery said that Mr. Gamani Corea would give a seminar to a restricted audience on Wednesday, February 16, on UNCTAD matters.

Mr. McNamara said that he would be away from the Bank from February 23 through February 27.

SB
February 15, 1977

President's Council Lunch, February 22, 1977

Present: Messrs. Knapp, Baum, Husain, Benjenk, Broches, Chadenet, Gue, Chenery, Clark, Damry, Krieger, Stern, Wapenhans, Qureshi, Adler, Kearns, Gabriel, SB

Mr. McNamara said that the budget proposals for fiscal '78 as submitted by the Vice Presidents were too high. He asked Mr. Gabriel to prepare a format for workload data to be submitted by the regions and CPS by the beginning of the week starting February 28. The workload sheet should show average cost per Bank and IDA project over the last years and should include past, present, and suggested output figures for fiscal '78 and fiscal '79.

Mr. McNamara defined the Bank Group Lending Program as the number of projects going to the Board and their amounts. The Regional Projects Lending Program would be the number of projects which the Regional Vice Presidents intend to take to the Board and their corresponding amounts. Finally, the Regional Projects Operation Program would be equivalent to the Regional Projects Lending Program plus Standby Projects. A Standby Project would have the same probability of going to the Board as any other project in the Regional Projects Operations Program.

SB

February 23, 1977

822/2/9

President's Council Meeting, February 28, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Husain, Damry, Krieger, Stern, Wapenhans, Qureshi, Kearns, Gabriel, Nurick

The meeting discussed program monitoring and control as outlined in Mr. Chadenet's memorandum dated January 14, 1977. Mr. Wapenhans said that lending, economic work, sector work, supervision and technical assistance should all be monitored, but in a balanced way. At present we put the emphasis on monitoring our lending program to such an extent that duplication of effort was involved. Mr. Husain did not feel that our monitoring was excessive. The problem was that many staff members perceived it as being so. Mr. Baum agreed and said that the present system led many staff members to believe that management put the emphasis on quantity instead of quality and on lending instead of supervision. Mr. Stern suggested that it should not be impossible to explain to intelligent staff members that the frequency of reporting and monitoring is not necessarily an indicator of importance. Mr. Benjenk said that we should examine how much monitoring we in fact did at present and then consider whether it could be simplified. We should distinguish between monitoring and forecasting. The latter was involved in preparation of the Board schedule and, hence, subject to substantial error. Mr. McNamara said that the justification for monitoring was to isolate the difference between performance and our plans in order either to bring our performance back to the planned level or to change the plan. Mr. McNamara asked a group chaired by Mr. Wapenhans and including Messrs. Chaufournier, Kearns and Blaxall to consider such questions as whether our monitoring for sector and economic work was inadequate; the perception of the staff towards monitoring; and whether our monitoring system was tailored to the needs of the managers. The group would prepare a paper for review by the PC.

Bunching was also discussed. Mr. Knapp said that our aim should be to reduce bunching while maintaining our volume of lending. He felt that it was necessary to replenish the pipeline to solve the problem. Mr. Stern said that bunching was a perennial problem in all institutions which set targets for themselves. Underlying budget cycles both within the Bank and within the member governments and cycles for project preparation led inevitably to bunching. It would be futile to eliminate it but it should be our objective to reduce it, keeping in mind that a cost would be involved in doing this. Mr. Chadenet said that it did, of course, not matter to our borrowing countries whether a loan was approved in June or July but, since we worked on a fiscal year basis, there was a political cost attached to "losing" projects within a fiscal year. Mr. McNamara felt that there was only a one-time cost involved in doing away with the bunching problem and, in any event, it had to be done. He would not allow the present 43% of our annual lending program to be presented to the Board in the last quarter two years from now. The easy answer to the problem was to employ more people to replenish the pipeline, but he was not convinced that it was the proper answer. Incentives and disincentives could be used instead. He asked a group chaired by Mr. Chadenet and including Messrs. Baum, Husain, Gabriel, Adler and Kearns to study the bunching problem and report back to the PC by May 1, 1977.

On a question from Mr. Clark, Mr. McNamara said that we still had problems to overcome for the IDA5 replenishment but that there was nothing specific to report at this stage.

Mr. McNamara said that he was more worried than ever about staff compensation this year. The surge of nationalism within the Bank was very sad and he urged PC members to be sensitive to this matter and to talk to Mr. Chadenet on how to avoid division of staff along nationalistic lines. It was unrealistic to think that very much could be done to relieve the problems this year. He wanted to discuss staff compensation, including expatriation allowance, at the Department Directors' meeting on March 7.

SB
March 1, 1977

822/2/10

President's Council Meeting, March 4, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Husain, Damry, Krieger, Stern, Wapenhans, Qureshi, Kearns, Gabriel, Clarke

Compensation--Mr. McNamara said that about 10 different compensation options had either been proposed to the Board or suggested by the Board for further study. The tension and divergence among staff members were now so great that we should focus on one proposal. He then distributed his proposal for staff compensation changes to the PC and said that he had given this proposal earlier in the day to Mr. Witteveen and to the EDs. He felt that no one could make a responsible and thoughtful proposal on expatriation allowance and tax reimbursement at this stage and, hence, he suggested that a joint committee of the EDs of the Bank and IMF be established to study these matters. In the meantime, he hoped that total compensation could be increased by the cost-of-living probably in the form of an across-the-board salary increase with the qualification that such an increase would not be carried above the level of the EDs compensation. He wanted to discuss the proposal with the EDs early in the week of March 7, then disclose the proposal to the Staff Association and finally prepare a paper for formal Board approval. Mr. McNamara said that, if we handle the compensation matter properly, a strike could be avoided. The PC commented on Mr. McNamara's proposal and Mr. McNamara asked Mr. Clarke to review the proposal in light of the comments.

Future Role of the Bank--Mr. McNamara distributed a proposed schedule for discussions of "Future Role of the Bank" and said that he would seek a decision on planning assumptions for IBRD and a timetable for decision on the capital increase on March 8. The only other matter for which a decision was required was "voting power and Board representation."

SB
March 7, 1977

President's Council Meeting, March 7, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Goodman, Chadenet, Chaufournier, Chenery, Clark, Husain, Damry, Krieger, Stern, Wapenhans, Qureshi, Kearns, Gabriel

Mr. McNamara asked Messrs. Broches, Clark and Rotberg to read carefully "The Future Role of the Bank" paper for possible release to the press. This had been suggested by Mr. Looijen and it was a fact that some journalists already had the paper. If the paper were released, it could in many ways be compared to a prospectus and we would be held accountable by the public for the statements in it. Our underwriters had read the paper and felt that it could be released. Mr. McNamara would like the group under Mr. Broches' chairmanship to consider the pros and cons of such a release and report back before the end of the day.

Mr. McNamara distributed a table to the PC showing a comparison of compensation of a French national working at Level L in Paris and in Washington. The table showed that we had in fact an expatriation allowance built into our structure. Mr. Knapp wondered whether this built-in expatriation allowance was large enough and whether it should be discriminatory in the sense that Americans should not be paid a wind-fall gain. Mr. Wapenhans commented that most staff members did not expect to remain at Level L and that promotion possibilities were more important than salary levels. Mr. McNamara asked Mr. Chadenet to prepare a similar table for a Belgian national working in Brussels and in Washington.

Mr. McNamara said that our average cost for project preparation had increased by 19% between 1974-1977 and for supervision by 14% over the same years. This increase in our project processing cost indicated either that our quality had improved or we had become less efficient or both. Mr. McNamara said that his figures were Bank-wide and he asked each Regional Vice President to consider the same figures for their Regions and find explanations. He also asked Mr. Gabriel to prepare a matrix showing by country and sector whether our economic and sectoral work was adequate. On the basis of this matrix, we should decide what should appropriately be spent on economic and sector work. Mr. Chenery said that we should not only consider how the Bank benefited from economic and sector work but should also include the benefits to the countries. Mr. Stern added that benefits to us and the countries were in fact indistinguishable.

On a question from Mr. Wapenhans, Mr. McNamara said that he would have lunch with Mr. Brandt that same day to discuss the proposed commission on development. Mr. Perez Guerrero had expressed fear that the proposed commission might serve as an excuse for the OECD countries to defer action on the North/South problems. Mr. McNamara did not share this fear but had agreed to postpone formal action on the commission until late May 1977. In his opinion, however, there was no question that the intellectual foundation for handling the North/South problems was lacking. Mr. Goodman agreed and said that several officials in the European capitals that he had just visited had said that palliatives were no longer sufficient to resolve the North/South issues.

SB
March 8, 1977

822/2/12

President's Council Meeting, March 14, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Goodman, Chadenet, Chaufournier, Chenery, Clark, Husain, Damry, Krieger, Stern, Wapenhans, Weiner, Qureshi, Kearns, Gabriel

Mr. McNamara said that the House of the U.S. Congress had cut appropriations for Argentina in a bill to allocate funds for IDB. The cut had been made on grounds of human rights violations in Argentina and the Administration was determined to fight on the floor of the full House to have the funds restored during meetings on March 16 and 17. The U.S. Administration's endeavors would be hindered if we processed the proposed loan for Argentina on March 15. Hence the U.S. Alternate ED had requested that the Argentina loan be deferred. The Argentinian Ambassador had retaliated through Messrs. Gutierrez and Conesa by requesting that the scheduled loans for Yugoslavia and Tanzania also be deferred. Mr. McNamara said that he and Messrs. Krieger and Damry would try to clarify the situation during the day, but that in any event human rights could become a very difficult problem for us, since no clear guidelines or program of political action had been worked out by the U.S. to support its strong philosophical position.

Mr. Chadenet said that the EDs and the officers of the Staff Association had accepted Mr. McNamara's compensation proposal. However, there was opposition in the Delegate Assembly of the Staff Association. Mr. Clarke was meeting again with the Staff Association officers the same morning and a new Delegate Assembly meeting would take place on March 16. Some members of the Delegate Assembly felt that the proposed Joint Committee of EDs in the Fund and the Bank was a shelving gimmick. The three parties in the IMF, namely, management, EDs and Staff Association, had not yet decided on the proposal but seemed to be drifting in the wake of the Bank. The national caucuses in both the Fund and the Bank were calming down. Mr. McNamara said that he hoped the proposed Joint Committee would call upon national expertise so that the ministries of finance around the world would become aware of our problem and understand its intricacies. He felt that the two institutions deserved a premium over their competitors, but he was afraid that this premium would continue to erode over time and that we might end up with the UN system. Hopefully, the Joint Committee could avoid such a course of events. Mr. Chenery said that his staff was uneasy about the tax survey for U.S. citizens. Many had said that such a survey should include foreigners as well. Mr. Stern considered such an idea nonsensical since the Bank didn't reimburse taxes for foreigners. Mr. Chadenet explained that the proposal for the survey had come from several EDs in the IMF who wanted to examine whether the IMF could cut its administrative budget by reducing the tax reimbursement. Hence, the proposal was not linked to the expatriation issue. He also said that he and Mr. Clarke and their staff were willing to meet with PC members or staff who still had doubts about the tax reimbursement survey. Mr. McNamara once again said that he was distressed by the nationalistic feelings which had bobbled up in the two institutions. He urged PC members to be careful to behave in ways which would minimize such feelings.

Mr. Chenery said that a policy paper on the external debt of developing countries had been distributed to the Policy Review Committee for discussion on March 21.

Mr. Chadenet said that he would witness in front of the District of Columbia Zoning Commission on March 14 with respect to the proposed new Bank building.

Mr. McNamara said that several Vice Presidents had appealed their budget allocations in memoranda to him and to Mr. Knapp. He said that all these appeals would be considered before preparing the final budget.

SB
March 15, 1977

822/2/13

President's Council Meeting, March 21, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Stern, Wapenhans, Weiner, Qureshi, Kearns, Blaxall, Nichols

The chairmen of the several PC working groups on planning, programming and monitoring procedures for the Bank reported on their work. Mr. Chadenet said that his bunching committee would report by mid-April. Mr. McNamara referred to Mr. Gabriel's memorandum of March 18 on the FY77 and FY78 regional lending programs and said that it was very important to concentrate on the long-lead items to avoid bunching. In this connection the most important item might be appraisal mission departures. Mr. Baum said that his quality group would study the quality and functional control relationship between the Regions and DPS/CPS, and would consider the Loan Committee's role. A report would be ready in about two months. On programming and budgeting, Mr. Kearns said that no comments had been received from PC members on the terms of reference established on February 18. A report would be ready for PC review by the end of the fiscal year. Mr. Wapenhans said that his monitoring and control group would issue terms of reference by March 27 and would have a report ready by the end of the fiscal year.

The PC discussed IBRD/IDA work program and administrative costs based on the table prepared by Mr. Nichols. Mr. McNamara said that similar tables would be established for each Region and he asked the Operational Vice Presidents to consider thoughtfully the figures in these tables and try to explain the reason for every variation which was evident in the tables. Personally he was very concerned about the increase in manweeks per project approved and per project under supervision.

Mr. Cargill reported on the Vienna meeting of the IDA Deputies. A replenishment of $7.6 billion had been agreed upon. An unallocated amount of $53 million would be filled by countries like Norway, Canada, the UK and Kuwait. IDA5 would face legislative problems in Sweden and the U.S. France had surprisingly pledged its full share and was also considering participating in the bridging agreement. The bridging agreement would have to be reached by the end of March with the EDs if Japan were to participate. Mr. McNamara said that we still had a long way to go to get IDA5 solidified in the U.S. Congress. However, it was quite an accomplishment that we now could plan on a total commitment figure for the World Bank Group of $9.8 billion in FY79.

Mr. Chadenet said that the cost-of-living in the Washington area had increased by 6.83% over the last year and, hence, that this would be the figure proposed for a compensation increase. The Delegate Assembly of the Staff Association on March 16 had been surprisingly relaxed and had agreed with Mr. McNamara's four point proposal. The IMF was also in agreement with the proposal. A paper would be prepared for distribution to the Board on March 23. Mr. McNamara asked Mr. Chadenet to distribute Mr. Blumenthal's letter to Mr. Vance on the status of spouses of G(iv) visa holders to the PC. Mr. Chadenet said that he had testified in front of the D.C. Zoning Commission on March 14. The meeting had dragged on and not accomplished its agenda. The next meeting would take place on April 4.

SB
March 22, 1977

822/2-hu

President's Council Meeting, March 28, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Damry, Krieger, Stern, Wapenhans, Weiner, Qureshi, Kearns, Gabriel de la Renaudiere, Kirmani, Mrs. Boskey

Mr. McNamara said that our Concorde flights had been attacked by Senator Proxmire who intended to give the Bank his renowned "Golden Fleece" award, which is given to agencies that waste public money. He asked Mrs. Boskey to prepare a press statement for release as soon as Mr. Proxmire's statement came out. It was quite possible that we were making savings by using the Concorde under our present travel rules, but this would be very difficult to explain to the public. Mr. Cargill said that he couldn't believe that any savings were involved in flying the Concorde.

Mr. McNamara said that program lending would be discussed in the Board on April 7. Many Directors were reluctant to have a discussion on this subject but several had insisted. Hence, the discussion could not be avoided but it was unlikely that it would be very fruitful. Mr. Damry said that he would like to distribute earlier papers on program lending to the Board. Mr. McNamara said that Mr. Damry should check with Mr. Knapp before doing so.

Mr. Chadenet said that the paper on Staff Compensation had been distributed to the Board for discussion on April 7. The compensation proposals were parallel with the IMF proposals. However, the IMF paper stated that the proposals were of a "temporary nature." Fund EDs had objected to this statement and had also objected to Mr. Dale sending a statement to the staff on management's proposals before discussing with the EDs. Mr. McNamara said that the proposed joint Fund/Bank committee of EDs on compensation would include three outside experts. He asked Mr. Chadenet to examine how the inclusion of outside experts had worked in the UN's compensation committee.

SB
March 29, 1977

President's Council Meeting, April 4, 1977

Present: Messrs. Knapp, Adler, Baum, Knox, Broches, Cargill, Chadenet, Steckhan, Karaosmanoglu, Merriam, Kirmani, Damry, Krieger, Picciotto, Wapenhans, Qureshi, Gabriel

Mr. Chadenet said that he had to deal with an increasing number of requests for information from the U.S. Congress directed through the U.S. Executive Director. Most recently Mr. Jordan from Senator Inouye's Subcommittee had requested information on the officials met by staff members in the field while on spouse travel. Mr. Chadenet said that he had instructed Mr. Clarke that such information could only be released with the express agreement of the operational managers concerned. Mr. Qureshi said that it was not proper to release such information and Mr. Knapp said that he was shocked by the request and would talk to Mr. McNamara about the matter.

Mr. Damry said that the Board discussion of program lending might have to be postponed again from April 21 to May 3, since Mr. Sen would not be here on April 21.

Mr. Cargill said that P&B now projected 220 Bank/IDA projects for FY77 and less than $5.5 billion of IBRD lending. He was particularly concerned about the shortfall in IBRD lending, since this might cost us credibility with the Board.

Mr. Broches made some comments about the valuation of IBRD capital and said that the U.S. might now agree to using SDRs for the valuation but that it would probably insist on an amendment to the Articles of Agreement instead of a simple interpretation of the Articles.

Mr. Krieger said that the Congress had been suspended in Brazil and that he was following the situation closely.

Mr. Merriam said that the authorization bill for IDAV would be voted upon by the House of Representatives on April 6. He was hopeful that the bill would pass but human rights would undoubtedly become a major issue.

SB
April 5, 1977

822/2/16

President's Council Meeting, April 11, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Broches, Cargill, Chadenet, Knox, Chaufournier, Chenery, Damry, Krieger, Stern, HAdler, Weiner, Qureshi, Kearns, Gabriel, Votaw, Merriam

Mr. Chadenet said that management's compensation proposals had been approved by both the Board of the IMF and the Board of the Bank. All staff members would receive circulars explaining the new compensation. The proposed Joint Committee of IMF and World Bank EDs to study the adequacy of compensation in the two institutions had met with some difficulty since several EDs felt that the suggested international experts should not be members of the Committee. Mr. Chadenet said that he would meet with his counterpart in the IMF on this matter and prepare a proposal for Board consideration.

Mr. Knapp said that a draft paper on the International Resources Bank had been prepared. The International Resources Bank (IRB) was a proposal of the previous U.S. Administration to guarantee finance for exploitation of low-cost mineral resources in LDCs. The present U.S. Administration was less interested in the proposal since it excluded energy development based on the misconception that OPEC countries would not be interested in financing energy development in non-oil LDCs. Hence the paper would only review the IRB proposal and instead suggest that the Bank Group could finance mineral and energy development within its normal lending program, provided that adequate capital was available for the Bank. Mr. McNamara said that it was our duty to help the LDCs develop their energy potential. Mr. Stern mentioned that a Letter of Intent had been signed with Pakistan to give Gulf Oil Company an admittedly vague assurance that oil production ensuing from the company's exploration efforts in Pakistan might eventually be partly financed by the Bank.

Mr. Cargill said that the FY78 budget would amount to $246 million compared with $215 million for FY77. Although the budget was tight, he still felt that it was uncomfortably high and that we might face difficulties with the Board when seeking its approval. Mr. McNamara said that he would review the budget before the end of the week, taking account of the appeals from the operating departments and others. Before the budget was finalized, he wanted assurance from the Vice Presidents that budgetary resources and output had been appropriately matched. He asked Mr. Gabriel to distribute the draft budget to PC members.

On a question from Mr. Adler, Mr. McNamara said that the Brandt Commission would be established after the CIEC meeting in Paris had been concluded.

SB
April 12, 1977

822/2/17

President's Council Meeting, April 18, 1977

Present: Messrs. Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chaufournier, Chenery, Clark, Votaw, Damry, Krieger, Stern, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Rotberg

Mr. Rotberg said that the U.S. $600 million bond issue would be priced the same afternoon in New York. He foresaw an average cost of between 8.02 and 8.08%. This would be the lowest cost for this type of an issue in the last five years. Mr. McNamara said that this would be the last U.S. issue in Fiscal '77 but that we might add another $200 million issue in the Euro-market to our advance borrowing for Fiscal '78.

Mr. Cargill said that the draft budget for Fiscal '78 would be ready by May 2 and should be distributed to the EDs on May 16th. Mr. McNamara said that the budget document should describe Mr. Baum's list of additional features in our projects. He felt that the budget presented a reasonably acceptable program. He said that all regional managers should use the "IBRD/IDA Work Program and Administrative Costs" table as a basis for their work. As soon as feasible, Mr. Gabriel should add the years beyond Fiscal 1979 to these tables.

Mr. McNamara said that he had talked to Mr. Brandt during his European trip and that Mr. Brandt now was quite enthusiastic about the proposed Commission. The EEC, and in particular Mr. Cheysson, had also showed an increasing interest. Furthermore, the Dutch and the Scandanavians strongly backed the establishment of the Commission. However, the Commission would not be launched until the CIEC negotiations had been successfully completed.

Mr. McNamara said that the Economic Summit might discuss the establishment of the World Development Program and might possibly request the World Bank to prepare such a program in association with the IMF and other interested international organizations.

Mr. Stern said that the Development Committee would meet on April 27 in the Bank. The agenda was sparse. The most significant item would be the Committee's future work program which might include some unresolved CIEC issues like debt management. The Working Group on Access to Capital Markets had suggested that the World Bank and the regional banks use their guarantees to help LDCs get access to the capital markets and IFC to provide technical assistance for such efforts. This could in itself be useful but would probably be of infinitesimal importance. Mr. Qureshi said that IFC was willing to play a role but found that such technical assistance was available for the asking. Mr. McNamara said that when approached, Mr. Qureshi should ask for particulars with respect to interested countries and markets before going ahead. Mr. Stern said that the Working Group on Development Policy and Finance, which had been scheduled to discuss the International Resources Bank, instead had considered a paper on ODA flows and targets. All donors had been against the incremental targets proposed by the Secretariat. The possible need for coordination of capital replenishments of international financial institutions had also been discussed, but no conclusions had been reached. Hopefully the matter would rest this way since coordination efforts undoubtedly would lead to overall reduction of capital resources. The Interim Committee meeting which would follow the Development Committee meeting would be much more interesting. Such matters as increase in IMF quotas, potential issue of SDRs, and establishment of a special $12 to $14 billion IMF facility would be discussed.

The PC then discussed Mr. Morawetz's paper on "25 Years of Economic Development." Mr. Chenery pointed to the table on page 20 of the paper and said that he and Mr. Rosenstein-Rodan had in some ways been unduly pessimistic about growth potential. On the other hand, it had been more difficult than generally believed in the 1960s to get the poorest countries to grow and within countries to increase income of the lowest income segments of society. He urged PC members to read a recently published paper by Mr. Ahluwalia, "Inequality, Poverty and Development." Mr. Krieger said that he found the paper interesting but didn't think it had much to do with World Bank efforts and did not propose any policy actions by the Bank. Mr. Chenery said that it was not the intention of the paper to address policy issues for the Bank, but rather to describe the development process over the last 25 years. Mr. Adler found the paper superior and urged that it be sent to the Board and published. Mr. Stern agreed that the paper was excellent but did not think there was any material for Board discussion, although he agreed that the paper deserved wide circulation. Mr. Qureshi pointed to the discussion of "Redistribution Before Growth" and said that in his opinion redistribution had to come along with growth. Mr. Weiner wondered how much of the success story of economic development could be attributed to foreign aid. He feared that some would form the negative conclusion that countries could do without foreign aid. Mr. McNamara felt that the paper was an important contribution to public understanding of the development process. It was decided that Mr. Morawetz would review the paper and have it ready for distribution to the Board by July 1, 1977. It was also decided to publish the paper after circulation to the Board.

SB

April 19, 1977

822/2/18

President's Council Meeting, April 25, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Knox, Broches, Goodman, Chadenet, Chaufournier, Haq, Votaw, Damry, Krieger, Picciotto, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Karaosmanoglu, Mrs. Boskey

Mr. Knapp congratulated Mr. McNamara on behalf of the PC for his re-election to a third term as World Bank President. Mr. McNamara said that his decision to accept the re-election might not have been a very wise one, since all institutions benefitted from change in top management from time to time. He hoped that the next five years would not be as difficult as the last 18 months. He urged PC members to think about a Bank Group program for the coming years, beyond the sheer volume of lending and said that he wanted to have a formal discussion of such a program within the next six months.

Mr. McNamara said that the population speech which he would give at MIT on April 28 would be distributed to PC members and EDs the same afternoon.

Mr. Haq reported on the Board discussion of program lending. A majority of EDs had endorsed the present policy and accepted the present guidelines by which 7%-10% of total lending could be for program lending. However, Mr. Wahl had found the present policy far too liberal and had urged more precise conditionality for program lending; close collaboration with the IMF and no program lending to any borrowing country before the country had drawn its second tranche from the IMF; and preliminary presentation of all program loans to the Board at the appraisal stage as in the case of nutrition projects. On the other hand, several EDs from the LDCs had found the present policy too restrictive and had in particular been disappointed that program lending in FY77 would not amount to more than 2.2% of total lending in a situation where many LDCs were facing high balance of payments deficits and debt burdens. Some had suggested that 15%-20% of total lending for program lending would be a more appropriate guideline. Mr. McNamara had concluded the Board discussion by saying that we would proceed as in the past with two exceptions, namely, closer coordination with the IMF and a clear statement of the IMF position in the President's Report, and better defined conditions for program lending which could be monitored during disbursement. Mr. Knapp said that, except in cases of natural disaster, we should show a common front with the IMF, particularly when the borrowing country was pursuing a stabilization program. Mr. Qureshi was worried about linking the Bank to the conditions for IMF drawings. After all the IMF was concerned about balance of payments equilibrium and we were concerned about long-term development; hence, a separate Bank evaluation of the situation was always required. Mr. Adler said that, in view of the new facilities in the IMF, we should attempt to move the IMF more towards development finance considerations rather than only balance of payments considerations. Mr. Krieger found no difficulty in cooperating with the IMF. The two institutions were complementary; the IMF looked at the short-term difficulties, whereas the Bank looked at the medium- and long-term.

Mr. McNamara said that Mr. Goodman's report on minerals and energy, dated April 22, 1977, should be reviewed by Messrs. Fuchs and Wood and then sent to Messrs. Knapp, Cargill, Baum and Stern for comments. With the comments incorporated it should then be distributed to the PC for discussion on May 2.

Mr. McNamara said that proposed lending programs in all future CPPs should reflect the lowest of either the P&B allocated share for the country or the country's absorptive capacity for Bank Group lending.

SB
April 26, 1977

822/2/119

President's Council Meeting, May 2, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Husain, Damry, Lerdau, Stern, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Goodman, Rovani, Mrs. Hughes

The meeting discussed Mr. Goodman's paper on "Minerals and Energy in the Developing Countries." Mr. Damry felt that we should stay out of investment in minerals and energy in LDCs, since the possibility of conflict was quite high and could poison our relationship with the borrowing countries. Mr. Benjenk agreed. Mr. Karaosmanoglu said that the Bank could either play an activist role or wait for requests from governments for help in the energy sector. He would prefer the latter. Mr. Broches said that we had come out of conflicts over nationalization amazingly well in the past. Our behavior was important. We should not be seen as being on the side of the multinational companies. If we did it carefully, we could play a useful role in mineral and energy development. Mr. Chaufournier said that we had worked out stable arrangements between companies and countries in the past and we should be able to do so in the future. Mr. Stern said that our leverage could be very high in the mineral and energy sector and that this should be highlighted in the paper. Mr. McNamara concluded that we could not stay aside from an activist role in energy and mineral development in our borrowing countries. The LDCs needed additional assistance to develop their energy resources and the Bank had an obligation to be helpful. It was unlikely that we could do more than the projected 10-14 projects by FY80. Mr. Cargill should review the manpower implications of such a program and look for substitution from other parts of the Bank. The paper should highlight our change in policy on mineral and energy development, since the matter had last been discussed in the Board in 1974. Mr. Damry said that he would send the transcripts of the 1974 Board discussion to Mr. Goodman. All PC members would submit their comments to Mr. Goodman who would prepare a line-in-line out revision for consideration by Messrs. McNamara, Knapp, Baum and Cargill. The paper would go to the Board by May 9 for discussion five weeks later.

Mr. McNamara asked P&B to prepare a note on how to standardize the format of tables in all Bank policy papers.

Mr. Karaosmanoglu's outline for "Prospects 1977" was considered. Mr. Karaosmanoglu said that the prospects paper would become more topical this year. There would be a change from the previous discussion of projections to discussion of issues. Mr. Clark asked what the audience would be for the prospects paper. Mr. McNamara said that it would be an inside document and only be distributed to the EDs. There had been considerable opposition to the prospects gap analysis in the past, particularly from some of the developed countries which feared that the gap analysis could become a boomerang in form of requests for additional external flows. The same kind of resistance might occur to the proposed World Development Program which might be discussed at the London Summit Meeting. Mr. McNamara said that the division of LDCs into oil and non-oil was not very useful. Capital-surplus LDCs versus noncapital-surplus LDCs would be a better division. Official ODA data should be used throughout the paper.

Mr. Damry said that he had received a copy of the IMF World Economic Outlook paper and would distribute a summary to the PC.

Mr. Chadenet mentioned Mr. Haq's letter to the editor of the Washington Post on the political situation in Pakistan. Mr. Chadenet had met with Mr. Haq and explained to him that the letter was a strong embarrassment to the Bank. Mr. Haq had excused his behavior on account of the intensity of his feelings about the political situation in Pakistan but had come to accept Mr. Chadenet's judgment on the matter. He had later apologized in writing to Mr. McNamara. Mr. McNamara said that in a sense one could consider it unwise to have a letter like

Mr. Haq's circulated in the press clippings of the Bank but he strongly emphasized that there would be no censorship of the press clippings whether they annoyed us or not. He considered the Haq matter very serious and urged PC members to get the message across to their staff that such conduct was harmful to the Bank and could not be tolerated.

Mr. McNamara said that the Development Committee Meeting on April 27 had been uneventful. No communique had been issued.

SB
May 3, 1977

822/2 B0

President's Council Meeting to Discuss External Debt of Developing Countries, May 3, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Husain, Damry, Lerdau, Stern, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Wood, Mrs. Hughes

Mr. Knapp said that the paper gave a reassuring picture of the debt situation in the LDCs. Continuity of the relationship between the LDCs and the international financial community was crucial. He very much agreed with the last sentence of paragraph 95 which stated that there were debt problems but they were manageable. He felt that debt-service payments should be split into interest payments and principal payments. He would also like to have something said about direct OPEC lending to LDCs.

Mr. Stern found that the paper was a useful antidote to the loose talk about debt crisis in the LDCs. For instance, the Council on Foreign Relations felt that there was a debt problem even in the aggregate for the LDCs. He was convinced that massive defaults would be avoided through such safeguards as the IMF.

Mr. Qureshi felt that individual LDCs would have problems and such problems were the concern of the financial community rather than the aggregate debt situation. He also thought that more could be said about the critical role of IBRD, IMF and IFC in cofinancing and participation.

Mr. Wapenhans agreed that the problems of the poorest LDCs would have to be solved through concessional assistance but he wondered whether such assistance would in fact be forthcoming.

Mr. Husain stressed the relationship between the debt paper and the prospects paper and wondered whether the two should be published simultaneously.

There was general agreement that debt problems were manageable.

Mr. McNamara said that the Future Role of the Bank paper had in fact stated that the debt problems were manageable. What was required was continued rollover and expansion. He did not think it was worth including anything about direct OPEC lending in the paper. He felt that the financial community could handle individual country problems. However, he felt that the paper had dismissed the short-term debt problem too easily. Egypt was a case in point. He asked PC members to forward their comments to Mrs. Hughes who would prepare a line-in-line-out revision for consideration by Messrs. Knapp and Cargill. The paper should then be distributed to the EDs for information. If governments so wished, broader distribution could then take place later. No distribution should take place to the financial community until June 1 and then only after consultation with Messrs. McNamara, Knapp and Cargill. He asked Messrs. Cargill and Karaosmanoglu to prepare a plan for regular preparation and distribution of the debt paper, including a comment on who else was doing similar work. He would also like Messrs. Cargill and Karaosmanoglu to prepare a note on gaps in the debt-reporting system.

SB
May 4, 1977

CONFIDENTIAL 82212 121

May 12, 1977

TO: Mr. Burmester

Sven:

As requested, here is a rundown on the P.C. of May 9:

-- McNamara related the saga of Inoyue's committee attempts to determine how many US Bank staff were also USG retirees -- "double dippers." We dug our heels in but finally agreed to provide the names and compensation of all US Bank staffers over 50. Presumably the committee will have the list run against the USG retirement files.

-- McNamara mentioned the summit meeting communique -- see the press clips. The communique supported increased Bank capital and lending, Bank moving into the energy field and in guarded language support for the notion that the Bank take the lead in preparing a World Development Program. McNamara moved to action and set up two meetings: Capital Subscriptions (Knapp, Wood, Goodman) saying he wanted a paper through the Board before the Annual Meeting and the whole thing wrapped up by the end of this calendar year. Other meeting was on World Development Program (Stern, Attila) with it ready in a year or so.

-- McNamara also raised his concern about travel. Not so much Concorde and first class/stopovers on which he thinks we are vulnerable, but the amount and purpose of travel which he wants P&B to look into. He mentioned 20-men economic ~~meetings~~ missions and 10 Bank staff at a single meeting in Italy (good old DPS). Moreover, we send too many people to a meeting and he never gets a report on what happened. William Clark to make sure reports are prepared. Weiner added that Joint Audit Committee was going to raise a question about excessive travel.

-- Burke said still no Italian IDA-IV contribution and we needed it for credits this year. Gabriel to check on it.

-- Baum said the P.C. Quality Group was about to give issue. Paper to be discussed at PC of 5/16

-- Stern said Tarbella's working with no apparent problem.

-- IDA Allocation Paper prepared by DPS was discussed.

- Husain made a noble effort to make Indonesia eligible on the ground that it was not creditworthy for IBRD because of our internal portfolio risk judgments! plus poverty. He had little success.

- Some other minor points raised by RVPs to protect their interests, e.g., Chaufournier said put in a stronger rationale for disproportionately high IDA allocations to small countries and Stern countered with a plea not to make it too strong.

- Not a very useful discussion.

Jim

James M. Kearns

President's Council Meeting, May 16, 1977

Present: Messrs. Knapp, JAdler, Baum, Bart, Broches, Cargill, Chadenet, Gue, de la Renaudiere, Chenery, Merriam, Husain, Damry, Krieger, Stern, HAdler, Qureshi, Kearns, Gabriel.

The meeting discussed the report of the PC Committee on the Quality of Bank Lending dated May 10, 1977.

Mr. Knapp agreed that better guidelines should be established for the Loan Committee. He was worried about having a "fallback" position spelled out by the Loan Committee since this would inevitably lead to acceptance of the "fallback" position at negotiations. Messrs. Husain and Gue agreed. However, Mr. Stern said that a "fallback" position could be very useful. Only a poor Regional Vice President would end up at the bottom of the negotiating range. Mr. Knapp said that the Loan Committee position usually was the minimum acceptable standard and only about 2% of all projects fell below this standard. Mr. McNamara asked Mr. Knapp to experiment with the establishment of a "fallback" position, but felt that it should be used rarely and only on major issues.

Mr. Gabriel referred to paragraph 21(b) of the Report and said that very substantial resources had been dedicated to economic and sector work. Messrs. Baum and Stern said that although this was true, priority had always been given to direct operations. Mr. McNamara supported Mr. Gabriel's position but said that the matter should be discussed again at the PC on May 23 when the annual reports on economic and sector work would be discussed.

Mr. Husain said that the recommendations in the latter part of the report diluted the responsibility of the RVP. Mr. Cargill agreed and said that too many issues were brought to the Loan Committee. Mr. McNamara said that regional management had the responsibility and power at all stages to decide what the appropriate elements of a project should be, with advice from CPS. CPS had the responsibility of functional control over quality. The question was how to find the most expeditious way of appeal when these two principals clashed. He asked Mr. Knapp to work out appropriate procedures with the RVPs and Mr. Baum.

Mr. Broches referred to paragraph 13 and said that programming staff often exaggerated the political risk connected with tough project conditions. Mr. Merriam agreed and said that it would be useful to assess such risks.

Mr. Chenery wondered whether we were not overly concerned about ensuring efficient use of Bank resources and in the process forgot to ensure that our overall intervention in the development processes of our borrowing countries was as efficient as we could make it. The borrowing country often needed an advocate. Mr. McNamara said that it was the role of the programming staff to be the country advocate.

Mr. Cargill referred to paragraph 4 and said that there was a difference between development objectives and development requirements. Mr. McNamara agreed and said that it was our task to see how we could affect this difference and eventually make country development objectives coincide with what we considered country development requirements.

Several PC members agreed with paragraph 19(a) about decision making at the lowest possible level in the organization, but wondered how this would in fact be carried out. Mr. McNamara said that this should be clearly spelled out, but that, in principle, decisions should be taken at the lowest level and only when deviations from guidelines were proposed should decisions be taken at higher levels.

Mr. McNamara said that the paper should be kept on the PC agenda until other Committee papers had been received. It should then be reviewed and its distribution decided upon.

SB

May 17, 1977

822/2-123

President's Council Meeting, May 23, 1977

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Broches, Cargill, Chadenet, de la Renaudiere, Chenery, Husain, Damry, Krieger, Stern, H.Adler, Qureshi, Gabriel, van der Tak, Karaosmanoglu, Haq, Mrs. Boskey

The proposed memorandum to the EDs on a World Development Program was discussed. Mr. Benjenk said that something should be included on industrialization. Mr. McNamara agreed. Mr. Chadenet wondered whether the WDP was in fact a program. He also asked whether China and the COMECON countries would be included. Mr. McNamara said that the WDP should be looked upon as an analysis of problems and policies in development. China and the COMECON countries would not be included. Mr. Qureshi said that there were three areas of concern which should be treated. One was how to distribute the gross world product; the second was how to sustain the development process; and the third, how to distribute the fruits of development. He felt that the WDP outline promised more than it delivered on all three counts. Mrs. Boskey asked about the relationship of the WDP to the Brandt Commission. Mr. McNamara said that the two would be complementary and that the Brandt Commission was a one-shot affair, while the WDP would be continuing. Mr. Knapp said that something about education should be included. Mr. Chenery said that the WDP couldn't cover all subjects, at least not during the first attempt. He was worried about overlap with the UN Committee on Development Planning. Mr. McNamara said that education could be included if the updated sector paper would be ready in time. With respect to the UN, he said that, if the Committee on Development Planning were willing to take over the WDP, which he doubted, we would be willing to let them prepare it. It was decided that the memorandum would be distributed to the EDs on May 24 for discussion on June 23.

The annual reports on country economic and sector work were discussed. There was some discussion of what the appropriate audience should be for our economic and sector work. Some felt that it was mostly the Bank staff itself, others the governments concerned. Mr. Baum said that he was concerned that the manpower for sector work had been kept constant over the last three years. He felt that we should concentrate more on smaller memoranda on specific issues and problems rather than the big sector reports. Mr. Stern said that the same could appropriately be done with our economic reports. He felt that the audience for the unwieldy basic economic reports was quite limited. Mr. Haq said that both basic economic reports and country economic memoranda often failed to discuss such issues as rural and urban poverty and, hence, provided inadequate support for the establishment of the World Development Program. Mr. McNamara said that he was worried about the high cost of the basic economic reports. He asked Mr. Gabriel to work out approaches for a five-year program of economic and sector work in collaboration with Messrs. Baum and Chenery. Messrs. Baum and Chenery should contact the RVPs while working out the program and the program should be brought back to PC for review some time in the fall of 1977. The program should function as a base which could be modified through the CPP process.

Mr. McNamara asked Mr. Knapp to chair a committee with Messrs. Baum, Chenery, Kearns, Kanagaratnam and King as members to examine how population should be treated in our economic work, including which countries should be examined and in what form.

SB
May 24, 1977

President's Council Meeting, June 6, 1977

Present: Messrs. Knapp, Adler, van der Tak, Benjenk, Nurick, Goodman, Chadenet, Chaufournier, Chenery, Husain, Damry, Lerdau, Picciotto, HAdler, Weiner, Qureshi, Kearns, Gabriel, Mrs. Boskey

Mr. Knapp said that he had met with the IDA donors on June 3. The donors had mainly been represented by their EDs, but Mr. Bergsten had been present for the United States. The meeting had focussed on the U.S. demand for pre-allocation of IDA funds to least developed countries, other poorest countries, and intermediate countries, with emphasis on higher allocations to intermediate countries. The U.S. demand had been echoed to some extent by the Japanese and the French, but the U.K., Canada and others had been opposed. There was no dissent on the allocation for Indonesia but some anger was expressed that the donors had not been consulted on this allocation in advance. It was also significant that the U.S. had not mentioned India. Mr. Knapp said that he would now review the paper for distribution to the EDs.

Mr. Knapp also referred to the meeting on the Programs Function report and the anxiety that this report had created among Program staff. He said that he hoped to alleviate this fear later in the morning at the Department Directors meeting by explaining that the Regions would be asked to identify their own problems and recommend solutions by Labor Day 1977.

Mrs. Boskey said that Mr. ~~Eliot~~ ELLIOT Richardson had foreseen a role for the Bank in the development of deep sea resources in a speech which he gave on June 3. Mrs. Boskey said she would circulate the speech to the PC. She also said that Mr. Damry would circulate a report on the CIEC conference to EDs and staff.

Mr. Chaufournier said that Mr. Steckhan had been the Bank representative to the Sahel Club meeting in Ottawa. The meeting had expressed continued donor support for the development of the Sahel countries.

Mr. Chadenet said that difficulties had been encountered in establishing the Compensation Committee of Fund and Bank EDs. It was now unlikely that the Committee could report by November 1, 1977, as planned. He also said that our construction plans on the GW University plot had been postponed indefinitely and that we were now planning to purchase the Jacobs site.

SB
June 8, 1977

President's Council Meeting, June 13, 1977

Present: Messrs. McNamara, Knapp, van der Tak, Benjenk, Nurick, Goodman, Chadenet, Chaufournier, Chenery, Clark, Husain, Damry, Krieger, Stern, HAdler, Qureshi, Kearns, Gabriel, Srinivasan

Mr. Chenery introduced Mr. Srinivasan's paper "Development Policies and Levels of Living of the Poor." The first part of the paper confirmed the Kuznet's theory that income distribution became worse with increasing GNP per capita before becoming better. The argument was about why this was so and whether it necessarily had to be this way. Countries like Korea and Taiwan were exceptions to the rule. The question of whether absolute poverty grew worse in the process had been studied by ILO and by Mr. Ahluwalia. Mr. Ahluwalia had concluded that absolute poverty had not increased during the development process in the poorest countries. Good initial conditions and adequate policies were necessary conditions for a country to avoid worsening of the income distribution during its development. The second part of the paper on basic needs was strongly debated. It seemed possible for countries to cover the basic needs of their populations when they reached a per capita income level of roughly $1,500. Would it be possible to meet the basic needs at a level of, say, $500 per capita? It was not a question of growth versus basic needs. A combination of policies could serve both ends. The problem was that it was not clear what action should be taken and delivery systems were missing. The last part of the paper addressed the analytical framework for studies of income distribution and basic needs. Complicated models did not seem to serve any purpose at this stage of knowledge. As far as the Bank was concerned, economic work in all countries should include work on basic needs and we should attempt to identify projects which would meet basic needs.

Mr. Chadenet said that there were strong emotions behind the basic needs approach both within and outside the Bank. Some believed that a basic needs approach implied change of political systems and this was not within the scope of the Bank's work. Basic needs would also imply that we move into sectors like health, where we had not been very active in the past. Mr. McNamara said that it was true that some people considered basic needs a code word for a package of economic and political changes. This was way beyond the role of the Bank and would not be very fruitful to discuss. Moving into the health sector with the present Western models would be totally wrong. However, other approaches were being studied by WHO. During the Population Conference in Denmark, Dr. Mahler had said that it would be possible to meet the basic health needs of the two billion people in the LDCs for a cost of $2 to $5 per person per year. If such an approach could become operational, there might be a role for the Bank. Mr. Knapp said that the influence of basic needs on the productivity of the population should have been better described in the paper. Mr. Husain said that the institutional framework was all important and should be studied. Mr. Benjenk questioned the statement on page 10 of the paper that "the erstwhile poor have been graduating out of the poverty group." Even if this were correct, the time frame involved for this to happen would in many cases be unacceptable. He also felt that a basic needs approach would be difficult to implement. Mr. Chaufournier said that basic needs could be a useful complement to our work. In many West African countries, we were already including basic need components. Mr. Damry said that basic needs would not change the Bank's strategy but only our way of going about doing things. He mentioned specifically agriculture where more attention should be given to helping the producers with marketing systems and storage. Mr. Qureshi agreed with Messrs. Damry and Chaufournier that our work already included elements of basic needs; but the paper implied a change in emphasis and strategy. Proponents of basic needs maintained that the basket had higher value than the sum of its components and, hence, was a lower cost method to reach the requirements of the poorest. The approach required larger interventionism from the governments. It might be appropriate to go ahead with pilot projects on a selective basis to make governments aware of the effectiveness of reaching targeted groups. Mr. Stern said that different policies were necessary for the poorest and the middle-income countries. For the poorest countries and for the Bank, it was most important to reach the absolute poorest and reduce their numbers. The basic needs approach could sensitize us to the problems of the absolute poor. However, we should be careful of deriving policies directly from the approach and try to apply them across the board. Mr. Nurick said that it would be interesting to see how the U.S. would define basic needs in its legislation.

Mr. McNamara concluded that the discussion of basic needs should sensitize us to the problem of the poorest and leave us uneasy about our present efforts. He asked each Regional Vice President to think about an appropriate approach and discuss this either in CPPs or in separate memoranda. He also asked DPS to prepare descriptions of pilot projects in poorest and middle-income countries including institutional changes.

Mr. McNamara said that he would like to have a Policy Review Committee meeting on June 20 at 4:30 p.m. to discuss policy papers on commodities and trade.

Mr. McNamara said that he had been approached by the Part II EDs with respect to the forthcoming Board discussion of the policy paper on Minerals and Energy in the Developing Countries. Some Part II Directors believe that it was wrong to discard the International Resources Bank, since the U.S. was thinking of reviving their proposal because of LDC interest. Also the Bank proposal did not, in their opinion, deal adequately with the energy problem. Mr. McNamara had met with the Part II EDs and Messrs. Reynolds, Drake and Looijen on June 10. Mr. Reynolds had made it clear that it was unlikely that additional funding would be forthcoming from the U.S. and this statement seemed to have killed the interest for pursuing the IRB proposal. Mr. McNamara asked Mr. Goodman to prepare a one-page summary of the proposed Bank projects in fuel and minerals for one year, say, 1980, and for the forthcoming 10-year period.

Mr. Clark reported that the North/South dialogue in Paris had opened the door for further discussions between North and South and that the Commonwealth meeting in London could be seen as a first step in this direction. The opening speeches at the meeting had been dominated by poverty and North/South issues. The Bank had been specifically mentioned by Messrs. Callaghan and Ramphal before the meeting drowned in the usual political issues.

SB
June 14, 1977

822/2/27

President's Council Meeting, June 27, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Nurick, Cargill, Chadenet, Chaufournier, Chenery, Husain, Damry, van der Meer, Stern, H.Adler, Weiner, Parmar, Kearns, Gabriel, Merriam

Mr. Merriam reported on the Dole and Schweiker Amendments which had been passed by the Senate and the Young and Agricultural Amendments which had been passed by the House of Representatives in the U.S. Congress. The potential effects of these Amendments, if they were enacted into law, were so dangerous that we should do our utmost to have them deleted from the Authorization and Appropriations Bills. Mr. Nurick said that technically it might be possible to accommodate these Amendments by segregating the funds received from the U.S. However, this was so politically dangerous that he could not recommend such a course. Mr. McNamara said that we should work closely with the State Department and the Treasury on these legislative problems and he asked Mr. Cargill to follow the matter and report directly to him.

The salient points from the EDs' of the budget on June 21 were discussed. The following decisions were taken:

1. Mr. Chaufournier would talk to Mr. Razafindrabe about absorptive capacity problems in countries within his constituency.
2. Mr. Damry would send a note to the Board on the sectoral composition of the FY78 lending program.
3. We could not accept Mr. Ryrie's comment on "Less Staff Intensive Lending," but should always attempt to design an optimum program for all countries without consideration of staff costs which, in any event, would be very low in comparison with the proposed capital flows.
4. Mr. Chadenet would report to the PC on the bunching problem. Mr. McNamara was cool to a possible increase in the number of special procedure projects. However, the frequency of special procedure projects by sector and country should be examined.
5. Mr. Knapp would review the lending terms for IBRD lending.
6. Potential softer terms for countries below $520 per capita would be discussed on July 5, 1977.
7. Mr. Gabriel should report on the short-fall in disbursements by October 1.
8. Mr. Damry should check the transcript as to whether a paper had been promised on liquidity policy.
9. Mr. Cargill would talk to Mr. El-Naggar about better access to OPEC countries.
10. We should stick to our own best estimates of future inflation with or without agreement from OECD.
11. P&B should study the upward trend in the cost of operational travel.
12. Mr. Chadenet would periodically examine the possibility of using other travel agents and, in particular, the possibility of staff members using outside agents for nonoperational travel.
13. Mr. Baum would study the potential use of local consultants.
14. On Mr. Wahl's rather intemperate statement, Mr. Chadenet explained that Wahl only had two points on which he would insist, namely, that the economic reports of the IMF were both cheaper and better than the Bank's, and that the information sheet and press clips of the IMF and the Bank should be consolidated.
15. Separate discussions of lending program and budget would be scheduled for the discussion of the FY79 budget.
16. P&B would obtain better information on support expenditures.
17. Mr. Chadenet would send a note to the Board on the 1.9% real increase in salaries.
18. Messrs. McNamara, Chadenet and Clarke would discuss the recruitment program for FY78, particularly with respect to LDC nationals.

19. Mr. Chadenet would send a note to the Board on the employment of women.
20. Messrs. McNamara and Chenery would discuss the research program in the fall of 1977.
21. Mr. Chadenet would talk to Messrs. de Groote and Magnussen about their ideas for outside studies of organization and decision-making processes in the Bank.

Mr. Cargill said that he had talked to an EEC representative about the $385 million EEC fund for IDA. The EEC had insisted on additionality, rapid disbursement and procurement being tied to EEC countries. He would send a note about the matter to Messrs. McNamara and Knapp.

Mr. Cargill asked whether Mr. Vance's speech to the OECD in Paris would have any influence on the proposed study of development issues. Mr. McNamara said that he still intended to go ahead with the study of development issues.

SB
June 28, 1977

822/2/26

President's Council Meeting, June 20, 1977

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Nurick, Cargill, Chadenet, Chaufournier, Chenery, Clark, Kirmani, Damry, Krieger, Stern, HAdler, Weiner, Qureshi, Kearns, Gabriel

Mr. McNamara referred to Mr. Farnsworth's article in the June 19 issue of the New York Times "Linking Aid Plans to Human Rights" where figures for the Bank's FY79 lending program were given. The figures had obviously been obtained from the research study from the Center for International Policy which had been able to obtain a copy of Standard Table IVb through a leak in the Bank. This leak could lead us into the deepest of trouble since it fed into the present human rights controversy, and since it was distasteful to the EDs to find the Bank's lending programs, which were not disclosed to them, described in the media. Mr. Benjenk said that this had been done maliciously since Mr. Merriam had warned the Regional Vice Presidents about approaches from the Center for International Policy. Mr. Cargill wondered whether the 325 recipients of Standard Table IVb really were interested in that table and he thought we ought to fire people who leak such information to the press. Mr. Gabriel added that it was probably inefficient to distribute 325 copies of this table. Mr. Stern cautioned that we should not become more restrictive in our circulation of documents, since raising papers to higher levels of confidentiality was a sure indication that such papers were more valuable to a person who intended to leak them. Mr. McNamara agreed that staff members who deliberately intended to hurt the Bank through leaks should be fired and he said he relied on the members of the President's Council to make clear to their staff that such behavior even under the cover of a "higher loyalty" was hurting the Bank and could not be tolerated.

Mr. McNamara said that the human rights issue was becoming increasingly difficult to handle. The U.K., the Dutch and the Nordics might soon support the U.S. view on the matter, accounting for more than 40% of the votes in the Board. He felt that it would be wrong to put projects through the Board in such a situation. Mr. Baum confirmed that Norway, which he had recently visited, would undoubtedly take a stronger stand on human rights. Mr. Benjenk said that we should be willing to face the issue right on and struggle against what he called "selective indignation." After all roughly 95% of our borrowing countries had more or less repressive regimes and this should be explained to the donor countries. Mr. Damry said that we should let the debate fizzle out and continue to present projects to the Board. However, the timing of such presentations could be better. Mr. Nurick said that lawyers in the State Department and Treasury were now preparing legal opinions on the implications of the Bank's Articles for human rights. Most likely they would conclude that only the staff but not the EDs were bound to take only economic and social considerations into account. Mr. Chadenet said that the human rights controversy could be the end of the Bank. UN-type discussions would become commonplace in the Board and the split between Part I and Part II countries would deepen eventually blowing up the bridge connecting these two parties which we had so carefully built up in the Bank. Mr. Chenery felt that we should articulate our position and stress that we were in fact reinforcing human rights through our lending to the underprivileged in our borrowing countries. Mr. Stern felt that the human rights controversy was peaking right now and would calm down in the future. A distinction should be made between human rights and civil rights. We should be concerned about the former, i.e., such matters as life expectancy and illiteracy and not about the latter. We should also request the donors to apply their human rights standards uniformly among bilateral and multilateral institutions. Mr. Krieger was concerned that the problem might escalate, leaving us with very few countries to which we could lend. He also felt that many staff members were biased in their approach to the controversy by not being willing to accept that human rights were being violated along the entire political spectrum. Mr. Qureshi said that our lending policies clearly indicated that we were for human rights in the form of creating economic opportunities for the underprivileged. He said that we should brave out the present controversy with a low-key approach to the problem. Mr. Knapp agreed with Messrs. Stern and Qureshi. Mr. McNamara said that it was not possible to adjust the timing of our Board presentations to political considerations. He felt that Mr. Chadenet's fears were exaggerated and that the problem could eventually be settled without severe penalty if everybody kept their nerve and acted in a disciplined fashion. He agreed with Mr. Stern on urging donors to be uniform in their approach and eventually having the issue debated in the UN and not in the Bank. He concluded that we should not take account of human rights violations in formulating project proposals except when such violations translated into economic considerations. We should also continue the debate in the PC of the matter with a view to publishing a White Paper some time in future.

Mr. McNamara said that we were facing continuing problems with the U.S. Congress. An amendment had been passed which would limit U.S. contributions to International Financial Institutions except the IDB to 25%. This would not affect IDAV but would affect IDAVI. He and Messrs. Cargill and Clark would be working on the matter. Another amendment required the U.S. to reduce its assistance to the Bank by an equivalent amount of what we might eventually be lending to Vietnam, Laos and Cambodia. This could prevent unqualified support for IDAV. Bank salaries had again been an issue in the Congressional debate, and such misconceptions like the Bank salaries being paid by U.S. taxpayers and that U.S. citizens did not pay tax on their Bank salaries were still flourishing. He asked Messrs. Clark and Chadenet to handle this matter.

Mr. McNamara said that the EDs might insist on having bunching reduced in the discussion of the budget memorandum on June 21. If being pressed on the matter, he would be willing to present a plan for reducing bunching to the EDs over a three-year period. Mr. Chadenet's studies had shown that an even flow of projects would lead to 33% of the projects being presented to the Board in the fourth quarter. We could approach this figure by reducing bunching to 43% in FY78, 40% in FY79, and 37% in FY80. Mr. Stern felt that it was a bad idea to present such figures to the EDs. Mr. McNamara said that he would only volunteer the figures if he were pressed to do so.

Mr. McNamara asked PC members to consider whether the Bank should start paying dividends to its shareholders in the future.

SB
June 20, 1977

922/2 /29

President's Council Meeting, August 1, 1977

Present: Messrs. McNamara, Knapp, Adler, van der Tak, Knox, Broches, Goodman, de la Renaudiere, Karaosmanoglu, Clark, Howell, Damry, Krieger, Blobel, Wapenhans, Weiner, Kearns, Gabriel, Twining, Camacho

The PC discussed Mr. Knapp's paper on Board discussions of Bank Program for Selected Countries. Mr. Knapp said that little extra documentation would be required for the proposed Board discussions of selected countries. An expanded President's Report, particularly with respect to Part II should be sufficient. The Regions had submitted a list of projects which would be suitable vehicles for such country discussions. Roughly two-thirds of the submitted projects had been the first project for the country in question in FY78. He wondered whether it would be appropriate for the countries concerned to participate in the discussion. At a minimum he felt that the Executive Director representing the borrowing country should participate in these expanded discussions. Mr. Damry said that country participation would be inhibiting and that the ED representing the borrowing country should handle this matter. He also felt that the list presented in Mr. Knapp's memorandum was lopsided by Region and that more countries in Western Africa should be included. He thought that the discussions should take place in Executive Session. Mr. McNamara said that the ED should represent the borrowing country. He felt that deviation from the selection criterion by population size could lead to trouble so the list should be left the way it was presented by Mr. Knapp. He agreed that the discussions should take place in Executive Session.

Mr. Wapenhans said that an expanded Part II of the President's Report could be prepared for all countries once a year. He also wondered whether the usual lead time of 10 working days would be sufficient warning for the EDs to consult their countries in preparation for the expanded discussion. Mr. McNamara said that for the first year we should stick to the list of countries prepared by Mr. Knapp and that the usual lead time was sufficient. Mr. Goodman said that we might consider including all countries for which consultative groups had been established. He also felt that the presentation of the projects which were used as vehicles should be thorough and candid; otherwise frustration among EDs might increase instead of being alleviated. Mr. McNamara said that the consultative group countries which were not yet included on the list might be included in later years, but not during FY78. He agreed with Mr. Goodman's comment on the presentation and said that this should be done either by the Division Chief or even the Program Director. Mr. Kearns said that the proposed expanded discussion could approach a CPP discussion. CPPs were overprogrammed and hence promised more than we could deliver. We should be careful to avoid that such an impression emerged from the expanded discussion. It would also be very unfortunate to have the EDs get into the allocation of Bank funds. Mr. McNamara agreed and said that the discussion should be confined to general principles and to Bank strategy. After the Board discussion of Allocation for IDAV, he did not think the EDs were likely to get into another allocation type discussion.

It was decided to distribute the paper immediately for Board discussion on August 9.

Mr. Clark said that it was unlikely that the U.S. Congress would finish the bills for IDAV before its recess on August 5. This would prevent the bridging arrangement from going into effect. Mr. McNamara said that he might talk to the Board about the consequences of this on August 9.

SB
August 2, 1977

822/12/29

President's Council Meeting, August 29, 1977

Present: Messrs. Knapp, Baum, Benjenk, Broches, Goodman, Chadenet, Chaufournier, Karaosmanoglu, Clark, Husain, Damry, Krieger, Stern, Please, Qureshi, Blaxall

Mr. Knapp enquired about the prospects for IDA legislation in the U.S. Mr. Goodman said that nothing would happen until Congress returned after Labor Day. The most crucial part of the legislation was the Authorization Bill. Only if it passed could the U.S. Governor sign the IDAV agreement and thereby make the bridging agreement possible. Mr. Cargill had talked to the Japanese during his stay in Tokyo. They were unwilling to take a decision on Japan's contribution to the IDA bridging arrangement until Mr. Fukuda returned from his Asian trip. They said that they looked upon IDA's problems with a sympathetic eye but that they also preferred to wait with their decision on the bridging agrement until the U.S. authorization legislation had passed.

Mr. Clark said that Bank salaries again had received attention in the press, particularly in certain conservative papers. However, the problem of salaries had now spread to include the entire UN system. He also said that President Carter would address the UN on September 23 and would use the occasion to explain the proposed doubling of the U.S. bilateral aid program.

Mr. Baum said that CGFPI would meet in Washington in the week of September 5. FAO felt that the time had come to abolish the consultative group. Mr. Stern said that CGFPI had been useless at best and in some cases even pernicious. He mentioned the Bangladesh food-production plan which included recommendations contrary to those proposed by the Bank Group. Mr. Baum said that establishment of procedures for cooperation between the Bank and IFAD continuously ran into difficulties. Mr. Knapp said that, while he hoped that an agreement could be reached, the matter was of no special urgency.

Mr. Husain asked about the war in Ethiopia. Mr. Please said that, after above-average project performance during the first three years of the revolution, project implementation in outlying areas had now come to a standstill. Projects outside of these areas were still being implemented. The major concern was more the prospects for the country than the immediate situation. The Grain Storage project would be discussed with the Ethiopian delegation during the Annual Meeting. Some members of the Government were still suspicious that this project had been withdrawn from the Board because of American pressure on the Bank. Mr. Baum said that he had a bleaker impression of the situation since the livestock center in Addis Ababa was now being phased out and the experts were leaving. Mr. Please said that the livestock sector was particularly hard hit because it was mainly concentrated in the Ogaden region. The West Germans had withdrawn their experts from Ethiopia but the Swedes were still active in the education sector. Mr. Broches said that it was discouraging that the Ethiopians were not moving on even the most straightforward expropriation cases. On a question from Mr. Clark, Mr. Please said that projects in Somalia were not being interrupted. However, it was dismaying that no disbursements had taken place on the drought alleviation project.

Mr. Krieger referred to Mr. Magnussen's memorandum of August 17 to the EDs on expanded country discussions at Board Meetings. Mr. Krieger said that Mr. Magnussen suggested that such discussions would not take place in Executive Session, that the ED representing the country concerned did not have to participate in the discussion and that no selection should take place of countries in advance of discussion. Mr. Knapp said that some kind of selection criterion would be required. Mr. Damry explained that Mr. Magnussen's concern was more about advance publicity of such selections.

Mr. Husain said that Mr. Magnussen had asked him for the lending program for FY78 and FY79 for some of the major borrowers in his region. Other RVPs said they had received similar requests from Mr. Magnussen. Mr. Knapp said that he would discuss that with the RVPs in their weekly meeting.

Mr. Chadenet asked when Mr. McNamara would send his Governors' speech to the PC. Mr. Clark said that Mr. McNamara would decide upon his return to Washington on September 6.

SB
August 30, 1977

822/2/30

President's Council Meeting, September 12, 1977

Present: Messrs. McNamara, Knapp, van der Tak, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Husain, Damry, Krieger, Stern, Wapenhans, Weiner, Qureshi, Kearns, Gabriel, Haq, Mrs. Boskey

The PC discussed Mr. Haq's progress report on Basic Needs, dated August 11, 1977.

Mr. Chenery said that there was still some controversy about the appropriateness of a Basic Needs approach. He found Mr. Streeten's background useful in illuminating this controversy. Personally he felt that BN should not be differentiated too much from other poverty-oriented strategies. This would rather add to confusion than to clarification. A useful operational definition was found on pages 3 and 4 of Mr. Haq's report. Income increases would not solve the BN problem within an acceptable time, as countries like Mexico and Brazil were learning to their dismay. BN could be satisfied at the income levels of such countries with a target-oriented approach. Reorientation of public services was unquestionably required but no agreement existed on supply management. A research program on BN within the Bank could improve our economic work and lead to pilot programs required for exploring important linkages. We might find at future consultative group meetings that other donors would insist on meeting BN. In such cases we should attempt to strike a balance between BN and other investments.

Mr. McNamara urged the PC to focus the discussion on what the Bank should do in BN that we weren't already doing. BN would undoubtedly be a major subject of public discussion in such fora as the UN and the North/South Dialogue. He asked Mr. Chenery to distribute Mr. Cassen's summary paper on BN and Mr. Haq's proposed work program to the PC for comments by the Vice President's.

Mr. Husain hoped that research would explore the trade-off between economic growth and meeting BN. He also urged a dialogue with the LDCs before going ahead with a BN strategy.

Mr. Benjenk felt that we should be cautious in our BN approach and not initiate a dialogue with our member countries before we knew much more.

Mr. Stern said that Mr. Haq's report showed how little there is to BN. It is a good political slogan but not much more. The potential results of a BN approach were often exaggerated, leading to such silly conclusions as eliminating poverty by the year 2000. Some positive steps could clearly be taken in redistribution of public services but we should be careful not to oversell the BN approach.

Mr. Chaufournier supported a program of studies to throw light on important linkages. Other donors would focus on BN and we should be prepared to discuss the BN approach with them.

Mr. Wapenhans said that the BN approach should be more country specific. There were obvious differences between East Africa and South Asia.

Mr. van der Tak said that the approach suggested by Mr. Haq was not very different from what we were already stressing, except for the focus on consumption as being good per se when favoring the poorest segments of the population. He agreed with the importance of consumption for such groups.

Mr. Qureshi said that self-help programs would be very important in the BN approach, along with such institutional changes as land reform. The government could play an important role but the stress should be on what people could do for themselves.

Mr. Damry disagreed and said that BN had to go through governments. It would be inappropriate for the Bank to insert a wedge between the local population and the government.

Mr. McNamara urged the PC to study the proposed work program on BN carefully and discuss the matter further at a later stage.

Mr. McNamara repeated his request from the PC meeting on April 25, 1977, for the PC to look ahead and consider the role of the Bank Group over the coming five years. He was particularly interested in what the Bank could do beyond the already outlined lending program. As examples of issues he would like to see discussed, he mentioned the Bank's profits, the 1:1 ratio between funded debt and capital, and an increased role for the Bank's publications. He would like to see these matters discussed by the PC before the end of the year.

SB
September 13, 1977

President's Council Meeting, September 19, 1977

Present: Messrs. Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Husain, Damry, Krieger, Stern, Wapenhans, Weiner, Qureshi, Gabriel, Clarke, Twining

The PC discussed Mr. Chadenet's memorandum on "Proposed Tightening of Security Arrangements" dated September 2. Mr. Chadenet said that an informal survey by the Staff Association of 25% of the staff had shown that a majority of the staff wanted tighter security arrangements. He had then established a task force to review the matter and the task force proposed the introduction of an ID access control system. Mr. McNamara said that we faced four different security problems, namely, robbery, sexual assault, untargeted bombings, and terrorism directed at specific individuals. Mr. Chadenet said that only robbery was important as far as the Bank was concerned. Mr. McNamara and others doubted that robbery could be controlled with an ID access system. Mr. Chaufournier wondered whether the security guards were efficient. Mr. Twining said that they were low-paid personnel and could be better. Direct hiring of security staff by the Bank would probably increase the cost by approximately $400,000 per year. Mr. Baum said that the series of thefts in his office had simply been stopped by locking the doors and changing the cleaning personnel. Mr. Krieger said that the confidentiality of documents was increasingly threatened by theft. Mr. McNamara urged the Vice Presidents to handle this problem individually. A show of hands in the PC indicated that no one was in favor of the ID access system. Mr. McNamara said that it might be appropriate to take a look at the security guards and to close a few entrances and only allow visitors through entrances "A" and "E." Mr. Stern said that, before closing any entrances, we should take a look at how the elevators were functioning. If the waiting periods for elevators could not be substantially reduced, closing entrances would lead to crowding. Mr. McNamara asked Mr. Chadenet to check the elevator system and to handle the security arrangements.

The PC then turned to Mr. Clark's background papers on salaries and benefits dated September 16. Mr. McNamara said that, rather than discussing these papers at length, PC members should send their comments to Mr. Clark. However, he would like to see a major revision of the paragraph on salary sources. The paragraph should state that the Bank revenues were obtained through interest payments from the LDCs. These revenues paid all administrative expenditures, including salaries. The revenues also paid for $18 million of U.S. taxes, so in fact the poor countries of the world were relieving U.S. tax payers of a burden of $18 million through this transfer payment. Moreover, a large part of Bank salaries were spent in the Washington metropolitan area. Revenues each year exceeded expenditures and about 20% of the profits each year accrued to the United States. Mr. Benjenk said that he had found it useful in debates over Bank salaries to go back to pre-IDA days when the Bank was truly a Bank, using "private sector methods." When IDA was introduced, the donors had felt that a tough-minded semi-private sector approach would be appropriate for onlending of their funds. People who could do this did not come cheap. Hence our level of salaries. Mr. Cargill said that we should certainly hit back hard at the demagogues in Congress who did not understand our salary system. On the other hand, it would be difficult to convince any reasonable person that we were not in fact overpaid. Other members of the PC disagreed with Mr. Cargill. Mr. McNamara said that the whole compensation matter would now be reviewed by the Compensation Committee from which a report for publication might be expected by mid-March 1978. Mr. McNamara said that Mr. Clark's notes should be used as technical background papers to fashion oral statements when required.

Mr. McNamara said that the Prospects paper and the papers on Trade and Debt had been well received by the Board on September 13. Messrs. Janssen and Fried had urged publication of the papers. During the meeting Messrs. El-Naggar, Razafindrabe and Murayama had expressed reservations about publication and, after the meeting, Mr. Wahl had directly opposed publication and would only agree to this after the Board formally had discussed the matter. Mr. McNamara said that under these circumstances it was unlikely that the papers could be published. He was somewhat puzzled by the French attitude. Mr. Qureshi said that the French felt that they had more influence within the North/South frame and, therefore, wanted these issues discussed there. Mr. Stern said that the French considered these issues to be political and that they therefore should be discussed in a political forum and not on technical grounds. Mr. McNamara said that a technical solution should still be explored as a basis for alternative political decisions.

Mr. Clark said that Mr. Brandt would be present for part of the Annual Meeting. He hoped that it would be possible to have an announcement on the Brandt Commission before October 1, 1977.

It was decided to hold the next PC meeting at the Sheraton-Park Hotel on September 28 at 5:30 p.m.

SB
September 21, 1977

822/2/32

President's Council Meeting, September 28, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Stern, Weiner, Qureshi, Gabriel, Kearns, Maddux, Merriam

The meeting discussed Mr. McNamara's final statement to the Annual Meeting.

Mr. McNamara said that he would like to make the following points in his final statement:

1. That widespread support had been given to a capital increase for IBRD to sustain a real growth rate of the lending program. He would not himself mention a specific amount for the capital increase but state that several Governors had urged a capital increase of the order of 100% over present levels.

2. That the twin objectives of growth and equity should be met through increasing the productivity of the low-income elements of LDC societies.

3. That the proposed World Development Report had been favorably received and a desire had been expressed by the Chairman of the Development Committee that the Report become the primary focus for the agenda of the Development Committee at the next Annual Meeting in September 1978.

4. That the Brandt Commission had been established. Mr. Clark would draft a paragraph on this matter.

5. That the growing interdependence of the world economy meant that policies of advantage to the LDCs would also usually be of advantage to the developed countries. He would specifically mention trade under this point and asked Mr. Chenery to draft a paragraph on this.

6. That Japan and Germany had stated that they would intend to double their ODA over the next five years. Mr. McNamara wanted to stress that we would help these countries and others to implement these targets by expanding our cofinancing. He asked Mr. Stern to draft a paragraph on this.

7. That the compensation of Bank employees was paid by interest payments from the LDCs on Bank loans and that we did our utmost to minimize our cost as shown by our input/output analysis of Bank productivity. There was some discussion of this point. Mr. Chadenet said that a statement should be included welcoming the Joint Committee on Staff Compensation and the decision of the great powers to attach consultants to the Committee's work. Mr. Krieger said that it should be explained to the Governors that project financing was much more expensive in manpower than a direct resource transfer. Mr. Cargill and others said that the issues of compensation and efficiency of management should be separated. While we had good evidence of our efficiency of management, we were on weaker grounds with respect to compensation. Mr. McNamara agreed that the two should be separated and said that we were in deep trouble on compensation.

Messrs. Broches and Merriam suggested that something should be said about IDA. Mr. McNamara said that he could probably not say anything that would be helpful in resolving the present conflicts in the U.S. Congress on this issue.

Mr. McNamara asked Mr. Damry to keep in touch with Mr. Witteveen on the content of Mr. Witteveen's final statement. Mr. Chadenet said that Mr. Witteveen intended to support strongly the staff compensation policies of the Fund.

SB
September 30, 1977

822/2/33

President's Council Meeting, October 10, 1977

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Broches, Cargill, Chadenet, de la Renaudiere, Karaosmanoglu, Clark, Damry, Gabriel, Husain, Kearns, Krieger, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Rovani, Fuchs, Blaxall

Mr. McNamara said that Mr. Fried had requested deferment of the Board discussion on the IBRD Capital Increase until IDA legislation had passed Congress. He asked PC members to proceed with operations as if the proposed increase had been agreed upon in principle, i.e., to follow the Interim Program for FY79-FY80.

The PC then discussed the report of the PC Working Group on Operational Monitoring and Control, dated September 26, 1977.

Mr. McNamara pointed out that the proper sequence would probably have been to discuss the report of the PP&B Working Group first. As far as supervision work was concerned, there was the firm rule that no personnel budgeted for supervision would be used for anything else. This could then be monitored against. With regard to economic and sector work, however, there seemed to be no clearly established program so that monitoring became almost worthless. The report indicates that for FY77 report production will evidence a 21% shortfall and that formal reports will fall short by 35%. Apparently staff was switched to other activities without clear consideration of relative priorities and the price of changing work programs.

Mr. Stern said that he did not agree with this statement, at least as far as his Region was concerned. The economic work program and the allocation of staff time were clearly defined, slippages were consciously agreed upon and their reasons examined, and the chief economist had a clear responsibility for monitoring quality and timeliness of work output. Mr. Kearns said that two questions had to be asked. First, is the chief economist to be considered the manager of the economic work program, and, second, if so, why does he not have the resources to perform accordingly? Messrs. Benjenk and Stern replied that their chief economists are indeed managing the economic work program.

Mr. Krieger said that most problems stem from the uncertainties involved in the planning of economic work. In his Region, for example, work on the Caribbean Region, Basic Needs (BN), World Development Program, and efficiency prices resulted in unexpected heavy demands on staff time. The program had, therefore, to be flexible in order to be responsive to management decisions. Mr. McNamara said that the additional activities mentioned by Mr. Krieger should not receive priority over the established economic work program. For example, he was not aware of BN activities which justified any slippage of the economic program and which could be considered a substitute for economic work output. It would have been a mistake if he had asked for work on BN and initiated changes in the economic program without knowing the cost of doing so. At this point, no economic work should be deferred because of the BN program. Before we knew how to address effectively BN, such work should only take the thought of senior people. Further, DPS had been asked to develop the BN program and had 150 economists on its staff. With regard to the work on the World Development Report (WDR), the first step of shifting five economists should not have measurable impact on economic program output. Messrs. Baum and Benjenk replied that the establishment of the group of five economists might soon lead to requests for another 25. Mr. Krieger said that the five economists are senior staff and not easily substitutable items. Mr. Karaosmanoglu said that the work on the WDR will require changes in DPS' operational support program. Mr. McNamara concluded that the basic problem remained the inefficient management and weak system of programming economic and sector work. The program was so ill-defined that there was no clear perception of what to monitor.

Mr. Cargill enquired about the work output produced in substitution for the substantial shortfalls reported in para 27 of the paper. Messrs. Benjenk and Wapenhans replied that the shortfalls most likely involved staff time reallocation from economic to project work, namely, from economic to Loan Officer work. However, Mr. Husain pointed out that statistics show on the one hand a higher than budgeted manpower input into economic and sector work and, on the other, a lower than budgeted output. Mr. McNamara said that reallocation of staff to projects work would obviously have serious implications for the standard cost of such work and might reflect inadequate manpower planning for project activities as well as a higher relative priority given to project work. These implications were not known to management until the end of the year. Mr. Baum said that inevitably schedules had often to be changed during the year due to new assignments, that obviously something had to give way in a situation of full employment of resources but that this decision was not made at the introduction of the change. Mr. McNamara concluded that the question was how to change the system of planning and monitoring economic and sector work. Referring to page 25 of the report, he said that P&B should design the system and exercise functional control over the monitoring of the program. Mr. Gabriel pointed out that the responsibility for identifying choices lies with those who report slippages. There were too many support activities which were not measurable. Mr. McNamara agreed that it would be absurd to program, budget and monitor every single unit of output.

Mr. Benjenk said that the programming of project preparation was essential and that there were problems of pipeline. Mr. McNamara pointed out that he was uneasy about the enormous variations in pipeline factors between Regions. He asked Mr. Gabriel to compare pipelines between Regions.

The meeting agreed to continue the discussion on operational monitoring and control.

CKW
October 13, 1977

822/2/34

President's Council Meeting, October 17, 1977

Present: Messrs. Knapp, Baum, Benjenk, Broches, Cargill, Chadenet, de la Renaudiere, Chenery, Clark, Damry, Gabriel, Kirmani, Kearns, Krieger, Qureshi, Rotberg, Stern, Wapenhans

The meeting continued the discussion of the report of the PC Working Group on Operational Monitoring and Control, dated September 26, 1977.

Mr. Baum said that the definition of monitoring adopted in paras 6 and 7 included many activities which were far removed from the term monitoring as traditionally understood. For example, it included a Division Chief approving terms-of-reference of an appraisal mission. The fact that the report left the term "control" without any clear definition permitted the paper to go beyond its original scope. Further, the last sentence of para 23 excluded CPS and DPS functional control activities on economic and sector work from the term "monitoring." However, in other sections of the report these activities were included. Para 39 demonstrated the all-encompassing definition used for monitoring. By this definition, basically all work done at levels above the individual staff member had to be considered qualitative monitoring. This was not a helpful approach. At minimum, a precise and narrower definition of qualitative control had to be given. Mr. Kearns said that monitoring entailed the continuous surveillance of a plan so as to identify actual deviation whereas control entailed the action pursuing identification of deviations. In this report, monitoring was directed at plans during the process of implementation. DPS and CPS control was done usually either ex post facto or ex ante. Mr. Wapenhans said that functional control could not clearly be separated from monitoring and management control. Mr. Knapp concluded that a clearer definition than the one in para 7 was required.

Mr. Kirmani said that the statement on the staff's dislike of monitoring in para 3 was an exaggeration. There was also an implicit assumption in the report that what was not monitored at higher levels was not monitored well. Mr. Knapp suggested that, if the report was to be distributed to the staff, it might be tactically better not to mention the staff resentment of monitoring in para 3. Mr. Baum replied that the paper should reflect staff perceptions and attitudes in order to enjoy credibility.

Mr. Chenery said, commenting on para 22, that in many areas there were no concrete standards for evaluating economic and sector work because of the innovative character of the work and the creative thinking required. It was not so much a matter of abstract or non-abstract professional standards, as implied by para 22.

Mr. Wapenhans said that Standard Tables Va and Vb only show the original plan and the actual results without any qualitative assessment and explanation of deviations. Mr. Stern said that a system of signals, which gave the same priority to economic and sector work as it gave to lending work, would have to be considered wrong. There was nothing wrong with slippages in the economic and sector work program if new priorities were set during the year. Mr. Chenery said that the uncertainties involved in programming economic missions had to be recognized. Economic work was not the mechanical production of reports; quality suffered from the mechanical meeting of deadlines. What should be monitored was rather the justification of any reprogramming exercise, i.e., whether good use had been made of available staff resources. Mr. Baum said that everything tends to receive first priority, and in the end nothing. In reality, economic and sector work slipped because it did not receive highest priority in time, with quality suffering in the process. There should be priorities not only in time but also in quality. Mr. Wapenhans said that relative priorities should be clearly stated. There was presently no recognition for alternative output. Mr. Kearns said that total priorities should be clear to senior management when making decisions. Mr. Stern replied that senior management cannot be asked to judge judgments every day but only at reasonable intervals, for example, by the end of every year as practiced now. Mr. Cargill said that there was an implicit recommendation in para 27 (last sentence) frequently to involve senior management. This would only add to the confusion; responsibility for these decisions on the economic work program should be delegated to the Regions. Mr. Kearns replied that, if Tables Va and Vb are prepared, they should convey the right impressions or they should not be submitted to senior management at all.

Mr. Baum considered the statement in para 32, namely, that the part of Form 49 on project identification and preparation is seldom completed, a disturbing comment. However, this was probably the case because of the introduction of the more comprehensive Project Brief. Mr. Wapenhans agreed.

Referring to para 33 (last sentence), Mr. Baum said that it had always been emphasized that Project Briefs were not to be introduced as another monitoring device but to help staff to organize their work better, i.e., as an internal work tool.

Mr. Benjenk pointed out that in his view paras 32 and 33 contained the most important issues of the report. The lack of preparation work and early budgeting led to the serious pipeline and bunching problems experienced by the Bank. Here is an important role for monitoring. In EMENA, highest priority is now being given to project preparation, with a report, based on the Project Briefs, being submitted to the RVP every second month. Mr. Baum agreed and added that not only issues of timely processing but also qualitative issues arise at this stage. The right signals should be conveyed to the staff in this section, which was not yet the case.

Referring to para 39, Mr. Baum criticized the statement that qualitative monitoring is "equally intense." The report gave neither a definition nor a measurement of intensity.

Mr. Gabriel enquired about the action a manager would be expected to take if there would be better monitoring of actual versus planned processing costs (para 41). Mr. Wapenhans replied that probably more effort would go into preparation. Mr. Knapp said that para 41 should be revised to contain a clearer statement.

Mr. Baum agreed with the statement in para 43 that quality review by CPS should be increasingly devoted to the early processing stages. However, he felt that the notion of "fundamentally sound" projects misstated the issue. There was often scope for improving (rather than "perfecting") projects at a late stage. Mr. Knapp questioned the recommendation to carry out CPS quality review at the green cover stage and not at the yellow cover stage. Mr. Benjenk said that, in view of CPS' limited resources, CPS assistance should focus on (i) early stages and (ii) non-traditional sectors. In recent years, CPS intervention in the traditional sectors at late stages had not led to significant changes. Mr. Baum said that there was unanimous agreement on an early CPS involvement through the Project Brief and an increasingly selective involvement at later stages.

CKW
October 17, 1977

President's Council Meeting, October 25, 1977

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Nurick, Cargill, Chadenet, Chaufournier, Chenery, Damry, Gabriel, Kirmani, Kearns, Lerdau, Qureshi, Stern, Wapenhans, Goodman, Fuchs, Rovani, Jaycox, Stone, Karaosmanoglu, Haq, and Mrs. Boskey

As the first item on the agenda, the meeting discussed the paper on the Role of the Bank in Mineral and Petroleum Exploration, dated September 12, 1977.

Mr. McNamara asked the meeting to focus on those aspects and recommendations of the paper which required action. The following was agreed:

1. The Bank should encourage countries to undertake necessary survey work, identifying priority needs and helping them get the financial and technical assistance required (para 3). Proposals for Bank technical assistance and loans for this purpose should first be discussed with Messrs. McNamara, Knapp and Baum.

2. With regard to exploratory drilling, the Bank might act as an "honest broker" whose presence would give both the LDC and the international company greater assurance of an advantageous deal (para 5).

3. The Bank might lend for national exploration programs if the risk were spread over a wide area (para 6). Again, proposals should first be discussed with Messrs. McNamara, Knapp and Baum.

4. Consideration of potential Bank support to the operations of the UN Exploration Fund (para 7) would be postponed until a written request was received. Mr. McNamara said that, in view of the Fund's inefficient operations, financial support to its activities was not attractive at the present time.

5. With regard to appraisal drilling and assessment (para 9), the Bank should be prepared, in addition to its efforts as an honest broker, to make engineering loans where necessary to facilitate project preparation. Initial experience should be reviewed in about a year from now.

The meeting then discussed the Urban Poverty Program Status Report, dated October 12, 1977.

Again Mr. McNamara asked the meeting to focus its attention on the required actions. The following was agreed:

1. There was urgent need for the development of the IDF Employment Creation Program (para 5a of the report). Mr. McNamara asked Mr. Jaycox to present the program until the first quarter of 1978.

2. The poverty thrusts of Bank programs would be integrated into and highlighted in the CPP process. Messrs. Yudelman and Jaycox would present a concrete proposal. Mr. Chenery commented that the term "poverty thrusts" and its integration into the CPP process remained rather vague in the report. Mr. McNamara concluded that DPS had to play a role in this.

3. As to the potential competitive overlap between the Bank's poverty programs and discussion of basic needs (para 5c), Mr. McNamara asked Mr. Jaycox not to consider this link at the present time. DPS should focus on the BN approach and Mr. Jaycox on the urban poverty program as two parallel efforts. The issue would then be taken up by the emerging BN policy which was still months away. Mr. Chenery commented that he saw no conflict between the two programs. With regards to the

countries chosen for a special effort in economic and sector work on urban poverty, Mr. McNamara said that efforts should not be spread too widely. He was concerned about the wide range of countries chosen, particularly in EMENA, where ten countries were listed. Mr. Baum pointed to the lack of symmetry between priority countries for BN and urban poverty work. Mr. McNamara replied that there were as yet no priority countries for BN work and that he was not concerned about differing universes.

5. Regional plans for poverty-oriented IDF lending beyond FY79 would be brought forward until April 1, 1978.

6. With regard to the Regions' cities of concentration (para 15), formulation of a program would have to await agreement with the Region on specific criteria.

7. Another progress report would be presented by April 1, 1978.

As the third item on the agenda, the meeting discussed the Basic Needs Work Schedule dated October 7, 1977.

Mr. McNamara pointed to the statement made by EDs during the informal capital increase meeting that agreement on a capital increase would be contingent on a Bank program on BN. However, there was a general lack of understanding of how to deal with basic human needs issues. Some argued that the BN approach was only a political slogan to mobilize resource transfer. He had asked Mr. Haq to prepare two brief action-oriented policy statements; first, a ten-page statement on meeting BN in a given country which could, for example, be used by the Prime Minister in addressing his parliament and, second, an even shorter statement which, based on the first paper, would contain policy recommendations for donor nations to decide upon. Mr. Chenery said that the Bank had to avoid to be stuck with a slogan. A recent DAC report contained favorable references to the Bank, both with regard to Bank country reports dealing explicitly with basic human needs issues and with regard to the international institutions' confidence in the Bank's capability to address these issues. For the next several years, there would be no BN strategy and no clearcut answers to these important issues. Mr. Haq explained the rationale for the proposed BN work program. Of the three major elements of a BN approach, namely, productivity increase, employment creation, and expansion and redesign of public services, the sector studies were intended to focus on the latter, i.e., the service elements of a program. The planned country studies on the other hand would assume a 25-year objective of meeting BN and translate this objective into country-specific consumption and investment planning. These sector and country studies would rely heavily on ongoing and already scheduled missions without posing any substantial additional demands on staff resources. They would constitute a learning process and would be complemented by more immediate policy and operations-oriented BN work.

The meeting then discussed the selection of countries for the country-specific studies of the work program. Mr. McNamara questioned whether country economic missions would contribute much to the understanding of BN issues. Mr. Benjenk said that, in the case of Afghanistan, the mission would probably only provide more information without being able to propose a feasible action program. Mr. Stern said that the Sri Lanka mission would focus on future investments programs and growth plans of the Government. Mr. Chaufournier said that, in the case of Mali, two questions would be asked: (i) is it possible to design a preventive health care delivery system costing only \$2-\$3 per capita, and (ii) does the Government show the political will to implement such a system? Mr. McNamara replied that this would only contribute to our understanding of one element of the BN package. Further, it was known from Colombian experience that such a low-cost health system was indeed feasible. Mr. Lerdau said that the mission on human resources in Brazil was already in the field but that it would take additional manpower to go one step further and develop a BN program proposal for that country. Mr. McNamara commented that Brazil and Mexico would be promising candidates in Latin America. He recommended Indonesia as a prime candidate for developing a BN program given the strong endorsement of Minister Wardhana. Mr. Chenery pointed out that apart from Part I countries only Asian governments had lent their support to the BN approach in their Governors' speeches at the Annual Meeting. Mr. McNamara concluded that the work program should focus on countries which were clearly interested in BN and that it should be made the purpose of economic missions to examine a concrete BN program in such countries. He asked the RVPs to identify such countries and he asked Mr. Chenery to discuss the selection of countries for the work program with the Regions. A preliminary report on the sector studies should be presented by February 1978.

Finally, the PC discussed the informal capital increase meeting with EDs on October 25.

Mr. McNamara said that the meeting had agreed on the need for discussing the human rights issue but in separation from the capital increase discussion. Not only the U.S. ED had insisted on a human rights discussion. It had been agreed to start the discussion of the capital increase on November 17, focusing on the proposed rate of real growth in Bank commitments and on the outlook for inflation, and to conclude with a consensus on the range of a capital increase in current prices. A parallel meeting would be scheduled on human rights. He was worried that the human rights discussion might lead to an erosion of support for the capital increase. A clear decision on the Bank's human rights position was therefore needed. A possible approach could be to distinguish clearly between civil rights and economic rights and then to argue that the UN would have to deal with the civil rights issues and that the Bank would continue to address economic rights, such as ability to live, improvements in life expectancy, etc. The Bank would have to insist on universal application of standards among institutions and equitable application between countries. He asked Messrs. Knapp, Cargill, Damry and Nurick to meet with him on October 26 to discuss further this issue.

CKW
October 31, 1977

822/2/36

President's Council Meeting, October 31, 1977

Present: Messrs. Knapp, Baum, Benjenk, Nurick, Chadenet, Chenery, Merriam, Damry, Gabriel, Husain, Kearns, Krieger, Qureshi, Rotberg, Stern, Wapenhans, Weiner

Focusing on monitoring of supervision work, the meeting continued and completed the discussion of the Report on Operational Monitoring and Control, dated September 26, 1977. Mr. Knapp said that the paper was not to be refined and circulated to the staff. Now?

Mr. Husain said that he disagreed with the Report's implicit conclusion that monitoring of supervision was inadequate or unsystematic and with its focus on central monitoring (para 45). He also disagreed with the statements that the timing of supervision missions tends to be a "residual" (para 49) and that the amount of staff time devoted to supervision mission as the principal planning device (para 47) was unsatisfactory because it was an input measure. He argued that (i) monitoring took place at every level and its centralization was not desirable; (ii) scheduling of supervision was not a residual, at least as far as his Region was concerned; (iii) since the purpose of supervision was to assist in implementation, the output had to be measured in terms of (staff time) input and not for example by the number of produced reports; and (iv) there was a complementary Bank-wide review of problem projects which was satisfactory. Pointing to para 50, Mr. Benjenk also criticized the Report's leitmotiv of emphasizing the central character of monitoring. About 80% of EMENA's staff increase was devoted to supervision, indicating that it was not treated as a residual. Mr. Kearns said that, although the paper clearly focused on the senior level, it endorsed the concept of monitoring at all levels. However, the decentralized nature of supervision monitoring does not necessarily imply that it is carried out satisfactorily. Mr. Wapenhans said that manpower expenditure was not a very useful measurement device and that the coefficients used for monitoring supervision were less specific than the ones used for other activities. If there were scheduling problems, supervision was usually first looked at for rescheduling.

With regard to the monthly regional status reports as a monitoring device (para 51d), Mr. Knapp asked Mr. Gabriel to look into the issue whether the rules governing the decisions RVPs can take on their own account with respect to inter-country and inter-year changes are too inflexible.

Mr. Knapp endorsed the Report's recommendation (para 51j) to institute an annual monitoring process review, separate from the problem projects review. Mr. Stern disagreed and argued that the underlying philosophy was wrong. The discussion had produced no evidence that there were major issues. Even on economic and sector work, it had been agreed that progress was being made. To review the adequacy of processes only required the efforts of a YP. Staff perceptions could only be cured at the working level and not by escalating an annual review of the monitoring system to a high level requiring considerable additional staff time. Finally, Mr. Gabriel, together with a systems specialist, would also focus, inter alia, on this. He recommended against the proposal. Mr. Gabriel said that he was also surprised about this conclusion and recommendation of the Report which was not supported by any major analysis, except for the statement in para 44. He questioned whether monitoring practices had to be uniform among Regions. Mr. Baum said that, unless better agreement on the concept and purpose of monitoring was achieved, it was hardly meaningful to have the annual review. Mr. Wapenhans said that uniformity in monitoring practices was desirable to avoid misinterpretation. For example, in economic and sector work there were no processes to monitor slippage versus change in priorities; in supervision, there were no clear criteria for identifying and ranking problem projects. Mr. Kearns said that there was a definite need for more systems and processes review in the Bank. Mr. Benjenk recalled that the exercise had been initiated in January to see whether some systems could be abandoned rather than added. He said that the discussion indicated that only little has been learned and achieved during this exercise.

Mr. Knapp concluded that the proposal was not accepted.

Mr. Nurick said that the U.S. IDA legislation had not yet been signed by the President and that an additional $250 million, possibly from Saudi Arabia or Canada, was needed to make IDA effective.

Mr. Benjenk pointed to the need for a declassification rule for Bank documents. Mr. Knapp said that he was presently dealing with this issue.

CKW
October 31, 1977

822/2/37

President's Council Meeting, November 21, 1977

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Votaw, Kearns, Lari, Parmar, Stern, JAdler

Mr. Chadenet reported on the status of this year's merit increase review and on considered changes in the Bank's travel policy.

Personnel's analysis of merit increase practices of different departments reveals considerable interdepartmental inequity and frequent "sprinkling" of above-norm increases. For example, four departments granted above-norm increases to less than 30% of their staff and four other departments gave above-norm increases to 80%-90% of their staff. The "sprinkling effect" of the latter case gave the Bank a civil service character, which was particularly embarrassing in view of the ongoing compensation policies review by the Committee of EDs. In order to remedy the situation, (i) VPs should intervene in this department-level process, and (ii) above-norm increases should not be granted to more than 40%-50% of the staff. As far as below-norm increases were concerned, there were 14 departments (out of 44) which showed no staff member with a below-norm performance. This practice made it very difficult to terminate staff.

Mr. McNamara said that all VPs were responsible for ensuring an equitable application of the policy and he asked Mr. Chadenet to contact VPs and Directors personally in order to ensure corrective action. It was a weakness of the Bank not to move out unsatisfactory performers; involuntary termination rates were by far too low, even after allowing for the Bank's careful recruiting procedures. Mr. Stern said that the arithmetic of the system was wrong. It was preposterous to build-in an assumption that a high percentage of staff were above-norm. Mr. McNamara expressed his uneasiness about both the philosophy and the arithmetic of a system which led to a merit increase for 80% of the staff every year. This resulted in a substantial increase of the average salary over a five-year period. Mr. Chadenet said that there would again be a "postmortem" review of these policy issues by the Personnel Department.

Mr. Chadenet reported that as a result of the constant review of travel policies, particularly mode of travel rules, some tentative conclusions had been drawn. Firstclass travel should be justified solely on fatigue and not on rank grounds. The present policy was vulnerable because a high proportion of so-called "distance travel" consisted rather of a series of small hops. Therefore a change of policy was presently under consideration which would give the option of either traveling firstclass without stops or traveling economy class with three types of stops, namely, personal leave, business or stopovers. Mr. Clark urged not to disregard medical advice and to explore with airlines the availability of group fares and of quiet "fullfare" (economy) plane sections. Mr. Chenery suggested to determine present total travel cost compared to "full economy" (economy only) travel (assume, for example, the ratio to be 1.5), to set a cost reduction target (say, a 1.25 ratio or 25% above "full economy"), and then to give each staff member a bonus (in this case 0.25 or 25% of "full economy") and the choice as to when to travel economy and when to travel firstclass. Mr. Baum said that medical advice and frequency of travel had to be considered. Mr. McNamara asked Mr. Chadenet to analyze frequency and duration of travel for a reasonably large number of staff. Any changes in travel policy had to be considered an explosive issue with the staff. The Bank had so far been most liberal in its policy, also compared to private organizations. Present travel policies posed serious problems but there was no solution yet.

Mr. Chadenet briefly reported on the work of the EDs' Joint Committee on Compensation. It would be difficult for the Chairman, Mr. Kafka, to reconcile the positions of the extreme wings. The Committee was apparently awaiting the findings of the consultants to the Big-Five. Mr. McNamara said that the U.K. and U.S. consultants seemed to be very competent but that their investigation would further delay a final conclusion.

Mr. McNamara briefly reported on his trip to West Africa, pointing in particular to the enormous achievements in the Bank's regional lending program over the last nine years, to the successful rural development projects in Northern Nigeria (Gusau and Funtua), to the envisaged much larger lending program for Nigeria despite remaining, serious macro-economic problems, and to the great economic potential of Guinea.

Finally he urged PC members to devote particular attention to the badly lagging FY78 lending program.

CKW
November 28, 1977

822/2/33

President's Council Meeting, November 28, 1977

Present: Messrs. McNamara, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Kirmani, Kearns, Lari, Qureshi, Rotberg, Stern, HAdler, Weiner

Mr. Clark reported that Willy Brandt would announce the composition of his Commission on November 29. The Commission would probably have 17 members, including Brandt, with 9 members from developing countries and 8 members from developed countries. The members would be: Mr. Abdlatif Y. Al-Hamad, Kuwait; Mr. Rodrigo Botero Montoya, Colombia; Mr. Antoine Kipsa Dakoure, Upper Volta; Mr. Eduardo Frei Montalva, Chile; Mrs. Katharine Graham, U.S.A.; Mr. Edward Heath, UK; Mr. Amir H. Jamal, Tanzania; Mr. Lakshmi Kant Jha, India; Mr. Adam Malik, Indonesia; Mr. Pierre Mendes-France, France; Mr. Joe Morris, Canada; Mr. Olof Palme, Sweden; Mr. Peter G. Peterson, U.S.A.; Mr. Shridath S. Ramphal, Guyana; Mr. Nobuhiko Ushiba, Japan; and Mr. Layachi Yaker, Algeria. The Technical Secretariat, consisting of 6-8 professionals supported by consultants, would be headed by Professor Goran Ohlin from Sweden and would be located in Geneva. All Geneva expenses, other than salaries, would be borne by the Swiss Government. A number of governments and organizations had offered their financial support: The Netherlands, Norway, the German Marshall Fund and IDRC. In addition, a large contribution would probably be made by a German foundation and the German Government had pledged its support. However, Brandt did not want to rely on financial contributions from the German Government. There was also a guarantee of \$2.5 million made by another source. The first meeting of the Commission would take place in Bonn from December 9-11, 1977, would be opened by the German President, and would decide on terms-of-reference and mode of work. The establishment of the Secretariat was not yet as far advanced as had been expected; however, it could now be designed to fit the needs of the selected members. Willy Brandt hoped to produce the Commission's report within 18 months. The report should not have more than 100 pages print, should be understandable to an audience of nonprofessional economists, and would be handed to the Secretary General of the United Nations and the President of the World Bank. Mr. Clark hoped the report would be available by March 1979, in time for contributing to the formulation of the Development Decade of the United Nations. Mr. Chenery said that Professor Ohlin was a well-known economist, Professor at the University of Upsala, who had been associated with the OECD Development Center, the Pearson Commission, the Bank's Advisory Committee on Population and with the Bank as a consultant. Mr. Cargill pointed out that Mr. Ushiba had just been made Minister Without Portfolio in the new Japanese Cabinet.

Mr. McNamara asked Messrs. Cargill and Clark to check on Mr. Ushiba's appointment immediately after the meeting. He suspected that there would be no possibility for a Japanese Minister to be a member of the Commission. He said that the cost of the Brandt Commission was estimated at about \$3 million and that the base of financial support was broadening. The Commission would have no formal association with the Bank; no Bank staff member would be seconded and the Bank would have no observer status. He would not attend the December 9 meeting in Bonn. However, the Bank would provide every technical cooperation to the Commission; Mr. Chenery, and in his absence, Mr. Karaosmanoglu, would be the contact person in the Bank. The Bank had financed the Pearson Commission but--as the North/South dialogue had showed --the world had changed, and it was now almost impossible to get an international institution to set up such a commission. It took 10 months to set up the Commission, even without the handicap of involvement of international institutions. First, the OECD nations opposed the idea, fearing recommendations for more OECD concessions and activities (trade and aid). Then the Commission met the opposition of the G-77, which was fearful that the Brandt Commission might not put the same emphasis on certain issues pushed by that group and might address different issues (e.g., population).

Mr. Chenery commented that the only economic expertise represented in the Commission came from LDCs. Most of the members were either politicians or business people. Mr. McNamara shared that concern and said that Mr. Brandt wanted members who carry political weight and count on broad constituencies. In particular, three countries had to be moved: Germany, Japan and the U.S.

Mr. Rotberg reported on his recent visit to major financial centers and on recent developments in world capital markets. With regard to Japan, he said that the Government had now come under tremendous pressure from the U.S. and had expressed its concern about the country's high unemployment rate, the dropping stock market, the poor profitability of most industries because of the substantial rise of the yen, the projected export decline, the substantial Government deficits, and the expected higher interest rates. Japanese Government officials had argued that the U.S. steel industry was inefficient because it had never received any major capital infusion, and that many of the U.S. economic problems stem from the fact that 12 million illegal aliens were working in the country. With regard to Switzerland, although Swiss experts expected the U.S. dollar to strengthen against the deutschmark, guilder and yen, the SFR was not projected to weaken against the U.S. dollar despite very low interest rates in Switzerland. Bond rates were presently 8.5% in the U.S. and only 4.5% in Switzerland. However, with an only 1.5% projected Swiss inflation rate, the real return was about the same or even still higher in Switzerland. In Germany and Holland there was concern about poor corporate performance and higher inflation rates. The deutschmark was considered overvalued against the yen. With regard to the U.S., the Federal deficit was not expected to lower interest rates and there would be no pressure for lower rates at any maturity. In short, the international outlook was for a higher U.S. dollar and--despite an expected weakening of economies--for higher interest rates and higher inflation. Mr. McNamara concluded that it was probably wise for the Bank to borrow as much as it did this year (the entire amount of $4.5 billion at 7%) and to raise its liquidity. In the future, the Bank would probably face a higher cost of borrowing and tighter markets. He asked Messrs. Cargill and Rotberg to think about how to face higher borrowing costs and, in particular, to address the possibility of an increased tapping of central banks, thereby obtaining long-term money at two-year money cost. It should be possible to increase the borrowing from central banks by $500 million per year over the next four years. He would like to know (i) whether it was wise to do it, and, if so, (ii) how to do it.

Mr. McNamara said that, in response to the highly critical Wall Street Journal article on Bank activities in Indonesia, the Region had prepared a White Paper which would be distributed to the EDs and to the members of the PC.

Mr. McNamara said that the Wall Street Journal article of this morning on Bank salaries caused the Bank deep trouble. He asked Mr. Chadenet to check on the accuracy of the facts mentioned, particularly the average Bank salary, the number of staff members receiving higher salaries than U.S. Congress members, and the subsidization of dining room facilities. He said that the point had to be made again and again that the U.S. taxpayer did not pay Bank salaries; the U.S., the press and some staff members had not accepted this point. The Bank was run on a planned profit level, i.e., revenues were planned on a planned profits and cost basis. Mr. Rotberg said that the issue around town was whether the Bank was considered to be a government agency or a private enterprise. The latter was not accepted because the Bank received free capital from its member governments. Mr. McNamara said that the Bank had a task to do and the issue was how much it had to pay to get this task done.

In response to a question by Mr. Cargill, Mr. McNamara said that an oral report of the consultants to the Big-Five on staff compensation was expected by mid-December, and a written report by mid-January. There would thus be a serious time problem because it was difficult to decide on the general salary increase in March without reasonable time to discuss the Kafka Committee's report with the Board. Mr. Chadenet reported that the price-level change from March 1977 to March 1978 was expected to be 5%-6%.

Finally, Mr. McNamara asked Mr. Chadenet for a note on present Concorde travel policy.

CKW
December 2, 1977

822/2/39

President's Council Meeting, December 5, 1977

Present: Messrs. McNamara, Baum, Benjenk, Broches, Cargill, Twining, Chaufournier, Chenery, Damry, Gabriel, Kirmani, Kearns, van der Meer, Qureshi, Rotberg, Stern, HAdler, Weiner, Merriam

The meeting discussed the problems posed by Congressional inquiries and press investigations into Bank activities, and adequate Bank procedures to deal with them.

Mr. Merriam said that Congressman Long, arguing that no money should be made available to agencies over which Congress had no control and whose activities were not reaching the poor, was planning (i) oversight hearings on Bank operations, (ii) a study on Bank activities with emphasis on their effectiveness in reaching the poor, to be carried out by the Congressional Research Service, and (iii) together with Congressman Young, field trips to Latin American and East Asian projects of the Bank and other IFIs. Staff members of Congressman Long, Messrs. Vallianatos and Anderson, were presently on a "fishing expedition" round the Bank to gather damaging information from staff. The former was also planning his own field trip. Mr. Merriam reminded the PC members that there were well-established procedures for dealing with such inquiries and the press. He referred to Administrative Manual Statement 5.03 of August 1977 (Operational and Formal Communications for Bank and IDA) and to World Bank Manual Circular 1.02 of March 18, 1977 (Conversations with Representatives of the News Media). The former stated that the Executive Directors are the channel for communications between members of legislatures and the Bank. All inquiries of legislatures and the press had to be routed to VPE, which was responsible for coordinating the reply and issuing information to the media. Mr. Weiner said that he had been asked by Mr. Vallianatos for copies of OED reports.

Mr. McNamara said that Public Affairs and management had to be fully informed of all contacts between Bank staff and investigative Congressional staff or press representatives. He urged PC members to ensure adherence to the existing procedures. The Board should be kept fully informed. He asked Mr. Weiner to put Mr. Vallianatos' request in writing to Mr. Fried. Congressman Long was clearly antagonistic to foreign aid and he planned his oversight hearings to prevent foreign aid appropriations. He had not yet formally approached the Bank for information or with a request for Bank staff testifying in his oversight hearings; but the Bank had to think of an appropriate defense. Eventually Mr. McNamara planned to go to the Board on this issue. In the case of the Indonesia Wall Street Journal article, there clearly had been no compliance with the Manual Circular 1.02 of March 1977. Mr. Merriam's office was responsible for enforcing this procedure. He wanted to be informed of all journalists approaching other than IPA staff in the Bank. Mr. Stern commented that a clearer guidance was required from IPA. Usually, guidance was limited to advising staff to do everything possible for every visiting parliamentary or press agent. Mr. Benjenk said that the legal issue had to be addressed whether all member governments were allowed to conduct their investigative studies of Bank projects. Mr. McNamara replied that this was mainly a political and not a legal issue. The Bank should reconsider its policy of releasing information to the public, e.g., whether OED reports should be published. Although containing explosive material, they were excellent reports and had not been misused so far. However, the release of such reports raised the issue whether the users of such information would transmit a balanced view to the public. Mr. Chaufournier said that the Bank had to develop a positive strategy for dealing with these problems. According to Mr. Baum, staff wanted to know what actions were taken by management to get a good press. Mr. McNamara replied that the greatest problem faced by the Bank in the

U.S. was the general indifference and disinterest of the U.S. public in world affairs. For example, while the European press provided broad coverage, there was not a single line in the New York Times on the announcement of the Brandt Commission.

Mr. McNamara said that an excellent paper on the human rights issue had been prepared by the staff. He had handed it to Mr. Fried, asking for a clear U.S. position as a prerequisite for calling any further informal meeting of EDs on the issue. PC members could borrow a copy of the paper from Mr. Broches.

Mr. McNamara said that the second quarter projects performance had been very unsatisfactory and would probably lead to a very difficult fourth quarter. One ED would probably raise this issue in the Board. The immediate need was to achieve a satisfactory third quarter performance and he had asked Mr. Stern to discuss this with the Regions. It would result in a heavy third quarter load, particularly in the case of LAC, EMENA and EAP. Mr. Cargill said that the delays were less serious in terms of their impact on LDC economic programs (since they usually involved a slippage of only a few months) but were very damaging in terms of obtaining a substantial capital increase from member governments.

CKW
December 7, 1977

President's Council Meeting, December 12, 1977

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Nurick, Cargill, Twining, Chaufournier, Chenery, Clark, Damry, Gabriel, Kirmani, Kearns, Krieger Qureshi, Rotberg, Stern, Wapenhans, Weiner

In order to inform the staff about the actions taken by management, Mr. McNamara asked the PC members (i) to circulate to their staff the letters sent by Messrs. Thavil and Chadenet to the Wall Street Journal in response to the articles on Bank activities in Indonesia and Bank salaries, respectively, and (ii) to consider giving the Indonesia White Paper to interested staff.

Mr. McNamara asked PC members for their views on whether OED's Annual Review of Project Performance Audit Results should be published. He said that he was inclined to publish these documents but that this issue needed to be discussed with the Board. The Board should also be informed about Congressman Clarence Long's (a) plans to conduct oversight hearings on the Bank's activities in early 1978, (b) request to the Library of Congress to conduct a study on "whether the Bank reaches the poor" and (c) intention to visit Bank projects in LDCs. The Board might want to address the issue of whether such investigations initiated by one member country were contrary to the Articles of Agreement. He said that a member of Congressman Long's staff had asked for copies of OED's audit reports. Since 60 copies of each OED report were handed to the U.S. Government, it was inconceivable that these documents did not eventually become available to the Congressional investigators. The Bank should therefore consider to publish--as a backfire and avoiding any response to a committee request--the whole OED system in the form of the Annual Review of Project Performance Audit Results. It should be published with a statement on the purpose and mechanics of the OED system and with two modifications: (a) deleting the names of countries for alphabetical letters, and (b) adding explanatory technical notes as an appendix.

In response to two questions by Mr. Clark, Mr. McNamara said that the Bank would of course act through Mr. Fried but that management had the responsibility to deal with these issues, and that there was not the slightest chance that any pressure from the Board on the U.S. Administration to in turn apply pressure on Congress would be successful. Mr. Qureshi urged to get the other member countries fully on board to support the Bank. Mr. Chaufournier called for special efforts to inform and strengthen the friends of the Bank in Congress. Mr. Stern disagreed with Mr. McNamara's suggestion to publish OED reports. If there was any choice for the U.S. Executive, every effort should be made not to release audit reports. As a first line of defense, the Bank could argue that Congress should investigate the role of the U.S. ED in the Bank and not the Bank directly. Publication of the information contained in the OED reports would have a damaging effect which would not become less damaging if put out early. Mr. McNamara disagreed. The information would indeed be less damaging if put out in a balanced fashion by the Bank. Mr. Rotberg also disagreed with Mr. Stern and said that the Bank should give the impression of being an "open institution," that its staff would be cooperative and supportive of the Committee's activities. He warned that it would be impossible to get the Bank's friends among Congress members to undercut Congressman Long. Mr. Chenery supported the release of audit reports, arguing that they showed an extraordinarily good record. Mr. Nurick said that the Long Committee could not subpoena the Bank to testify, that the Bank should not try to keep information which the Committee would obtain anyway, but that publication of OED reports would create problems with the other member governments of the Bank. Mr. McNamara agreed that a certain U.S. dominance sentiment prevailing among staff should not be increased by catering excessively to U.S. demands. Mr. Stern, pointing to the role of control officers in U.S. agencies, argued that control over contacts between Bank staff and Congressional investigators was absolutely essential. Messrs.

Chaufournier and Cargill argued that release of the OED report would limit the Bank's possibilities for choosing its counterattack and that the Bank should rather react as the situation arises. Mr. Kearns said that the main vehicle for the Bank was the press, and that the Bank had shown a poor performance in dealing with press people. A balanced view of the Bank had to be built into the minds of the reporters who covered Congress, e.g., through personal interviews by Mr. McNamara with the press. Bank staff had also to be given a clear sense of what was going on. Mr. Knapp said that he had serious doubts whether OED's annual review reports should be published. It could not be avoided to identify countries in these reports. Mr. Stern urged to put the onus on the U.S. ED. The U.S. Executive Branch would have to draw the line between documents to be released and those not to be released.

Mr. McNamara concluded that there obviously was disagreement on the issue of whether to publish the OED Annual Review reports (with, for example, Mr. Stern opposing and Mr. Rotberg supporting publication) and that the discussion should be continued at next week's PC meeting. He asked Messrs. Clark and Damry to (i) prepare a memorandum informing the Board of Congressman Long's intended activities, and (ii) prepare a memorandum asking the Board for approval of publishing OED's Annual Reviews of Project Performance Audit Results, and stating that these reports would be published with a covering note explaining the OED system, with explanatory technical notes as an appendix, and with the names of countries replaced by alphabetical letters. These memoranda should be cleared with Messrs. Knapp, Cargill, and Broches or Nurick, and would be discussed at the next PC meeting. He also asked Mr. Clark to find out the names of the reporters covering the Congressional oversight hearings and to develop a tactical plan to approach them.

CKW
December 15, 1977

822/2/41

President's Council Meeting, December 19, 1977

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Husain, Kearns, Krieger, Qureshi, Rotberg, Picciotto, HAdler, Weiner, Fuchs, Rovani

First, the meeting discussed the Oversight Hearings on Activities of the World Bank and Other Financial Institutions to be conducted by the Foreign Appropriations Subcommittee of the U.S. Congress, chaired by Congressman Clarence D. Long. Mr. McNamara said that he had sent a memorandum to the Board (dated December 16, 1977) informing member governments of the objectives of these hearings and of the intended Bank response to requests for release of information. All requests would have to be channeled through the U.S. ED's office. In addition, a focal point for consolidating the information given to the Committee was required. He had therefore established a committee, chaired by Mr. Cargill and co-chaired by Mr. Nurick, and with Messrs. Clark, Damry and Merriam as members ("Cargill" committee). All requests for release of information and for interviews with Bank staff would have to go through this committee; a member of the committee would participate in all interviews conducted by Congressional investigators with staff members. The investigators had already asked for all President's Reports for FY72 and FY77. Since it was not customary for the Executive Branch of the U.S. Government to distribute such documents to the Legislative Branch, these reports would not be provided before the Board would have discussed the above memorandum. Two statements were implicit in the memorandum to the Board and would require more careful considerations by the Cargill committee: (i) any document passed to the U.S. ED could be passed on by him to Congress, and (ii) the Bank might receive requests for data which had not been given to the Board and might provide this information to the Congressional investigators without previous consultation with the Board. His recommendation would be not to hand out any information without first informing the Board, with the only exception of requests for little detailed information such as the one frequently provided by P&B to individual EDs in connection with the Capital Increase discussions. These detailed procedures were required because the danger posed to the Bank by this fishing investigation of the Long Committee could not be overestimated. Although there were a few friends of the Bank among the members of the Committee, it was basically the old Passman Committee, loaded with opponents of the Bank.

Mr. Benjenk enquired whether management was accountable to each individual member government or to the Board and whether management should not simply ask the Board what to do, rather than only informing the Board. Mr. McNamara replied that Congress had a very effective sanction, namely, not to appropriate. Management could not expect to get a clear statement from the Board on how to handle the Oversight Hearings. The U.S. ED did not even want the memorandum to the Board to be circulated; management had agreed to take some background out but had insisted on informing the Board. He asked the PC members to apprise their staff of the Oversight Hearings and management's actions to deal with them, namely, the establishment of the Cargill committee. In response to a question, Mr. Broches said that consultants should behave like staff members if approached for information. Mr. McNamara asked the Cargill committee to think about this question. Mr. Clark urged not to let Congressional investigators "put the nose into the Bank." They should approach the U.S. ED who in turn could obtain the material or interview the staff and pass the information on. Mr. McNamara said that Messrs. Fried and Dixon were conscious of the problem of handling the Committee in a way to minimize damage to the Bank.

Second, Mr. McNamara said that the question of whether to publish OED's Annual Review of Project Performance Audit Results should be turned over to the Cargill committee. It was his impression, from last Monday's PC discussion, that he was almost the only one who favored publication. Board agreement would also be needed.

Third, Mr. Gabriel reported that P&B had conducted a study on the manpower cost of the different stages of the lending and supervision cycle. This study contained a wealth of information and provided insight into cost patterns but did not constitute a basis for action yet. There were striking variations in cost patterns between both Regions and sectors. He asked the PC members for their reaction over the next few weeks. Mr. McNamara asked the RVPs and Mr. Baum to read carefully this study together with their Program Coordinators and then to list changes for the FY79 budget, reflecting the results of this study. The Bank should analyze the reasons for "high-cost Regions" and should consider whether certain high-cost activities should not be substituted for less costly operations. Mr. Baum said that this study had to be considered a preliminary draft which left many variances unexplained. Mr. Cargill agreed. A dialogue with the Regions on the results had now to follow.

Fourth, Mr. McNamara pointed to the weak performance of the lending program during the first half of the fiscal year and asked the RVPs for special efforts through weekly reviews of the lending program.

Fifth, Mr. Cargill reported on his negotiations with the EEC in Brussels on the allocation of Special Fund resources through IDA. He said that there was no trigger figure for the effectiveness of the Special Fund and that the RVPs would not have to concern themselves with committing such funds before FY79.

Sixth, the meeting discussed the FY78-FY82 Lending and Sector Work Program in Oil, Gas, Coal and non-Fuel Minerals, dated December 5, 1977. Mr. Baum reported that an unusual degree of interest had been expressed in the Bank's work program in this field. The French ED had raised this issue during the Capital Increase discussions and the U.S. Government was also pressing on this as the one positive point of the North/South dialogue. Some LDCs were still skeptical as to whether the Bank had really committed itself to this new task. Mr. Husain commented that the document did not consider the full extent of discussions held with governments. For example, some countries of his Region did not want Bank involvement in this sector (e.g., the Philippines) and had established other priorities for Bank lending. Mr. McNamara said that (i) RVPs should carefully study the proposed program; Table 3, for example, listed a number of countries with a high potential but without a program until 1983; oil, gas and coal projects (particularly for these countries) should be re-examined as part of the FY79 budget; (ii) a column should be added listing the countries which did not need and wish Bank support in this sector; (iii) as to manpower requirements, the shifting of staff from high-cost sectors with low development potential to these new activities should be considered; this should be started early because highly trained staff was not easily fungible; and (iv) the proposed program should be consolidated with IFC's excellent program for this sector.

Finally, Mr. McNamara informed the meeting of Mr. Avramovic's resignation from the Bank. Management had been anxious to have him stay. There was also the policy issue of the propriety of a senior Bank staff member joining the Brandt Commission. Mr. Qureshi said that he had great respect for Mr. Avramovic and hoped that the Bank would be able to employ him again after his work for the Brandt Commission.

CKW

December 22, 1977

MEMORANDUM FOR THE RECORD

822/2/42

Meeting on Next Steps in IBRD Capital Increase Discussion, December 21, 1977

Present: Messrs. McNamara, Knapp, Cargill, Broches, Damry, Gabriel, Wood

The meeting discussed the necessary steps

(i) to prepare for the informal discussion of EDs on Borrowing Prospects and Related Financial Issues (January 10, 1978),

(ii) to prepare for a subsequent discussion on voting in February 1978, and

(iii) to lay-out a schedule of further meetings after February 1978.

Borrowing Prospects and Related Financial Issues

Mr. Damry said that Mr. Drake might raise the issue of the Bank monopolizing capital markets. Mr. Cargill pointed to the future possibility of (i) some countries asking the Bank to stay out of their capital markets because of excessive private borrowing demand, and (ii) the U.S. limiting Bank access to its capital markets because of its balance-of-payments deficits. Mr. McNamara said that he expected the underwriters not to anticipate problems in borrowing the required amounts over the next years; no capital shortage was expected. Borrowing might become more costly but the volume would not be affected. He said that the EDs might raise the issue of OPEC borrowing. He asked Mr. Cargill to suggest to Mr. Rotberg to discuss future borrowing amounts with the three U.S. underwriters in preparation of the January 10 meeting. A meeting with Mr. Rotberg should be convened in the first week of January.

With regard to related financial issues, Mr. McNamara asked Mr. Wood to circulate a note listing the title, dates and pages of relevant briefing materials (e.g., the 1975 Review of IBRD Capital Structure). The Bank would probably not meet Mr. Janssen's proposed interest coverage ratio of 1.20 but come close to it. An increased realism had to be introduced into the Bank's earnings estimates. In response to a question, he said that liquid holdings had to be managed to maximize long-term profit without any regard to short-term accounting results (e.g., income targets). He urged not to give an excessively high income target on January 10. Mr. Cargill said that the German and Japanese EDs would favor a higher-income target. Mr. McNamara agreed that the income should probably be gradually rising.

Voting Power and Board Representation

Mr. Damry said that Mr. Magnussen was concerned with the distribution of votes not seats. He recommended only to discuss the allocation of subscriptions and leave the other issues to the Rules Committee. Mr. McNamara said that (i) no capital increase could be agreed upon without agreeing on the allocation of subscriptions and representation; there was no possiblity to effect a major change in voting power distribution and there was no realism to Mr. Magnussen's (Sweden's) demand; (ii) papers should be prepared on alternative formulas of allocating shares (e.g., Magnussen's) and on representation; (iii) Mr. Cargill should have extensive preparatory talks with the EDs on the subject; and (iv) the voting and representation meeting should be held between February 1 and 15, 1978.

Schedule of Further Capital Increase Meetings

Mr. Cargill said a second informal discussion on voting would have to be scheduled because the EDs would have to get back to their governments after the first meeting. Mr. McNamara agreed. He asked (i) Messrs. Gabriel and Wood to prepare a paper on Mr. Looijen's points regarding amendment of the statutory borrowing limit, and (ii) Mr. Cargill to lay-out a schedule of further informal meetings of EDs after the February meeting; meetings should be conducted at three-week intervals (the first subsequent meeting around February 25) in order to bring the capital increase discussions to an early end. Further analysis of the portfolio was also required. He was now more concerned about potential defaults; in view of the high liquidity, there was no problem of income interruption.

CKW
December 23, 1977