McNamara Papers

Memos for the record
1976 (Jan. - June)

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792/2/196

MEMORANDUM FOR THE RECORD

Meeting to Discuss the CGFPI, June 7, 1976

Present: Messrs. McNamara, Knapp, Baum, Yudelman

Mr. Baum said that the main issue was whether the CGFPI should be a forum for review of world and national food plans. The FAO obviously considered the CGFPI as a rival body and the Secretary of Agriculture for India, during a recent visit, had said that he was not willing to have the Indian plan reviewed by donors. Mr. McNamara said that it might be possible to have CGFPI meet on a yearly basis and focus on consumption and production issues for cereal grains and actions to improve the outlook for the world food supply. The FAO could do all the staff work.

It was decided that Messrs. Baum and Yudelman would meet with Messrs. Hannah, Martin and the U.S. Assistant Secretary of Agriculture, Mr. Greenwald, as soon as possible to discuss the CGFPI. Mr. McNamara said that he was willing to join the meeting.

SB
June 8, 1976

792/2/195

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Prospects Paper and the Governors Speech

Present: Messrs. McNamara, William Clark, Chenery, Karaosmanoglu, Haq, Tims, Maddux

Prospects Paper: Mr. McNamara said that the paper should be written from an analytical, scholarly point of view for use by Governments and not the public. Mr. Chenery said that the highlights of the paper were an analysis of LDC borrowing which led to the conclusion that debt would not be as much of a problem as some believed; a better analysis of the terms of trade; a discussion of trade liberalization by commodity; and the need for LDCs to put more emphasis on domestic issues such as agricultural growth. Mr. Chenery said that he had more confidence in the projections of the paper this year than before. Mr. McNamara said that we should not make projections without a high probability of accuracy. Mr. Chenery said that alternative assumptions would be made and the assumptions would be clearly stated. The US and Japan might have some difficulties with the approach of the paper. He had talked to Treasury officials in the US and Mr. McNamara suggested that somebody from DPS go to Japan to discuss the paper with high level officials before the paper is discussed by the Board. The first draft of the Prospects Paper would be ready by June 15 and Mr. McNamara said that he would like to see it.

Governors Speech: Mr. Chenery said that the analytical basis of the speech was taken from the Prospects Paper and was generally sound. He felt that the part on trend of poverty between nations was overly dramatic, and there was a problem in stating disparity indexes on the basis of present income per capita figures. The section on prospects of the middle-income developing countries gave a good case for the necessity of Bank lending. The section on the plight of the poorer nations put too much emphasis on the need for external assistance to meet minimum needs. Internal actions were also required to obtain acceptable growth rates. Mr. McNamara said that it was not clear how much capital was required to meet minimum needs, but it was clear that more should be done to increase the productivity of the poor and improve the distribution of services. Mr. Chenery said that the discussion of industry and agriculture should put more emphasis on industry. As far as aid was concerned, he felt that we were too soft on OPEC. Mr. McNamara asked Mr. Haq to prepare a line-in, line-out revision of the speech by June 4 so that he could read it in conjunction with Mr. Woods' section on the Bank which would be ready by June 5. Mr. Chenery said that he would send a list of people whom he suggested should read the speech to Mr. McNamara.

CIEC: Mr. Clark said that he had received a request from CIEC for information on debt. Mr. McNamara asked DPS to prepare a reply and let him see it before it was sent to CIEC.

SB

June 3, 1976

792/2/ 194

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Fiscal '77 Budget, June 1, 1976

Present: Messrs. McNamara, Knapp, Qureshi, Goodman, Adler and Blaxall

Time Schedule: It was agreed that the final draft of the Budget Memorandum would be ready on June 4. The Budget would go to press for distribution on June 10 and Board discussion on June 29.

Bunching: The Fiscal Year would not be changed, but a major study of bunching by Region should be undertaken.

Overtime: Mr. McNamara was shocked by the 15% overtime indicated in the programs for the Operating Departments. Some time during Fiscal '77 a study of the overtime problem should be undertaken.

Supervision: An analysis of the adequacy of supervision work should be made.

Field Offices: No new field offices would be authorized until Messrs. Kearns and Chadenet had studied their justification and reviewed this with Mr. Knapp. The field offices agreed by Messrs. Kearns, Chadenet, Knapp and McNamara would then be a claim on the contingency.

Departmental Audits:

(a) Eastern Africa - Mr. Knapp suggested that two man-years be added back to Eastern Africa for supervision. Mr. McNamara asked Mr. Blaxall to prepare a short note on supervision positions and said that the matter would be settled between Mr. Knapp and him on June 2. It was agreed that Eastern Africa could locate three of its new positions in Fiscal '77 in Nairobi in order to cope with the increasing workload of supervision and project preparation work handled by RMEA.

(b) Western Africa - Mr. Knapp suggested that 1.8 man-years be added back for supervision. Mr. McNamara said that this should be handled as for Eastern Africa above.

(c) South Asia - Mr. Knapp suggested that one man-year be added to the Budget. Mr. McNamara disagreed.

(d) East Asia and Pacific - The Budget was approved.

(e) EMENA - The Budget was approved.

(f) LAC - Two positions and one project were added. A study of the optimal number of projects for LAC should be undertaken. If it showed that LAC could do more projects, the Region would have a claim against the contingency allowance.

(g) CPS - The Budget was accepted.

(h) DPS - DPS should have no increase in real terms, neither in dollars nor in authorized positions.

(i) Internal Auditing Department - No increase in positions, but a possible claim on contingency was accepted.

(j) Information and Public Affairs Department - No increase, but a possible claim on contingency.

(k) International Relations Department - No increase, but a potential claim on contingency.

(l) Paris Office - No increase, but a potential claim on contingency.

(m) IFC - The fee for Board Services should be calculated on the same basis as for Fiscal '76. A study of the fee should be undertaken, possibly leading to changes in the calculating procedure later. Eight additional positions, plus two from the contingency allowance was agreed for IFC. When the ten people were on board, IFC could ask for four more positions, if justified by the work program, and these would be paid under the contingency allowance.

Miscellaneous: A study of net losses in IDA income should be undertaken as well as a study of the adequacy of stand-by projects in the regional lending programs.

SB

June 2, 1976

cc: Mr. Goodman

MEMORANDUM FOR THE RECORD

792/2/193

Second Meeting to Discuss Governors' Speech, May 13, 1976

Present: Messrs. McNamara, Chenery, Stern, Haq, Adler, Maddux

Mr. Chenery said that the revised draft with its treatment of middle-income countries, trade and required structural changes was an improvement over the first draft.

Mr. Stern said that he had several problems with the draft. The paper stated that the past had been bad for the poorest countries and that the future would be worse. Would it not be better to say that the poorest were doing quite a bit to help themselves but that they needed outside assistance? He felt that this was more than a question of emphasis. Something might be wrong with an analysis that showed such a gloomy future. Mr. McNamara agreed that we should make sure not to underestimate the efforts of the poorest. Mr. Stern said that the contribution of the poorest to the compact was too small. We seemed to be working on a Sri Lanka model where consumption would not be cut in favor of investment. Mr. Haq said that some parts of consumption could stimulate productivity. Mr. Stern still maintained that the equation of eliminating poverty only through providing basic needs to small farmers might not be right. Mr. McNamara agreed and said that to lay the foundation for growth in other sectors was also very important, and asked Mr. Haq to insert language to that effect. Mr. Stern wondered what had happened to the adjustment process as described in the first technical note. Mr. Chenery said that the underlying assumptions for the adjustment process were still there. Mr. McNamara said that he did not like the term adjustment process; it was a professional economic term and he wanted specifics for the audience of the Governors' speech. Finally, Mr. Stern said that he did not like the philosophy of market intervention as described on page 8. Mr. McNamara said that the leverage effect of investment in the poorest countries, as measured in increased growth rates, was larger than in middle-income countries.

Mr. Adler felt that "equality of opportunity" was not a good expression. Mr. Chenery disagreed and said that it would be impossible to close the income gap in this century. We could move towards equality of opportunity. Mr. McNamara said that, whatever the expression, differences between men and nations were becoming a central theme for our age.

Mr. McNamara questioned whether we had exaggerated the dichotomy between middle-income countries and the poorest. Mr. Chenery said that it was hard to think of a better dichotomy. Mr. McNamara asked when the prospects paper would be ready. Mr. Chenery said that it would be delayed somewhat beyond the original scheduled date which was May 15 for the first draft and a draft to the President by June 15. Mr. McNamara asked Mr. Chenery to recall Mr. Keesing from Nairobi to have him work out a trade matrix showing exporting LDCs and importing DCs by product, past and future, and actions to be taken by importing DCs to achieve the increase in revenues indicated in paragraph 12(a). Mr. McNamara also wanted tables on financing the current account deficit of LDCs, past, current and future, by source, and associated debt tables. He would want to meet on May 14 with Messrs. Tims, Holsen, Wood and Eccles to work out the format for these tables. Mr. Adler said that Mr. Taylor would have a note ready on aid targets by May 14. Mr. McNamara asked Mr. Haq to indicate where appropriate language on population problems could be inserted in the speech. Finally, he said that the conclusion of the speech should deal with both the poorest and the middle-income countries. The aim of the speech was to lay the foundation for discussing the general capital increase and IDAV.

cc: Mr. Knapp

SB
May 14, 1976

792/2/192

MEMORANDUM FOR THE Record

Fifth Meeting to Discuss the East African Community, May 10, 1976

Present: Messrs. McNamara, Baum, Broches, Cargill, Please, Damry, Jalil

It was decided that Mr. Damry would go to Nairobi as Mr. McNamara's personal emmissary. His team would consist of himself, a lawyer and a financial analyst Mr. McNamara would cable the three East African Presidents and their Finance Ministers about Mr. Damry's task.

cc: Mr. Knapp

SB
May 11, 1976

792/2/191

MEMORANDUM FOR THE RECORD

Fourth Meeting to Discuss the East African Community, May 7, 1976

Present: Messrs. McNamara, Baum, Broches, Cargill, Please, Nurick, Jalil

Mr. Jalil reported on the status of repayments.

A list of potential candidates for emmissary of the President was established. The list included Sir Denis Rickett, Messrs. El Emary, Woods, Escott Reid, Bell, Ahmad, Chaufournier, Qureshi, Rotberg, Weiner and Damry. In a separate meeting with Messrs. Cargill and Broches, it was decided to offer the job to Mr. Damry.

cc: Mr. Knapp

SB
May 10, 1976

792/2/190

MEMORANDUM FOR THE RECORD

Third Meeting to Discuss the East African Community, May 6, 1976

Present: Messrs. McNamara, Baum, Cargill, Nurick, Please, Jalil

The discussion was based on Mr. Please's memorandum to Mr. McNamara on "EAC--Proposals for Resolving the Problems of Delays in Debt Service Payment," dated May 5, 1976. Mr. McNamara did not accept the idea of using disbursement on loans to the corporations against foreign exchange costs of the corporations working capital requirements in an amount equal to uncovered debt service payments. Disbursements on existing loans to the individual countries for covering the debt service payments might, however, be an acceptable route. He asked Mr. Nurick to prepare a note on the liabilities of the partners which, if not met, would trigger cessation of disbursements on national loans. Mr. McNamara said that he would contact Mr. Shoaib but that other potential negotiators should still be kept in mind. The Region should continue its work on briefing and talking papers for the negotiator.

cc: Mr. Knapp

SB
May 7, 1976

7912/2/189

MEMORANDUM FOR THE RECORD

Meeting to Discuss the FY77 Budget, May 6, 1976

Present: Messrs. McNamara, Baum, Cargill, Adler, Blaxall

The meeting discussed Mr. Adler's memorandum to Mr. McNamara on the FY77 budget, dated May 5, 1976. It was decided that the lending programs for FY77 and FY78 in numbers of projects by Region would be as follows:

	FY77	FY78
Eastern Africa	38	40
Western Africa	32	36
East Asia and Pacific	37	35
South Asia	28	32
EMENA	45	47
Latin America & Caribbean	45	44
TOTAL	225	234

The FY77 budget based on such a program would be $214 million.

Mr. McNamara said that he wanted a formal statement from each Regional Vice President to the effect that the Regional Vice President would fulfill his Regional program within his budget allocation even recognizing that some projects might fall out due to, say, political problems, which would then have to be compensated by the Region through standby projects.

Mr. McNamara said it was too late to take account of the DPS memorandum on revisions in the World Bank lending program for FY77 and FY78. However, he wanted to discuss this memorandum with Messrs. Knapp, Chenery and Cargill later.

cc: Mr. Knapp

SB
May 7, 1976

792/2/188

MEMORANDUM FOR THE RECORD

Second Meeting on the East African Community, May 4, 1976

Present: Messrs. McNamara, Broches, Cargill, Wm. Clark, Please, Baum, Jalil

Mr. McNamara said that the daily reports on the debt payments of the East African Community made it clear that the governments did not understand the urgency of paying the Bank on time. Further action was therefore required. It was decided that a senior negotiator should go to East Africa as soon as possible. A thorough brief for the negotiator and a suggested talking paper should be prepared within the next four or five days. Messrs. Knapp, Shoaib, Gaud and Chadenet were mentioned as possible candidates for the negotiator job. Mr. McNamara said that he was willing to meet the negotiator in East Africa on his way to or from the Middle East. Together they should see Presidents Kenyata and Nyerere to explain the matter. While preparing the papers, the Region should give further thought to the tactics to be applied, and should contact the appropriate Ministers in East Africa. Mr. Clark would talk to Messrs. Jamal, Kibaki and McKenzie in Nairobi and report back to Washington, possibly by May 7.

SB
May 5, 1976

cc: Mr. Knapp

MEMORANDUM FOR THE RECORD

792/2/187

Meeting to Discuss Outline for Governors' Speech, May 3, 1976

Present: Messrs. McNamara, Chenery, Haq, Clark, Adler, Maddux

Mr. Chenery said that the outline had gone overboard with respect to the poverty theme. There was not enough support for the analysis and the strategy outlined might not be optimal. Still the speech should have a poverty emphasis but not to the neglect of the middle-income countries. The speech might describe the problems common to the poorest and the middle-income countries, such as the recession and the necessary adjustments for restarting growth and then go on to segregate the analysis for the poorest and the middle-income countries. The suggestions in Mr. Stern's cable from New Delhi could be useful in this respect. For the poorest countries, it should be stressed that growth was a necessary but not sufficient condition. Structural changes would also have to take place. For the middle-income countries, reallocation of investment resources through import substitution and export expansion was required. The resource transfers visualized in the outline were unrealistic. Mr. McNamara said that Mr. Taylor should spend a week on preparing a technical note on ODA, clearly stating what the Part I countries had said at the beginning of the decade, what had happened since and what was likely to happen by 1980.

Mr. Clark said that the outline was weak on the link between the World Bank and poverty, on the middle-income countries and on IDA. He did not like the stress put on the word "compact". There was no compact. The relationship between Part I and Part II countries would in fact go downhill until after the elections in Japan, Germany and the United States. Part I countries would promise a lot but do nothing. We should stress the importance of IDAV as a pledge for the credibility of Part I countries.

Mr. Adler said that the juxtaposition of poorest and middle-income countries was overdone. The middle-income countries did have a problem and we had a role in solving the problem. It could not be done by simply mentioning increased access to private capital markets. In the poorest countries, something should also be said on performance as a criterion for concessionary aid.

Mr. McNamara said that the outline was strong in its analysis of the poorest countries but he agreed that more should be done on middle-income countries. They would have to deal with inequality while growing. To increase their creditworthiness, they must expand their exports. Efficient production was required for export expansion. Market access was not sufficient. Mr. McNamara asked Mr. Haq to redo the outline by May 10, cooperating with Mr. Chenery on the middle-income countries. Mr. Adler would do the part on the Bank also by May 10. The group would then meet again and the first draft of the speech should be ready by June 4.

SB
May 4, 1976

MEMORANDUM FOR THE RECORD

792 2/186

Meeting on the East African Community, May 3, 1976

Present: Messrs. McNamara, Broches, Cargill, WClark, Please, Baum, Jalil

Mr. McNamara said that our objectives should be to clean up the situation with the East African Community by June 30, 1976, and to handle it in such a way that we would not weaken our relationship with the East African countries. He asked Mr. Jalil and Mr. Broches to put down a list of alternatives to be used for our negotiators. The problem was, of course, that Tanzania and Kenya could not politically agree to say that they had paid Uganda's share, but that we, on the other hand, would have to get paid anyway. As an illustration, Mr. McNamara gave as a possible formula that we could ask for advance payments on other loans and an agreement that these payments could be used for "other obligations." Mr. Jalil would prepare a daily report on the situation and send copies to all participants. The group should meet again on May 15, 1976. If the situation had not been settled by then, a senior official, such as Mr. Please or Mr. Sommers, should spend full time on the problem thereafter. Mr. McNamara said that he was willing to go to Nairobi to stress the urgency of the situation with the Governments on his way to or from Saudi Arabia. Mr. Clark could check on the situation while in Nairobi but he should not act as a negotiator.

cc: Mr. Knapp
Mr. Clark

SB
May 4, 1976

MEMORANDUM FOR THE RECORD

792/2/185

Informal Meeting with LDC EDs, April 30, 1976

Present: Messrs. McNamara, Chadenet, Damry and Directors, Sen, Thahane, Clarke, Choi, Gavidia, Razafindrabe, Franco, Al-Atrash, Khelif

Mr. McNamara said that in principle he was opposed to this type of meeting and he had not held such meetings for his first 7-1/2 years with the Bank. He felt that it could easily provoke confrontations between groups; but we had a very difficult period ahead and he felt it could be useful for LDC EDs and himself to exchange informal views. We would have to concentrate on the short-run problems while laying the foundation to solve the longer-term problems of the Bank in the coming six to nine months, while awaiting the result of the elections in the U.S., Germany and Japan. No major initiative would be possible in this interim period. He urged the EDs to stress to their governments the importance of supporting the World Bank Group in all fora. We needed the understanding and support of the LDCs and we were not getting it at present except for Mr. Clarke's very forceful statement on behalf of the World Bank Group in the North-South dialogue. IDAV was in serious trouble and we would have to start thinking about a general capital increase for IBRD soon. He was fairly certain that the selective capital increase would be settled on May 4, but the U.S. would be adamant on the April 21 lending rate formula, automaticity and a 50 basic point spread. Mr. McNamara said he hoped he would not have to add insult to injury by asking the LDC EDs to vote for the 50 basic points, but he might have to to keep the capital increase moving ahead. He said that he as a U.S. citizen regretted this situation possibly more than the LDC EDs.

Mr. Franco asked what would happen if we had no agreement on the selective capital increase on May 4. Mr. McNamara said that such a postponement would be dangerous since the U.S. did not see any immediate urgency of the capital increase. It would imply a lending program for FY77 of no more than $5 billion.

Mr. Razafindrabe asked if there were not a majority in favor of a 50 basic point spread without the support of the LDCs. Mr. McNamara said that some Part I Directors would only vote for the 50 basic points if some LDCs would go along. In a sense this was good since it showed a community of interest between Part I and Part II countries but it could jeopardize our chances of getting a selective capital increase.

Mr. Sen asked whether the U.S. also was firm on timing with respect to introduction of the increase in lending rate. Mr. McNamara said that the timing was one of the tag ends he still had to negotiate with the U.S.

Messrs. Gavidia and Al-Atrash asked whether it was wise to accept defeat. Mr. McNamara said that a tactical defeat in the shortrun could become a strategic victory for the longer term.

Mr. Al-Atrash said he had strong feelings about the interest rate formula in a time when long-term interest rates were going down. He might insist on a vote on May 4 on the immediate introduction of a 9% lending rate and on 37.5 basic point spread. To introduce 9% immediately and agree to 50 basic points would be a very bad signal to send to Nairobi on the eve of the UNCTAD meeting. Mr. McNamara agreed but said that the groundwork should be laid to change the U.S. position over time. Some parts of the present U.S. Administration believed that the free market mechanism could solve the problems of the universe and it was difficult to deal with people who held such ideological positions. The U.S. wanted to change the character of the IBRD by not allowing subsidies of the lending rate through income from capital; but this was not a view which was shared by the majority of the shareholders. The present situation was unique since the view of the majority could not prevail. Mr. Sen wondered whether the need for a general increase for which 75% of the votes was also required would not keep us a U.S. hostage for three-four years. Mr. McNamara said that this was not the case since lots of pressure could be brought to bear on the U.S. in other fora. It had, for instance, been possible to delink the lending program and IDA transfers from the selective capital increase, but we were not going to slip out of the lending rate formula very soon since it was not only the U.S. which was interested in high lending rates.

Mr. Clarke said that there was a question of tactics versus strategy here. The tactic was to get the selective capital increase as soon as possible. The real battlefield in which to use strategy would be the general capital increase and IDAV. Mr. McNamara strongly agreed.

cc: Mr. Knapp

SB
May 3, 1976

MEMORANDUM FOR THE RECORD

792/2/184

Meeting to Discuss UNESCO Cooperative Program and Bank Staff Attendance at Joint Audit Committee Meetings, April 26, 1976

Present: Messrs. McNamara, Knapp, Baum, Kearns

1. UNESCO CP. Mr. Kearns said that sector work is the only viable role for UNESCO if the CP is to continue as a partnership and not as a manpower pool. Mr. McNamara said that a final decision on the size and role of the UNESCO CP should not be made until the task force had finalized its draft report. In the meantime, we should use the following guidelines: (a) there should be no increase in the man-years provided by the Cooperative Program, and (b) there should be no reduction in the share of education sector work done by the Bank. Mr. McNamara asked Mr. Kearns to make an analysis of the provision of manpower by the Bank and UNESCO for educational work by purpose for the years FY75 and projected for FY79. He asked whether we could ensure high-quality sector work by UNESCO, by remote control. Mr. Kearns said that we could since the Cooperative Program staff was highly experienced.

2. Bank Staff Attendance at JAC Meetings. Mr. Weiner had been requested by the JAC that appropriate staff members be present to answer questions on project performance audit reports. Mr. Weiner was thinking about having the Program Director and the Project Department Director from CPS present at these meetings. Mr. McNamara said that we should wait until the next JAC meeting before taking a decision on this matter. He was reluctant to have staff appear before the JAC. It was decided that Messrs. McNamara, Knapp, Weiner, Baum and Kearns would meet before the next JAC meeting to discuss the matter.

SB
April 27, 1976

792/2/183

MEMORANDUM FOR THE RECORD

Meeting with EDs to Discuss Future of Development Committee, April 21, 1976

Present: Messrs. McNamara, Knapp, Chadenet, Damry, Kearns, Stern, and Rota, Deare, Gavidia, Wahl, Razafindrabe, Franco, Al-Atrash, Thahane, Drake, Sigurdsson, Janssen, Krieger, Barrios, Cooper, Sen, Cheek, Hori, Popovic, and Khelif

The views of the EDs are summarized in the table attached.

Mr. McNamara concluded by saying that there was a majority in favor of continuing the Development Committee but that the meeting was far apart on how the Committee should be continued. He suggested another meeting for further discussion after the EDs had talked to their authorities on the basis of a one-page agenda which would list such questions as whether the Committee should be advisory or negotiating; a joint committee; or a pure IBRD committee; how to choose the chairman; and whether such specific Bank issues as IDAV and IBRD capital increase should be discussed. Personally he very much agreed with those speakers who had stressed that the level of attendance at the Committee meetings would have to be increased and the Committee's work more focused to prevent hurting the reputation of the Bank and the Fund.

SB
April 22, 1976

TABLE

	Abolish	Continue 1 year	Continue more than 1 year Review after 1 year	Joint Com.	IBRD Com.	More Focused	Part I or Strong Chairman	Paper too Negative
Rota	X							
Gavidia			X					
Deare	X							
Wahl		X		X		X		
Razafindrabe		X		x		x		
Franco			X			X	X	
Al-Atrash			X		X		X	
Thahane			X	X		X	X	
Drake		X		X		X		X
Sigurdsson	X							
Janssen	X	X		X		X		
Krieger		X			X	X		
Barrios			X			X	X	
Cooper			X	X		X		X
Sen			X			X	X	X
Cheek		X						
Hori				X			X	X
Popovic			X			X		
Khelif			X			X		
TOTAL	4	6	9	7	2	12	6	4

792/2/182

MEMORANDUM FOR THE RECORD

Meeting to Discuss the CGFPI and the TAC, April 15, 1976

Present: Messrs. McNamara, Knapp, Baum, Yudelman

Mr. Knapp said that the CGFPI had not worked well. However, it was not likely that the World Food Council or IFAD could do the job of the CGFPI. The CGFPI could be a useful forum for exchange of information for both donors and recipients. Mr. Baum said that in a sense the CGFPI could become the DAC of agriculture. Mr. McNamara said that the work of the group had been poorly focused. Many of the items on the proposed agenda for the Manila meeting were of little interest. However, items such as resource flows for food production, food plans and manpower resources for food production were important and could usefully be discussed in the CGFPI. In any event, the Bank would need food plans for its own investments in agriculture. We should pressure governments to prepare such food plans and bring them to the CGFPI for discussion.

Mr. McNamara suggested that Messrs. Baum and Yudelman prepare a memorandum for discussion with the cosponsors after consultation with Mr. Martin for later distribution to the members of CGFPI and discussion at the Manila meeting. The memorandum would follow the outline of a similar memorandum prepared on the Development Committee. The memorandum might present three alternatives for the future of CGFPI: (a) to continue as at present; (b) to continue but narrow the focus of the Group; and (c) to discontinue the CGFPI. The agenda at Manila should include the discussion of a national food plan, possibly India or Sudan.

The aide memoire on the TAC, prepared by the cosponsors, was discussed. Mr. McNamara had some misgivings about leaving the responsibility for the TAC Secretariat and the preparation of a shortlist of suggestions for a new chairman of TAC with FAO. However, he left it with Messrs. Baum and Yudelman to handle these delicate diplomatic matters.

SB
April 16, 1976

MEMORANDUM FOR THE RECORD

792/2/181

Meeting to Discuss Regional Lending Programs, April 14, 1976

Present: Messrs. McNamara, Knapp, Cargill, Adler, Blaxall

Mr. Adler's memorandum of April 13, 1976, on Revised Regional Lending Programs was discussed. Mr. McNamara said that it was essential that we did not fail to fully commit all available IBRD and IDA funds in FY77. He was willing to change the present programming system but only if we could still get an appropriate output. It was decided that Mr. Blaxall would give further thought to the problems of standbys and margin between World Bank Lending Program and Regional Lending Programs and prepare a special note on this subject.

The three principles in paragraph 3 of Mr. Adler's memorandum were discussed. It was decided that lending to blend countries, particularly Egypt and India, should be analyzed. Risk exposure should not be taken into account until the final review of the program.

Mr. Blaxall would revise Attachment B of the memorandum and send it to the Regions on April 15 with instructions to prepare country allocations by April 21st. DPS would comment on the country allocations and prepare its own allocations by April 26. Details on projects, particularly with respect to the FY77 and FY78 programs, would be submitted by April 29. The budget would then be prepared on the basis of each Regional Vice President's signed estimate of projects by quarter and country, amounts and manpower required for FY77 and FY78. This could hopefully be done by mid-May. Mr. Blaxall would submit a time schedule for FY77 budget work.

SB
April 15, 1976

792/2/180

MEMORANDUM FOR THE RECORD

PRC Meeting to Discuss Bank Assistance for Petroleum Development, April 7, 1976

Present: Messrs. McNamara, Knapp, Chenery, Baum, Broches, Chadenet, Bell, Chaufournier, Wapenhans, Haq, Karaosmanoglu, Rovani, van der Tak, HAdler, Blobel, Greene, Friedmann, Fuchs, Burki

There was some skepticism with respect to what the Bank could do in the petroleum field, particularly by adding only two extra people to the staff. Mr. Baum said that ultimately the Bank might get involved in investments in the petroleum sector, but, in the meantime, sector work was important and the Bank could perform a useful function as a catalyst bringing oil companies and countries together in cases where the companies were afraid of the political risk of investment. Projects which used to have a low rate of return had now a very good rate of return because of the increase in oil prices. Mr. McNamara agreed and said that we should not pass by the opportunity of helping the oil-importing LDCs save up to $10 billion in foreign exchange over the next decade. But, on the other hand, we should not jump into this new field either.

It was decided that CPS would prepare a written statement for clearance with Messrs. McNamara, Knapp and the Regional Vice Presidents, stating that we would treat investments in the petroleum sector in countries with proven reserves where projects promised high rates of return and no other finance was available like any other Bank investment. The request for two extra staff should be included in the FY77 budget for discussion and the Regions should consider which activities they could usefully undertake with the help of these two people. The paper on Bank Assistance for Petroleum Development should not be distributed to the Board.

SB
April 8, 1976

792(2) 179

MEMORANDUM FOR THE RECORD

Meeting to Discuss Financial Policies, April 1, 1976

Present: Messrs. McNamara, Knapp, Cargill, Adler, Blaxall, Wood, Broches

Three decisions were made:

1. Mr. Blaxall would prepare the budgetary implications, country allocation and borrowing program for two alternative five-year programs for management planning: (a) the present five-year program, (b) a five-year program of $5.8 billion each year for IBRD, and IDA as presently planned with an average of $2.5 billion per year over the years 1978-1980.

2. Mr. Wood would write down a lending rate formula based on Mr. Cooper's statement to the Board on April 1 and calculate the implications of the formula.

3. Mr. Cargill would draft a memorandum for Mr. McNamara to send to Mr. Cooper requesting the U.S. proposed lending rate formula as it applies to IBRD and IFC.

Mr. McNamara said that the participants should meet as often as required to discuss these matters.

cc: Mr. Goodman

SB
April 1, 1976

792/2/178 File

Mr. McNamara: March 26, 1976

Review of Education Lending

Mr. Simmons is a good friend of mine and I have been asked to comment on several earlier versions of the paper. Not surprisingly, I therefore agree with most of the analysis and conclusions of the paper. However, I do disagree with two of the recommendations:

1. Lending to basic/primary education should not be held to 27% as recommended. There are many things we do not know about education but all studies show that the rate of return on primary education is high (on the average 25%) and higher than for any other level of education. Returns to formal technical education are dubious at best and technical education tends to cost 10-20 times more than primary education per student. Furthermore, as the paper points out, secondary and higher education will usually be handled by the government, irrespective of what the Bank thinks about it since it's in the interest of the elite to promote these two levels of education for their own benefit. I would strongly urge that we continue our efforts in primary education and expand lending for this subsector to 40% of lending as projected by the lending review in November 1975. I would put the emphasis on formal primary education rather than on basic training for adults. Even with expanded lending to primary education neither we nor the governments will succeed in getting all children in school. When a choice has to be made between educating a child or an adult, I would lean strongly towards educating the child. We can have a useful dialogue with the countries on primary education because we have learned certain facts over the past years: on teacher-training--it should be shorter; on text books--more should be produced and they should be produced more cheaply; on student-teacher ratios--they should be higher, hence reducing recurrent cost per student; on management--it should be better and we could help through training courses. The paper maintains that emphasis on primary education does not necessarily lead to better income distribution. I do not find the arguments convincing and the opposite is certainly not the case which it is for secondary and higher education.

2. I do not think that a task force from the Regions, CPS and DPS would be useful. Relations among the Regions and the two Departments are often bad. They are worse in education than in any other field. The Regions rightly feel that the advice that they have received from CPS/DPS in the past has not been useful but has only served to increase paper work, endless and useless discussions and delays in project preparation. The Regions know as much as anybody about education and they would be willing to increase the emphasis on primary education. Similarly, I do not think that a panel of experts on the broad formulation of Bank-education policy would be useful. On the other hand, a panel on project-related training components could serve a useful purpose.

SB

792/2/177

MEMORANDUM FOR THE RECORD

<u>Lunch with Danish Journalists, March 26, 1976</u>

Present: Messrs. Albrectsen (Berlingske Tidende), Winther (Danmarks Radio), Visby (Politiken), Kristoffersen (Ritzaus Bureau--Danish National News Agency), and Skou (Press Counselor, Danish Embassy)

The lunch was a purely social affair with subjects ranging from the life of a Danish correspondent in Washington to the life of a Danish expert living in the Andes Mountains. In-between subjects did include the Bank and Mr. McNamara but it is my impression that nothing will ever be put in writing. I did use the occasion, however, to stress that news about the Bank and its activities could most easily be obtained from our Information & Public Affairs Department. The atmosphere was cosy and Danish. None of the journalists asked for any follow-up.

cc: Mr. Merriam
Mr. Myhrer, Paris Office

Sven Burmester
March 26, 1976

792/2/17-6

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Development Committee, March 24, 1976

Present: Messrs. McNamara, Knapp, Cargill, Damry, Stern

Two papers were discussed:

1. Development Committee. Mr. Knapp said that he was unhappy that the paper suggested that the Development Committee should continue. The best thing would be for the Committee to be terminated. However, he realized that it would cost political capital to do so and that this was not worth it at the present time. He felt that all reference to deputies should be eliminated since this would usurp the prerogatives of the Board. Mr. Cargill agreed with Mr. Knapp. Mr. Damry said that the opinion among the EDs favored the status quo, particularly with a new chairman and secretary. Mr. McNamara asked Mr. Stern to rewrite the paper and present "twinning" as a strong alternative to continuing the status quo. "Twinning" would have the advantage of narrowing the focus of the Committee, make possible better preparatory work, and have the Committee concentrate on such important Bank matters as IDAV and Selective Capital Increase, for which political action was required. The "twinning" proposal would not downgrade the Board, but rather give it even more influence. The paper should be candid about the past. There had been strong criticism of the Development Committee in Jamaica and Mr. McNamara did not feel that his own and many ministers' view that the Committee had been a failure should be hidden. He agreed that reference to deputies should be eliminated and asked to see the rewritten draft before it went to the IMF.

2. Use of Multilateral Guarantees--Possible Approaches. Mr. Knapp said that the paper did not make much sense at all. Higher-income countries, such as Brazil and Mexico, would not want such guarantees since they might hurt their standings in the market. These countries were now borrowing short-term on their own credit and they would wish to extend this to long-term borrowing but, again, on their own credit rather than with a multilateral guarantee. Mr. McNamara said that, under the present circumstances, the discussion of multilateral guarantees was a waste of time. Only if the Bank were given adequate capital resources, would we be prepared to consider multilateral guarantees under Bank auspices as part of a process of moving high-income borrowing countries away from dependence on us and to reliance on the capital markets.

SB
March 25, 1976

792/2/175

MEMORANDUM FOR THE RECORD

Meeting to Discuss Possible Speech at UNCTAD IV, March 22, 1976

Present: Messrs. McNamara, Knapp, Chenery, Cargill, Clark, Stern

Mr. McNamara said that he was disinclined to go to the UNCTAD meeting in Nairobi since he did not feel that he had anything to say which would be constructive and influential. He recognized that there might be a penalty of not going but to go would present several problems: (a) it could scoop Manila; (b) we might not be ready to say what we might wish to say at UNCTAD; (c) the timing might not be right; and (d) a ringing attack on the OECD countries would cause problems with the Board, and would prevent a similar attack from being made in Manila. If such a confrontation with OECD had to be faced, Manila would be a better forum than Nairobi.

Messrs. Cargill and Knapp tended to agree with Mr. McNamara, whereas Messrs. Stern and Chenery strongly urged Mr. McNamara to go to Nairobi. Mr. Stern said that as the Bank was the leading development institution in the world we could simply not stay away from UNCTAD. A voice of moderation was needed at UNCTAD to prevent Part I and Part II countries from shouting at each other. It was our responsibility to give the development dialogue a rational focus.

It was decided that Mr. Chenery would prepare an outline of a possible speech by April 2.

cc: Mrs. Boskey

Sven Burmester
March 24, 1976

792/2/174

Meeting with the Staff Association -- March 18, 1976, 4:30 p.m.

Present: Messrs. McNamara, Chadenet, Clarke, Trott and from the Staff Association, Messrs. Al-Khafaji, Banfi, Ablasser and McMillan and Miss Nordlander

Mr. Al-Khafaji said that the Bank management appeared less open towards the Staff Association than the IMF management did towards its Staff Association. In the past the broad compensation proposals of management had been given to the Staff Association in the Fund but not in the Bank. Mr. McNamara asked Mr. Chadenet to check whether the IMF in fact had given the broad proposals to the Staff Association in the past, but he agreed that the same procedure should apply in the two organizations. Mr. Al-Khafaji said that the Staff Association would like to take informal contacts with EDs like the Staff Association in the Fund. Mr. McNamara said that it was up to the Staff Association to decide whether it wanted to contact the EDs directly, but he felt that everyone would be better off by maintaining exclusive management-Staff Association contacts.

Mr. McNamara asked for the Staff Association's view on an expatriate allowance. Mr. Al-Khafaji said that the Delegate Assembly had agreed that an in-depth study was required before any decision could be taken. He had the impression that the UN was undertaking such a study. Mr. McNamara asked Mr. Chadenet to inquire about the UN study.

Mr. Al-Khafaji said the broad salary proposals of cost-of-living plus possibly up to 3% real increase would not establish the Bank's position vis-a-vis its main competitors. From 6% to 20% real increase was required depending on how and with whom one made the comparisons. In any event, the IMF had concluded that it was 8% behind its main competitors. Mr. McNamara said that he wanted to hear from COSCOM before giving his opinion on the salary matter, but he did not believe that the Bank was 8% behind its main competitors. It was surely not 8% behind the UN on a Washington basis. He urged the Staff Association to talk further with Mr. Clarke and his colleagues on this matter. He also said that the compensation question would be extaordinarily complex this year. He mentioned the Senate Appropriations Subcommittee vote on IDA where IDA had been linked to the alleged high level of Bank salaries. Bank salaries were not out of line and the salaries were not paid by US taxpayers. However, it would not be easy to convince Congress of this, and the Committee Chairman had said that the salary matter would be raised again when the Senate would discuss the quota increase for IMF and the capital increases for IFC and IBRD.

Mr. Al-Khafaji agreed with the proposal for an increase in spouse allowance but was concerned that this might become the only way of providing real growth in salaries since spouse allowances were not pensionable and only reached part of the staff. It was not a substitute for an across-the-board increase.

Mr. Al-Khafaji welcomed the proposals with respect to medical insurance but felt that the pension plan should be fully indexed and not restricted to a 3% annual price increase as at present. Mr. McNamara said that this should be studied carefully and that he was perfectly willing to continue the discussions and maybe make a decision on the pension plan during the year and not necessarily at the time when increases in compensation usually took place.

Finally, the Staff Association officers said the proposed increase in leave for expatriates was inequitable and no substitute for an expatriate allowance. The best solution with respect to leave would probably be to increase it for all staff to six weeks per year as in other UN organizations.

After the meeting with the Staff Association, Mr. McNamara met briefly with Messrs. Chadenet, Clarke and Trott. He said that we should insist on parallelism with the IMF and that no real increase for A to I level staff would be justified. He asked Mr. Chadenet to look into the possibility of increasing leave on the basis of years of service.

SB

March 19, 1976

792/2/173

MEMORANDUM FOR THE RECORD

Meeting to Discuss Operations Evaluation, March 15, 1976

Present: Messrs. McNamara, Knapp, Chadenet, Damry, Kearns, Weiner

Mr. McNamara said that we were facing two problems: (a) the division of labor among Board, management and the Director General; and (b) preparing the ground for the forthcoming meetings of the Joint Audit Committee and the Board on Standards and Procedures for Operations Evaluation in the Bank and the two OED papers on delays in project preparation and delays in loan/credit effectiveness. Personally he felt that the objective of operations evaluation was to see whether the Bank's project investments achieved their objectives. The work program for the next two years should concentrate on: (a) assimilating what comes out of OED, learning the lessons from the project completion reports and apply them to the Bank's work, and (b) stimulating LDCs to create evaluation units similar to OED in the Bank. In his opinion, evaluation was the major technical development in government in the last ten eyars.

Mr. Weiner said that the meeting with the Joint Audit Committee on March 11 had faced a paper prepared by Mr. Green which had led to an embarrassing discussion on the Director General's position and salary. The meeting had been against Mr. Green's paper and had tried to extricate itself from this embarrassing situation. Mr. McNamara said that this did not come through in the draft minutes. He asked Mr. Damry to distribute the draft minutes and Mr. Green's paper to the participants. Mr. Knapp said that the Board should realize that OED has a dual function as a tool for management and as an evaluator to the Board of whether management is achieving its project aims.

Mr. Kearns said that the problem of OED was only the tip of the iceberg in management's relationship with the EDs. The problem was to keep the EDs occupied. He wondered whether it might not be useful to have the EDs discuss every single recommendation of the two OED papers on project preparation and loan/credit effectiveness. Mr. Knapp said that he did not think so, since the Board would probably be willing to spend more time on such a discussion than management would.

Mr. McNamara asked Mr. Chadenet to talk to Mr. Wahl about the matter and said that he, himself, would meet with Mr. Wahl later. He asked the participants to send their comments on Mr. Weiner's paper on progress of work and future work plans to Mr. Weiner. He would get together with Mr. Weiner personally as soon as possible to provide his own comments. He felt that OED should think of a one-year programming period as the rest of the Bank now was forced to do. Finally, he asked Messrs. Damry and Weiner to prepare the ground for the forthcoming Board discussions on OED.

SB
March 16, 1976

792/2/172

MEMORANDUM FOR THE RECORD

Meeting to Discuss Financial Policies, March 15, 1976

Present: Messrs. McNamara, Cargill, Adler, Goodman, Diamond, Hittmair

Mr. McNamara said that we should go ahead with the borrowing operations proposed in Mr. Rotberg's memorandum of March 11, 1976. He agreed with Mr. Cargill's proposal in his memorandum of March 10, 1976, to advance some of the FY77 borrowings but said that it would be advisable to wait until the IBRD Selective Capital Increase had been disposed of. He asked Mr. Hittmair to prepare a short note on borrowing costs in the second half of FY76 as they had been forecast at the beginning of the calendar year and as they were estimated now.

It was decided that the group would meet within two weeks to discuss preparation for borrowing in the U.S. market in FY77 and to hear the results of Mr. Krieger's visit to Venezuela.

cc: Mr. Goodman

SB
March 16, 1976

792/2/171

MEMORANDUM FOR THE RECORD

Meeting with LDC Executive Directors to Discuss Selective Capital Increase, March 1, 1976

Present: Messrs. McNamara, Knapp, Damry, Goodman, Adler, Wood, and Messrs. Thahane, Razafindrabe, Thavil, Sojit, Franco, Khelif, Sen, Al-Atrash and Gavidia

Mr. McNamara said that the staff in the past five weeks had worked with the U.S. on the Selective Capital Increase. In the mind of the U.S., the lending program, the lending rate and IDA transfers were linked to a selective capital increase. The U.S. Administration was convinced that it would be questioned in Congress on the financial policies of the Bank and would, therefore, like to know the Board's formal attitude towards lending program, lending rate and IDA transfers. Mr. McNamara proposed to prepare brief papers on these three matters within the next two weeks and then have them discussed by the Board, hopefully within four weeks. He also proposed to remove discussion of the Selective Capital Increase and the IFC Capital Increase from the Board agenda of March 2. He said that he was very anxious to see a capital increase for IFC but some EDs had asked not to move on IFC until the IBRD selective increase had been settled. Mr. McNamara distributed the principles on the level of future lending which he had earlier given to Secretary Simon. He said that the goal of the Bank was to maximize its assistance to the LDCs within prudent financial management as stated under Principle C. The distribution of voting power was an important matter but it would be difficult to get at until the selective capital increase had been settled. Without question it would be difficult to get beyond parallelism with the IMF.

Mr. Al-Atrash said that the linkage between financial policies and the Selective Increase was the most difficult problem, much more so than the voting rights. He suggested that the Board approve the transmittal of a resolution to the Governors by a simple majority and then leave it to the Governors to see whether the required 75% of the votes could be obtained. Mr. McNamara said that it was not unlikely that the U.S. would be able to prevent even a simple majority approval by the Board.

Mr. Razafindrabe wondered whether the matter could not be postponed for 4-6 months. Mr. McNamara said that, if we waited, we would have to wait at least a year. He would therefore rather seek a short-run solution. Mr. Thahane agreed and suggested a one-year planning period, leaving maximum flexibility to the Board to review financial policies. Mr. McNamara said that the only problem with a one-year planning period was that staff necessarily had to be hired with a longer planning period in mind; but the amounts involved were relatively small so he hoped the Board would leave this to management.

Mr. Khelif said he found it difficult to agree to a procedure which involved a linkage. He felt that this broke the consultation procedure which had been established in international fora recently. Mr. McNamara said that consultation would go on in the North-South dialogue and UNCTAD and, of course, in the Bank where this procedure had led to a four-fold increase in commitments in real terms over the last ten years.

Mr. Sojit wondered what kind of a lending program could be maintained under Principle C. Mr. McNamara said that a $5.8 billion lending program could be maintained indefinitely with modest changes in lending terms. Considering the needs of developing countries, however, there was no question that we needed a second step capital increase. But it was not unreasonable that some governments would not want management to behave in such a way as to unilaterally force such a second step.

SB
March 2, 1976

MEMORANDUM FOR THE RECORD

792/2/170

Meeting to Discuss Financial Policies, February 23, 1976

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

The following subjects were discussed:

1. IFAD. Mr. Knapp briefly reported on Mr. Yudelman's statement to the Board. Mr. Drake had wanted Mr. Martin to report on the relationship between CGFPI and IFAD. Mr. McNamara said that Mr. Martin preferably should report in writing.

2. Selective Capital Increase. Mr. Damry reported that the LDC EDs had agreed on Case A adjusted with the adjustment to come fully out of Part I countries. The Part I countries would probably be opposed to this. Messrs. Green, Drake, Wahl and Hori wanted parallelism with the IMF. Mr. McNamara said that Case A would give us more capital and possibly also more support from the OPEC capital surplus countries. Mr. Cargill said that the OPEC capital surplus countries did not seem to care much one way or the other. Mr. McNamara said that he might meet with Dr. Sen and with Part I Directors after he had talked to the U.S. He asked Mr. Broches to have the resolution ready for distribution by March 4 for Board consideration on March 16. He asked Messrs. Goodman and Wood to work on a covering report for the resolution.

3. U.S. Attitude Towards the Selective Capital Increase. Mr. Cargill reported that the discussions at the working level had finished on February 20. Mr. Cooper would recommend to the Treasury that the U.S. accept the selective increase with the following understandings: (a) the FY77 program would be $5 billion measured in FY76 dollars; (b) the Board should start immediately to discuss the future role of the Bank. In Mr. Cooper's opinion, the growth rate should never exceed 6% in nominal terms. After the discussions of the future role of the Bank, a general capital increase could be discussed. (c) The lending rate should be raised to obtain a positive spread of between 25 and 50 basis points; and (c) no decision should be made on Bank transfer to IDA until after the discussions of the future role of the IBRD. Mr. McNamara said that he and possibly Mr. Wood would meet with the Treasury on February 24.

4. Program and Budget. Mr. McNamara said that we should avoid overprogramming and take care not to overestimate profits, projects processed, and not to underestimate expenditures. The budget paper should include a plan for reducing bunching in FY77. For IBRD it was agreed that the average project amount should be $24.9 million. Mr. Blaxall should work out the programming implications of Program D and the U.S. proposal. For IDA the FY77 amount should be reduced immediately to $1450 million and possibly revised when the budget paper went to the Board. The number of projects for FY77 should be maintained at 65. The average IDA project amount for FY78 through FY81 should be $18.3 million. No new instructions should be issued to the Regions at this stage.

cc: Mr. Goodman

SB
February 24, 1976

792/2/169

MEMORANDUM FOR THE RECORD

Meeting to Discuss Annual Program Review and Budget Preparation for FY77, February 13, 1976

Present: Messrs. McNamara, Knapp, Cargill, Adler, Goodman, Lewis

Mr. McNamara made the following points:

1. The paper should include a listing of questions made by Board members with respect to the program and budget over the last months.

2. Programs with a selective capital increase and with a general increase should be discussed along with any possible action required in FY77 to stick to the program related to a general increase. Some thought should be given to how to present IDAV in the program.

3. The budget should be based on an input/output analysis which should be prepared as soon as possible.

4. It was agreed to discuss the budget paper and program again on Monday, February 23.

cc: Mr. Goodman

SB
February 17, 1976

MEMORANDUM FOR THE RE D

792/2/168

Meeting with the IMF, February 12, 1976

Present: Messrs. Vitteveen, Dale, Sturc, Gunter from IMF, and Messrs. McNamara, Knapp, Stern and Wapenhans

Two subjects were discussed:

1. Development Committee. It was agreed that the Sunday before the Manila meeting would be an acceptable date for the Development Committee meeting and that the Secretaries of the two organizations should proceed accordingly. Mr. McNamara felt that the study of the Development Committee should follow the same procedure as the original resolution to establish the Development Committee. Hence, the first step would be to have the Bank Board discuss the study which would be prepared in full cooperation with the IMF. He envisaged that the study could go to the Bank Board in April 1976. Mr. McNamara said that it was a mistake to have a broad focus for the Development Committee since this would inevitably overlap with matters discussed in UNCTAD and in CIEC. The Committee had been ineffective for many reasons but, particularly, because no advance political consideration had been given to the issues before the Committee. The Committee should only meet on the basis of thoughtfully prepared papers on issues which could not be solved by the Board. The Interim Committee had been very successful because its work had been well prepared. The Development Committee should function as a twin to the Interim Committee. Mr. Witteveen agreed with this general approach but wondered what would become of the Development Committee's coordinating function. Mr. McNamara said that coordination for development rightly belonged in the UN, and that only the U.S. and possibly France might insist on an over-view function for the Development Committee. In any event it would be more appropriate to worry about this when the paper had been prepared. Mr. Stern asked whether the Secretariat should be involved in the preparation of the paper. Mr. Costanzo realized that this could involve a conflict-of-interest so he would not comment on the recommendations of the paper, but he could furnish valuable background material. Messrs. Witteveen and McNamara did not object to such a role for the Secretariat but did not think that the Secretariat would play a role in the future. It was agreed that Mr. Stern would proceed on this basis.

2. Egypt. Mr. Witteveen said that the Egyptian Minister of Planning, Mr. Rahman, had indicated willingness to work out an economic program based on the suggestions made by the IMF and the IBRD. Mr. Witteveen felt that we should make the most of this opportunity and closely coordinate our approach to Egypt. He planned to go to Egypt around March 10. A depreciation of the Egyptian pound would have to be an essential element of such a program to stimulate export expansion. A time schedule for the economic program including a reasonable and substantive first step should be a condition for any lending to Egypt. Mr. McNamara agreed and said that he would not personally want to go to Egypt because of his workload in Washington. He would add to the economic program that imports would have to be cut. He had been concerned for quite some time that the Government's short-term credit exposure had not been reduced, that there had been a very slow widening of the parallel market, and that the exchange rate so obviously was overvalued. If we did not receive proper signals that the economy was being revitalized and solutions found for the above problems, the Bank could not go ahead with a program loan. Mr. Witteveen said that it might be appropriate to coordinate with the U.S. and possibly Saudi Arabia. He would see Mr. Robinson for lunch on February 13. It was agreed that Messrs. Gunter and Wapenhans would get together before their departure for Egypt to agree on what an appropriate and significant first step should be. They would further coordinate their work in the field closely. Messrs. McNamara and Witteveen would meet again to discuss the matter in the end of February.

SB
February 13, 1976

MEMORANDUM FOR THE RECORD

792/2/167

Meeting of Working Party on the Selective Increase, February 11, 1976

Present: Messrs. McNamara, Knapp, Goodman, Adler, Wood, Bock

The following assignments were agreed upon:

1. Mr. Adler would prepare a list of briefing notes to be discussed by the group before the end of the week.

2. Mr. Goodman would prepare responses for Mr. Rotberg to give to Mr. Dale of the New York Times when they met on February 12 at 3:00 p.m.

3. Mr. Adler should meet with Dr. Sen about the latter's proposals for distribution of voting power among oil-importing LDCs and put these in writing. If necessary, Messrs. McNamara and Knapp should meet with LDC EDs on the matter before the end of the week.

4. Mr. Knapp should follow the work of the Working Party internally during Mr. McNamara's absence. If a policy discussion with the U.S. were required, Mr. McNamara should be called back from his vacation.

5. Mr. Bock should prepare alternative amortization schedules for Case D.

6. Mr. Goodman should revise and expand Mr. McNamara's summary of the LPAU Third Progress Report by Mr. McNamara's return on February 23.

7. Mr. Wood should track down the timing of required U.S. legislation for the Capital Increase.

cc: Mr. Goodman

SB
February 12, 1976

MEMORANDUM FOR THE RECORD

792/2/166

Financial Group Meeting, February 9, 1976

Present: Messrs. McNamara, Adler, Goodman

The following subjects were discussed:

1. LPAU Third Progress Report. Mr. McNamara said that he would like to meet with Messrs. Knapp, Chenery, Goodman, Adler and Cargill on the latter's return to discuss how to proceed with portfolio and debt problems analysis and, in particular, the institutional division of responsibility for such work. Mr. McNamara distributed a summary of conclusions of "Analysis of IBRD Portfolio Risks" and asked Messrs. Adler, Rotberg, Gabriel and Eccles to expand and modify the summary as appropriate.

2. Working Group on Selective Capital Increase. Mr. Adler enquired whether he should seek clarification on what the U.S. meant by "reserves" in a memorandum to Mr. Cooper. Mr. McNamara said that he would be disinclined to do that. Mr. Goodman said that he would send some thoughts on how to proceed in the talks with the U.S. in a short note to Mr. McNamara.

3. Bank Group Net Transfers. Mr. McNamara asked Mr. Adler to develop a schedule for certain appropriate years between 1975 and 1987 of estimated net transfers from the entire Bank Group to each member country under the same assumptions as stated in the LPAU report.

4. Mid-Year Review. Mr. Goodman said that Messrs. Hori and Green would raise questions with respect to the interest rate and the changes in the Bank's estimated income for FY76. On the interest rate, Mr. McNamara said that the net income for FY75 and FY76 would be about the same as when the interest rate was set over a year ago. Future earnings were based on a 25-basic points positive spread and we might have a positive spread as large as 37-basic points for the second half of FY76. The spread was, however, likely to narrow so we would watch the matter very carefully and, when we knew that the spread would go below 25-basic points, we would take action to raise the interest rate immediately. Mr. McNamara asked Mr. Goodman to check when an increase in the lending rate could become effective after a Board resolution and said that we should be prepared for the possibility of issuing a paper for Board discussion on March 30 on increasing the lending rate. With respect to fluctuations in net income, Mr. McNamara asked Mr. Goodman to have a table prepared showing the original projections and monthly revised projections of FY76 net income. Mr. Adler said that some Directors had asked whether we had given up on a $1 billion Third Window. Mr. McNamara said that we might still get $15 million more for the Subsidy Fund but that IDAV now had priority.

5. Deflators. Mr. Goodman said that he would send Mr. McNamara a paper on deflators which had been prepared by P&B. Mr. Kearns would talk to Messrs. Chenery and Baum about organizational responsibility for deflators.

6. SDRs as Unit of Account. Mr. McNamara said that the draft resolution on the Selective Capital Increase which stated the increase in 1944 dollars should go to Messrs. Knapp, Broches and himself as soon as possible. The general question of whether to use SDRs as unit of account should be deferred for 60 days.

7. FY77 Budget. Mr. McNamara asked Mr. Adler to prepare an input-output table for discussion before Mr. McNamara's departure for Latin America on March 2, 1976.

cc: Mr. Goodman

SB
February 10, 1976

792/2/165

MEMORANDUM FOR THE RECORD

Meeting on Discussions of the Working Party on Selective Increase, February 6, 1976

Present: Messrs. McNamara, Knapp, Goodman, Rotberg Adler, Bock

Mr. Knapp suggested that the lending rate be increased immediately. This would be tactically wise since it would take the steam out of the U.S. insistence on changes in the Bank's financial policies. It was important to convince the U.S. that the lending volume did not relate to the selective capital increase which should rather be considered as a windfall coming along with the realignment of quotas in the IMF. Separating the selective capital increase from the lending program would avoid 75% votes on 50% issues. We should, however, stick to the principles outlined in the conversation with Secretary Simon and be willing to discuss and analyze our financial policies in view of a later general capital increase. Mr. Rotberg felt that a paper should be built around the three principles stated to Secretary Simon and that the lending rate was an important bargaining card and therefore should not be increased immediately.

SB
February 9, 1976

792/2/164

MEMORANDUM FOR THE RECORD

Meeting with Non-Partisan Delegation Against Bank Lending to Chile, February 2, 1976

Present: Messrs. McNamara and Clark and Congressman Harkin, Fr. Devlin (U.S. Holy Cross Order), Mr. Falk (Princeton University), Mr. Conway (Executive Director of AFSCME), Mr. Torres (International UAW Vice President), Ms. Styron (Amnesty International), Mr. Quigley (U.S. Catholic Conference), Rev. Eldridge (Washington Office of Latin America), Mr. Jones (Amnesty International) and Mr. Brown (Congressional Aide)

Mr. Jones said that the delegation wanted to ask for a postponement of the loan to Chile on an exceptional basis. A postponement would strengthen the forces who worked on moderating the present Government which should be regarded as an international outlaw. When human rights were so flagrantly violated as in Chile, the Bank should take heed even though this was not specified in its Articles. Furthermore, nothing in the Articles said that the Bank had to give a loan to Chile.

Congressman Harkin said that he was the sponsor of a Human Rights Provision which had been put into U.S. legislation on support for IDB and ADB. The Human Rights Provision had been adopted in Congress by a majority of 2:1, and there was an increasing awareness in Congress of the Human Rights issue and a sentiment in favor of seeing the Human Rights Provision applied to Chile.

Fr. Devlin said that the economic achievement of the Pinochet regime was doubtful. A recent article in the Chilean publication Mensaje showed that the purchasing power of workers wages had decreased to 28.6% of the 1972 level. Mr. McNamara asked for a copy of the article. Fr. Devlin added that the education budget had been cut and that access to higher education was restrained to the privileged. He found it strange that, in a situation where the controlled Chilean press asked the Chilean citizens to invest in Chile to prevent capital flight, the Bank would be willing to substitute its lending for investments which should rightly be undertaken by the Chileans themselves. Mr. McNamara said that our figures did not show any significant capital flight from Chile.

Mr. Falk said that the delegation agreed that it was important for the Bank not to take partisan views. However, he felt that it was to make a mockery of economic criteria to suggest that the Bank loan would help the citizens of Chile in a situation where human rights were so consistently violated. The situation in Chile was outside normal boundaries of government discretion and, as a partner in the UN system, the Bank should refuse to help maintaining it. Lending to Chile would harm the Bank. One should not underestimate the symbolic impact of Bank lending. It could easily become a catalyst for lending from other organizations and agencies to Chile. Mr. Falk added that no single act against the regime in Chile would be decisive but postponement of the Bank loan would contribute to the moderating process which was underway in Chile.

Rev. Eldridge said that this was a critical moment for the Pinochet regime. Mr. Frei had just published his book against the regime. Mr. Lewis' column in the New York Times had been editorialized by the Santiago paper Mercurio and there was ferment among the military. In such a situation postponement of the loan would be a setback for the regime.

Mr. Torres said that the Executive Board of the International UAW had urged General Motors not to reinvest its profits in Chile. He hoped that the Bank would take note of this.

Mr. McNamara said that the Bank's Articles were very clear and binding. No political factors could be taken into account when lending to a member country. He admitted that at times political factors would have economic influences, although he would not go as far as Mr. Falk on that point. We had, however, considered these political factors, in particular by talking to the emissary from the Socialist leaders meeting in Elsinore to Chile. Mr. McNamara said that it was not as easy as the delegation suggested to take heed of such political considerations. He could think of two large countries which both had thousands of political prisoners and for which the delegation would probably not want the Bank to turn down its lending. Tanzania was another example. There was no other way for the Bank than to follow strictly the Articles. Turning specifically to the Chile loan, Mr. McNamara said that withholding it could not possibly overthrow the Government. In the last 24 months, the Chilean Government had received about $1.25 billion of medium- and long-term loans, out of which only $33 million was from the Bank. Hence the political effect of the copper loan would be insignificant. It was more relevant to ask who would be hurt by not lending to Chile. On this point Mr. McNamara agreed with Fr. Devlin that real income had dropped in Chile and the poor had been unduly penalized, but real wages could not be raised if foreign exchange were not available, and the copper loan would lead to additional foreign exchange earnings of $100 million a year. Mr. McNamara said that it had been an agonizing decision for him to go ahead with the loan to Chile, particularly since a member of his own family had been working in Chile during the previous regime. In this situation, he had asked two individuals who had been close friends of Allende what they would do. Each one of them had urged him to go ahead. Mr. Falk said that the people whom he knew who had been attached to the Allende regime had an opposite view. Mr. McNamara said that, if they were economists, he would be happy to talk to them. He added that there had been no U.S. pressure on the Bank to go ahead with the loan and, even if there had, it would not have made any difference on his decision.

Mr. Conway ended the meeting by once again pleading for a postponement of the loan.

It was agreed that the meeting would be off-the-record.

SB
February 3, 1976

Jorge Bravo JB
2/2/76

Mr. Clark
Mr. Burmester
Time
Ed Rinks
Most difficult

Note for Mr. Clark

Text of the Announcement for Today's Meeting

The following (rec'd from Latin news agency) is the full text of a press release distributed today announcing a meeting of Mr. McNamara with a group as detailed below:

URGENT 2/2/76

Non-Partisan Delegation Urges McNamara: No $to Chilean Dictatorship

Distinguished representatives of the U.S. Congress, religious, legal and labor communities and Amnesty International will advise World Bank President Robert S. McNamara against granting a $33 million loan to the military dictatorship in Chile when the group meets with Mr. McNamara this evening. The World Bank's decision will be made Tuesday 2/3/76.

Among those urging denial of the loan will be:

Congressman Tom Harkin, sponsor of recently adopted legislation denying economic aid to governments such as Chile's which: "engage in a consistent pattern of violation of basic human rights."*

U.S. Holy Cross priest Thomas Philip Devlin, recently expelled from Chile after 17 years in Chile.

Attorney Richard Falk, Internation Law and Human Rights scholar, whose advice is frequently sought by the U.S. Congress.

Jack Conway, Executive Director of AFSCME.

Esteban Torres, International UAW Vice President

Rose Styron, Amnesty International Board of Directors member and author who has visited Chile since the military coup.

Tom Quigley, of the US Catholic Conference International Justice and Peace Office.

Rev. Joseph Eldridge, of the Washington Office on Latin America (Ecumenical).

Attorney Tom Jones, who co-authored the Amnesty International Report on torture in Spain.

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* As defined by the United Nations Universal Declaration of Human Rights, and Amnesty International.

The delegation will present Mr. McNamara with facts showing Chile's lack of creditworthiness (16.6% unemployment and 340% inflation by World Bank figures) and ask him to respect international denunciations of atrocities committed by the Chilean dictatorship (United Nations, Amnesty International, OAS, Human Rights Commission, International Commission of Jurists, International Labor Organizations, Bertrand Russell's War Crimes Tribunal II) by refusing to legitimize the military juntas' economic and social repression with a loan.

Detailed fact sheet and interviews with the delegation members will be available following the meeting.

For further information and to set up interviews contact Davis Pion, 544-3067.

792/2/163

MEMORANDUM FOR THE RECORD

Second Meeting to Discuss Meeting with Secretary Simon, January 31, 1976

Present: Messrs. McNamara, Knapp, Cargill, Adler, Goodman, Taylor

Mr. McNamara asked Finance to include on its work program a study of U.S. legislation required for the IBRD Capital Increase. The study should, in particular, examine whether the appropriations for the 10% paid-in capital could be staggered and whether the Bank needed appropriation for the other 90%. With respect to the latter point, the recent prospectus for the IDB bond issue should be examined. He also asked Mr. Adler to revise the estimate of U.S. payments towards the IFC and IBRD capital increases.

Mr. McNamara said that in the forthcoming meeting with the Treasury he would be willing to state the following principle to apply in relating the level of future lending programs to subscribed capital: the Bank's operations would not be planned in such a way that future adjustments of plans so large as to seriously disrupt operations would be required, in the absence of a second capital increase, to keep within the statutory ceiling applying to disbursed loans.

cc: Mr. Goodman

SB
February 2, 1976

792/2/162

MEMORANDUM FOR THE RECORD

Meeting to Discuss Margin Between Regional Lending Programs and World Bank Lending Program, and FY77 Budget Guidelines, January 29, 1976

Present: Messrs. McNamara, Knapp, Cargill, Goodman, Blaxall

Mr. McNamara said that he used two hypotheses for planning the lending program: (a) the capital requirements of the LDCs is larger than we can meet. Hence at the end of a fiscal year we do not want any remaining commitment authority. Mr. Knapp said that this in a way was ensured through bunching at the end of the year. And (b) we cannot predict in advance for which countries and projects lending will be justified or which Regions will be planning sufficiently precisely. Therefore, we must start the year with more projects planned than we eventually will end up with.

After some discussion, it was decided that the Regional lending programs for FY76 and FY77 should be accepted except for Latin America, where the total for the two years should be cut to 92 projects. The P&B plan for FY78 through FY81 was accepted in principle, but Messrs. Knapp and Blaxall should examine it further and compare with the CPP programs. Mr. Knapp should talk to Mr. Krieger about the reduction for Latin America. The implication of this decision would be that the total Regional lending program for FY76 and FY77 would be 468 projects which, with a margin of 28 projects, would lead to a World Bank lending program of 440 projects for the two years.

It was decided to eliminate all additional increases in the staffing guidelines for preparation of FY77 budget, except for 10 positions for South Asia and 5 positions for financial staff.

SB
January 30, 1976

MEMORANDUM FOR THE RECORD

792/2/161

Meeting to Discuss Preparation for the Meeting with Secretary Simon on January 31, January 28, 1976

Present: Messrs. McNamara, Knapp, Cargill, Wood

Mr. McNamara said that the Treasury's position seemed to be that the needs of the LDCs had been exaggerated, that the LDCs don't deserve external assistance, that the external world cannot afford such assistance and that, in any event, private finance is better in doing the job. Secretary Simon apparently had suggested using the IMF arrangements negotiated at Kingston as grounds for saying that the U.S. had done what it could for the LDCs this year and that, accordingly, the U.S. could slow down on refinancing the Bank. The Treasury might insist on treating the Selective Capital Increase and the lending program together. Mr. McNamara asked Mr. Wood to draft a statement to the effect that we would not undertake a lending program which would force a future capital increase or one that, in the absence of a capital increase, would distort or disrupt the activities of the Bank. Discussion of the lending program should be in real terms. He therefore wanted to work further with Mr. Wood on the deflators. Mr. Cargill said that we should avoid getting caught in detailed arguments with the Treasury on the deflators.

Mr. McNamara said that possible courses of action would be to attempt to get the issues of lending program and capital increase separated. There was long-standing precedence in the Bank for only requiring 50% of the votes to pass a lending program, whereas a capital increase required 80%. It seemed unjustified for the U.S. to insist on 80% of the votes to pass the lending program. We could also attempt to get the Third World and private financial institutions to lobby against the U.S. position. Mr. Knapp did not feel that delaying the IFC Capital Increase was a very effective bargaining card with the U.S. Mr. McNamara said that the Treasury was willing to show some flexibility if we would go ahead with the IFC capital increase. He had just decided to have no stock dividend associated with the IFC capital increase and the Treasury had been grateful for this. Mr. Knapp said that several of the regional banks had increased lending to an extent which would lead to disruption of activities without a capital increase. This had made the U.S. gunshy. Mr. McNamara asked Mr. Wood to analyze the lending of regional banks which had led to such disruption. Mr. Knapp asked whether we should stay within $5 billion for IBRD in FY76. Mr. McNamara said that this would be wise and that in any event it was very unlikely that we would exceed $5 billion.

Mr. Wood said that OMB was working quite intensively on Bank matters. Mr. McNamara asked Mr. Cargill to contact appropriate officials in OMB and enquire about their positions towards the Selective Capital Increase and the lending program.

Mr. McNamara asked Mr. Wood to examine the prospectus for the recent IDB bond issue with respect to mentioning of U.S. action on the IDB Capital Increase.

SB
January 29, 1976

792/2/160

MEMORANDUM FOR THE RECORD

Meeting with LDC EDs to Discuss IBRD Voting Power of Oil-Importing Countries, January 26, 1976

Present: Messrs. McNamara, Cargill, Damry, Wood, Bock, and Al-Atrash, Barrios, Gavidia, Khelif, Razafindrabe, Thahane, Islam and Thavil

Mr. McNamara suggested a two-step procedure to approach the problem of 30.82% voting power to oil-importing LDCs:
(1) The LDCs would decide how to allocate the shares among themselves.
(2) After the LDCs had reached agreement, the DCs would be approached and asked whether (a) they were willing to accept the LDC proposal, and (b) how they would allocate the decline in shares among themselves.

Mr. Wood explained that, in the adjusted case (a), an additional 10,000 shares would have to be assigned to the LDCs to maintain 30.82% of the votes. There were many ways in which these shares could be distributed. He suggested the following four for consideration: (a) each country could receive an equal number of shares; (b) countries could receive shares in proportion to their present share in subscribed capital; (c) countries could receive shares in proportion to their voting power; and (d) the 10,000 shares could be used to make up for disproportions in relation to IMF quotas which, in some cases, dated back to the Bretton Woods Agreement. Mr. Wood said that he could have a short note and tables prepared for the Directors' consideration by early next week.

The Directors said that they were in general agreement with the approach, and Mr. Thahane stressed that agreement should be reached among the Directors before consulting the Governors.

SB
January 27, 1976

792/2/159

MEMORANDUM FOR THE RECORD

Meeting on Financial Policies, January 26, 1976

Present: Messrs. McNamara, Cargill, Goodman, Diamond, Blaxall, Wood

The following subjects were discussed:

1. London IDAV Meeting. Mr. Cargill said that he planned to go ahead with the London meeting. He would talk to Mr. Krieger about Venezuela's representation at the meeting. Mr. Hurtado was the proper contact in Venezuela. He would also mention the question of representation to Kuwait and Saudi Arabia during his forthcoming trip. Mr. Diamond said that he hoped that Norway, Yugoslavia and Kuwait would support the $9 billion figure in addition to The Netherlands and that Canada and the UK would support the replenishment formula but not the $9 billion figure. The French position should also be clarified during the meeting. Mr. McNamara said that it should be repeated again and again to the French that only a small proportion of their aid went to the poorest. As far as ODA was concerned, time might have come to confront DAC with our figures. Mr. McNamara suggested that the next Deputies meeting should take place in Tokyo but that the date should be kept open for the time being.

2. IFC Capital Increase. It was decided that the resolution for the IFC Capital Increase should not go to the Board until the U.S. was clear on when they would have an administrative position on the IBRD Selective Increase.

3. Deflators. It was decided that Mr. Cargill should draft a paper for Mr. McNamara's signature to establish a deflator committee, including guidelines for the committee.

4. Change in Lending Rate. It was decided that this matter should be left for the time being but carefully monitored.

5. Postponement of IDAV Negotiations. Mr. McNamara said that extending the $1.5 billion yearly IDA contribution beyond FY77 was totally unsatisfactory. It was decided that Finance should continue to work on a possible response to a U.S. suggestion that negotiation of IDAV be deferred until mid-1977. The matter should be raised again after the February Deputies meeting.

6. Remaining Borrowing Operations in FY76. It was decided that Mr. Cargill would talk to Mr. Amouzegar about Iran, Mr. Krieger about Venezuela, Mr. Hori about Japan and raise potential borrowing with the Kuwaitis during his forthcoming visit. Mr. McNamara said that we should decide by March 1 on whether to re-enter the U.S. market during this fiscal year.

7. French and Belgian Contributions to Third Window. The matter was deferred for the time being.

8. Effects of Shortfalls in the Borrowing Program. Mr. Wood would send Mr. McNamara an outline on the matter.

9. Voting Power of Oil-Importing Countries. Mr. McNamara said that he would meet the same day with LDC EDs to discuss the matter.

10. Absorptive Capacity of Capital Markets. Mr. McNamara said that a more sophisticated study should be undertaken of the absorptive capacity of capital markets, including the formation of the markets and the likely policies of governments

in giving us access to the markets. It would probably be necessary to hire an outside consultant for the job. The matter should be included on the work schedule for Finance.

cc: Mr. Adler
Mr. Goodman

SB
January 27, 1976

792|2|158

MEMORANDUM FOR THE RECORD

Meeting to Discuss Request from some EDs for Studies of the Future Role of the Bank, January 26, 1976

Present: Messrs. McNamara, Knapp, Cargill, Chadenet, Damry, Blaxall, Wood

After some discussion Mr. McNamara said that he would tell the "like-minded" EDs that he was willing to establish a task force which would define the total set of studies to be done, the sequence in which the studies should be undertaken, an outline for each individual study and a time schedule for submission of the studies to the Board. Mr. Adler was suggested as chairman for the task force which could include Messrs. Stern, Haq, Sommers and Wood. Messrs. McNamara, Knapp, Cargill, Chadenet and Damry would form a steering committee for the task force. The first report of the task force could be presented to the Board before the Annual Meeting and the first detailed study might substitute for the Mid-Year Review in FY77. The task force might wish to interview individual EDs.

Mr. McNamara said that, at his lunch with "like-minded" EDs later in the day, he would discuss the Selective Capital Increase, the possibilities of cuts in the lending program, IDAV and the above suggestion for establishment of a task force to study the future role of the Bank.

SB
January 27, 1976

792|2|157

MEMORANDUM FOR THE RECORD

Meeting to Discuss Relations with the United Arab Republic, January 22, 1976

Present: Messrs. McNamara, Knapp, Wapenhans, Paijmans

Mr. Wapenhans asked whether we could negotiate the $70 million proposed program loan to Egypt under conditions which were not parallel to the conditions established by the IMF for a standby agreement. The IMF had already agreed on $90 million to Egypt under the Oil Facility and the Compensatory Financing Facility. However, the dialogue on the standby agreement had broken down. The IMF insisted that two-thirds of imports should go through the parallel market, compared with 15% at present, and that a credit ceiling for domestic expenditures should be imposed. The Egyptians and the Bank estimated that this could lead to 25% inflation, whereas Mr. Guenther of the IMF estimated 5%. The Bank's condition on the program loan would be that all proceeds of the loan, as well as an equal amount of local resources, should go through the parallel market thereby increasing its share of imports immediately to 22%, and that a timetable for reaching full use of the parallel market by the end of 1977 should be established. Mr. Witteveen might be visiting Mr. Sadat at the end of February to settle the IMF matter and Mr. Wapenhans would go to Egypt in February as well and could urge the Egyptians to work out a compromise with the IMF.

Mr. McNamara asked Mr. Wapenhans to pursue the matter with the Egyptians during his visit and said that a decision on the program loan should be postponed until after Mr. Witteveen's return. If the Region could substitute the program loan with a suitable project, this would be acceptable.

SB
January 22, 1976

792|2|156

MEMORANDUM FOR THE RECORD

Meeting to Discuss Answer to Washington Star Article on Bank Salaries, January 21, 1976

Present: Messrs. McNamara, Clark, Clarke, Merriam, Kearns

Mr. McNamara asked Messrs. Clark and Merriam to prepare a reply to the Star article for signature by three LDC EDs. The reply should be one we would be pleased to see reprinted in the Congressional Record. The letter should state how the Bank operates, how we receive money from private capital markets, and how that money is lent to LDCs who must repay it. Both lenders to and borrowers from the Bank therefore insist on the highest quality of technical advice and money management. Salaries are decided once a year by the shareholders after a detailed comparison with the UN, IMF, EEC, private business and national governments. Bank salaries are less than, for instance, those paid by the EEC and the German Government. When staff members leave the Bank, they usually receive higher salaries than in the Bank. It is true that we pay more than the U.S. Government but the Chief Justice of the U.S. among others has said that the present U.S. Government salary structure seriously weakens the U.S. Government. We do not want to be similarly penalized.

Mr. Clarke asked which LDC EDs should sign the letter. Mr. McNamara said that it should be one or two of the Latin EDs and one or two of the Africans. Mr. Janssen might be asked to write a letter on a comparison between Bank and German salaries. Mr. McNamara stressed that the letter should be very carefully prepared and all required resources dedicated to its preparation.

SB
January 22, 1976

MEMORANDUM FOR THE RECORD

792/2/155

Meeting to Discuss Financial Policies, January 21, 1976

Present: Messrs. McNamara, Knapp, Broches, Cargill, Adler, Goodman, Wood

The following subjects were discussed:

1. Mid-Year Review. It was decided that the paper should be distributed to the EDs by January 23. On the lending rate, Mr. McNamara said that, if in fact our borrowing costs would be 8.43% in FY77, it would be essential to increase the lending rate. But with the cloudy and volatile market, it was simply impossible to know this at this stage. It was decided that two versions of Section 5 on the lending rate should be prepared: a longer carefully written statement showing the past history of borrowing cost estimates concluding that the lending rate should not be raised now but that management would keep the matter under constant review; and a very short statement saying that we had promised to review the lending rate with the Board at the time of the mid-year review, but that the market was too volatile now for a decision and that we would report further developments to the Board. Mr. Cargill said that he would write an internal paper on the lending rate befor discussion before his departure for Saudi Arabia.

2. Relations with EDs. Mr. Cargill said he would write Mr. Hori about estimated future Japanese obligations to the Bank Group. Mr. McNamara said that he had talked to Messrs. Drake and Cheek about their request for a review of the role of the Bank. He said that he would meet with interested EDs on this matter during the following week.

3. Borrowing Program. Mr. McNamara asked for a revision of the FY76 and FY77 Borrowing Programs.

cc: Mr. Goodman

SB
January 22, 1976

792/2/154

MEMORANDUM FOR THE RECORD

Meeting with Ambassador Martin, January 16, 1976

Present: Messrs. McNamara, Martin, Baum, Yudelman

Mr. Martin said that the new Director-General of FAO, Mr. Saouma, had written a letter requesting a meeting with Mr. McNamara on February 23, 1976. Mr. Saouma had picked a policy staff from both inside and outside the FAO, consisting mostly of French-speaking individuals. However, Mr. Bob Swift from Australia was also on the staff. Mr. Martin said that, during their one-hour discussion in Rome, Mr. Saouma had said that he wanted to look into the indirect cost to FAO of their $200,000 contribution to CGFPI, He also wanted to examine the relationship among FAO, UNDP, IBRD, CGFPI and IFAD. It was Mr. Saouma's feeling that, if the Investment Centre of the FAO had done its job properly, there would have been no need for the CGFPI and IFAD. Mr. Martin had disagreed with this stating that the job of the Investment Centre was to prepare projects, whereas CGFPI and IFAD would work on policy and strategy for food production and investment. It was Mr. Martin's impression that Mr. Saouma had little understanding for the economics of agricultural development but that he was a very able politician. Mr. Yudelman reported that Mr. Saouma wished to change the draft articles for IFAD to tie it closer to the FAO. Mr. McNamara said that the U.S. would find it difficult to accept FAO leadership with respect to IFAD.

Mr. Martin had also spoken to Mr. Hannah in Rome. Mr. Hannah believed that the OPEC countries would come through on IFAD, particularly since contributions to IFAD would probably count as contributions to the OPEC Special Fund. Whether IFAD would be additional was unclear at this stage. Mr. Hannah would probably only stay on at the World Food Council until after the June 1976 meeting. Mr. McNamara asked whether the World Food Council and FAO were involved in the study of the food reserve problem. Mr. Martin said that WFC was only a watchdog in this respect but that the Wheat Council and GATT were studying the problem.

Mr. Baum raised the question of a successor for Sir John Crawford as Chairman of the Technical Assistance Committee of CGIAR. Mr. McNamara suggested that Sir John prepare a paper on the responsibilities of the job, possibly pointing to Mr. Hopper as his successor, and personally present the paper to Mr. Morse at UNDP, Mr. Saouma at FAO and to the President of the World Bank.

Mr. Martin asked whether the 16 country study on food production would be published. Mr. McNamara said that the data used in the preparation of the country tables were very soft and that the Bank would not wish to distribute the study until the countries concerned had agreed to the tables. Mr. Martin reported that Mr. Lennart Joy from the University of Sussex was working as a consultant for FAO and had prepared guidelines on how to establish a food plan. It was FAO's intention to send missions to selected countries to help them establish such food plans.

Mr. Martin said that CGFPI had closely cooperated with the Bank on the Burki study of agricultural prices and subsidies. Mr. McNamara said that the data for this study would be verified through IFPRI and possibly released through IFPRI.

Mr. Martin said that he had visited the Arab Fund for Economic and Social Development in Kuwait. He had learned that the food production plan for Sudan would be ready by the summer of 1976.

SB
January 19, 1976

792/2/152

MEMORANDUM FOR THE RECORD

Meeting with LDC Executive Directors, January 15, 1976

Present: Messrs. McNamara, Adler, Goodman, Wood, Franco, Barrios, Gavidia, Mekki, Razafindrabe, Kpognon, Khelif, Islam, Al-Atrash, Thavil, Popovic and Damry

Mr. McNamara said that no decision on the Selective Capital Increase would be reached on January 20. When a decision was made, it would include a request from one or two Board members for a cut in the lending program. Unfortunately, the best result which could be expected of the January 20 meeting was a consensus on the need for another meeting soon to obtain an agreement on the Selective Capital Increase. Mr. McNamara hoped that a polarization between Part I and Part II countries could be avoided and he urged the LDC EDs to contact the Canadians, Scandinavians, Dutch, British and the Germans. Mr. Popovic said that such a result of the Board meeting on January 20 could be negatively interpreted and lead to bad publicity for the Bank. Mr. McNamara said that this should be avoided and he urged the EDs to initiate comments at the meeting if required to avoid such an impression.

Mr. McNamara talked at some length on the capital requirements of the LDCs. He said that it was disturbing that the U.S. had refused the multilateral guarantee fund in Jamaica, since the major problem for LDC access to capital markets was the risk as perceived by the lenders. He referred to the article on private American bank lending to LDCs in the January 15 edition of the New York Times and urged the EDs to read it. The Bank played a key role in the capital transfer to LDCs and the capital increase was absolutely necessary for the Bank to continue to play this role. Management might even have understated the nominal amounts required to obtain the intended real growth rate in Bank lending since the deflators used now seemed to be on the low side. Furthermore, cutting the lending program for FY77 would be an act of bad faith against the donors to the Third Window who had insisted on additionality.

Mr. Franco asked about the IFC Capital Increase. Mr. McNamara said that preparations for the increase were going ahead smoothly but that he did not think it wise to have an increase in IFC capital before a decision on a selective increase in IBRD capital had been reached. IFC lending was not a substitute for IBRD lending. Mr. Franco said that some Part I countries might still insist on a cut in the lending program even with an agreement on the Selective Capital Increase if there were still uncertainty about the second step. Mr. McNamara said that, with a Selective Capital Increase, there was certainly no need to cut the FY77 program and he would prefer to keep the FY78 as planned even with no agreement on the second step. The FY78 program did not have to be approved until June 1977 and, by then, the economic climate might have changed considerably. If this were to happen, there would then in his opinion be no difficulty to obtain the second step. Finally, Mr. Franco said that he had "other concerns" which he might wish to raise in the Board meeting on January 20. Mr. McNamara said that all EDs should appraise their own interests and how best to meet them, but he hoped that further studies could be avoided.

Mr. McNamara said that his biggest concern for Bank Group refinancing was the IDA5 Replenishment.

Mr. McNamara said that Board representation was an issue which could best be decided upon after an agreement on a formula for the Selective Capital Increase had been obtained. Personally he was not so concerned about the division of voting power but he was "absolutely and unequivocally" opposed to a reduction in LDC seats.

Mr. McNamara said that he would like to meet periodically with the LDC EDs and urged them to take the initiative for such meetings.

cc: Mr. Knapp
Mr. Chadenet

SB
January 16, 1976

792/2/153

MEMORANDUM FOR THE RECORD

Meeting to Discuss Governors' Speech 1976, January 15, 1976

Present: Messrs. McNamara, Chenery, Clark, Karaosmanoglu, Adler, Baum, Tims, Maddux

Mr. McNamara said that work should continue on all seven themes. They might not all be required for the Governors' speech but they would widen our knowledge about status and progress of development and would enable us to report to the world on the problems of the LDCs and action required to solve the problems. The Annual Review of Development Prospects should become the definitive report on development. We were closer to this now than at any time in the last several years. Mr. Chenery said that the work schedule for the Annual Review would be submitted on January 16.

Mr. McNamara requested Mr. Adler to develop a table on capital flows to LDCs in operationally oriented categories in cooperation with DPS. At a minimum, LDCs should be divided into countries with per capita incomes of less than $200 and those above this limit. The poorest countries needed relatively small amounts of aid but on very concessionary terms, whereas countries above $200 per capita needed much larger amounts but could bear harder terms.

Mr. McNamara enquired about work on the debt problem. Mr. Tims said that a technical note would be ready by April 15.

Mr. McNamara said that the theme for the Governors' speech would be decided when the technical notes were all received by April 15, 1976.

cc: Mr. Karaosmanoglu

SB
January 16, 1976

MEMORANDUM FOR THE RECORD 7912/2/151

Meeting to Discuss Financial Policies, January 12, 1976

Present: Messrs. McNamara, Diamond, Damry, Goodman, Blaxall, Vibert, Wood

The following subjects were discussed:

IBRD Capital Increase. Mr. McNamara asked Mr. Damry to arrange a meeting with the LDC EDs on either January 15 or 16 in the conference room. Messrs. Goodman and Wood should attend. Messrs. Damry, Goodman and Wood should meet with Mr. Al-Atrash, Mr. Khelif and the Latin EDs before the meeting. It would be desirable to meet with the Latin EDs in a group and impress upon them the need for strong unconditional support of the Selective Capital Increase. Board representation and voting power could be dealt with at a later stage but the Latins should be told that management was strongly opposed to any reduction in Latin seats. The U.S. wanted a cut in the lending program as a condition for supporting the Selective Increase. On the other hand, the U.S. was very interested in the IFC Capital Increase. The Treasury was even talking of putting a bill to Congress before the increase had been approved in the Board of the Bank. Mr. Goodman should see the Japanese and the Germans before the Board Meeting. Mr. Chadenet should talk to Mr. Wahl about the French position.

Third Window. In Jamaica the French had said that they would use part of the profits from gold restitution to support the Third Window, possibly to the extent of $10 million. The Belgians would contribute $3.8 million on the same basis. Mr. McNamara asked Messrs. Cargill and Diamond to consider whether this support could be more usefully applied to IDA5.

Deflator. Mr. McNamara asked Mr. Blaxall to prepare revised tables for commitment and disbursement deflators and to dig deeply into the definitions of the deflators and their appropriateness.

IFC. Mr. McNamara requested Messrs. Cargill and Goodman to recognize their functional financial control over IFC.

IDA5. Mr. Gerin-Lajoie had told Mr. McNamara privately in Jamaica that Canada was willing to take the lead in the forthcoming London meeting and support a $9 billion IDA replenishment. Mr. McNamara said he was willing to go to Canada whenever this would be considered most useful. Mr. King from the U.K. said that his Government had avoided a cut in its foreign aid program and was now in a better position to move ahead on IDA5. The U.K. would favor an increase in real terms. Mr. McNamara asked Mr. Diamond to work on Canada and the U.K. to obtain a strong statement at the London meeting. Mr. Diamond said that he was doing this and also wanted to include Norway and Kuwait in the group of leaders. Mr. Lubbers would approach the Norwegian Government. Mr. Cargill's visit to Kuwait had been postponed. The plan was now for Messrs. Cargill and Diamond to go to Kuwait before the London meeting. Mr. McNamara said that he was concerned that no OPEC ministers had been present in Jamaica. He had talked to Mr. Al-Hamad and expressed his concern, particularly with respect to the Bank's relationship with Saudi Arabia. Mr. Al-Hamad would visit Saudi Arabia and discuss the matter with the authorities and inform Mr. McNamara. Mr. Al-Hamad had said that a 10% share of OPEC in IDA5 was possible with a $100 million yearly contribution from Saudi Arabia and a $50 million contribution from Kuwait. Mr. McNamara said that the U.S. had no plan with respect to IDA5 and that staff work on the matter in the Treasury was clearly inadequate. In a subsequent meeting on January 13 with Messrs. Goodman, Diamond and Merriam, Mr. McNamara requested Messrs. Diamond and Merriam to make a political study of required U.S. action with respect to IDA, including an analysis of IDA4 and a plan for IDA5. In particular Mr. Diamond should study future U.S. disbursements for IDA. Possibilities of using the U.S. portion of the restituted IMF gold for IDA contributions should also be studied. Finally, the one-year extension of IDA4, which had been mentioned by the U.S., should be examined. Mr. Diamond said that the Deputies meeting after London would be held in Tokyo before the end of June. He would go to Japan before then. Mr. McNamara asked Mr. Diamond to talk to Mr. Soejima before seeing government officials in Japan and added that he was willing himself to go to Japan. The Germans should not be pressed at this stage. Mr. McNamara asked Messrs. Cargill, Diamond and Goodman to prepare a plan and strategy for the February meeting of Deputies, including required follow-up. He also asked Mr. Diamond to prepare a note on how governments' IDA commitments are transformed into payments, partciularly the timing involved.

<u>OPEC Special Fund</u>. Mr. Goodman said that the OPEC Deputies would meet in Vienna on January 12 to discuss the establishment of the OPEC Special Fund. With respect to the relationship between the Special Fund and IDA, two approaches were possible: (a) an OPEC country's obligation to IDA5 could be credited as a contribution to the Special Fund; and (b) the Special Fund could transfer funds to IDA for use in specified countries. Mr. McNamara said that we would prefer the former approach.

cc: Mr. Goodman

SB
January 13, 1976

792/2/150

MEMORANDUM FOR THE RECORD

Meeting to Discuss Required Changes for Urban Development Work, December 24, 1975

Mr. Baum said that if the Transportation and Urban Projects Department were split, there was no available candidate to do Mr. Jaycox' work in Transportation, if he were to head a separate urban projects department. Mr. Knapp said that it was essential that one man have functional responsibility for Bank-wide urban work. It was purely accidental that transportation and urban work had been combined under one person. Mr. McNamara agreed with Mr. Knapp and it was decided to split the Transportation and Urban Projects Department before July 1, 1976, and hopefully by March 1976. Mr. Baum would proceed on this basis and talk to Mr. Chadenet about staffing of the two departments.

Mr. McNamara said that he would not authorize any additional staff for urban development work at this stage. His main reason for this was that the staff requested in Mr. Kearns' memorandum of December 12, 1975, was largely for non-employment creating efforts. However, the staffing problem could be taken up again within a month or two if Mr. Baum so wished.

It was decided that work on large-scale industries should remain centralized.

It was decided to move the DFC Department under Mr. Gordon back into CPS as a separate department. Industrial sector work should be done under guidelines prepared by Mr. Gordon and approved by Mr. Baum and carried out by special teams in the Regions, probably headed by the Chief Economist. One industrial sector report per Region per year should be aimed at. Mr. McNamara was uneasy about giving full responsibility for income earning opportunity work to the DFC divisions in the Regions. Regional DFC divisions should be renamed to reflect the new orientation. Within this framework a task force under Mr. Kearns and including Messrs. Jaycox and Gordon should clearly define the functions of the different units and the required staffing. The task force should report to Mr. Baum.

It was decided that Mr. Jaycox, as head of the Urban Development Department, would need a strong research coordinator, but not an assistant director at this stage. Sites and services work should eventually be decentralized, but there was no need to publicize this decision now.

Mr. McNamara said that he would decide on the urban operating research division after his return from the Development Committee meeting in Jamaica.

SB
January 5, 1976