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Sub-Fonds: Records of President Robert S. McNamara

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THE WORLD BANK
Washington, D.C.

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McNamara papers

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Contacts with member countries: Asian Development Bank - Correspondence 01

Folder 12

DECLASSIFIED
WBG Archives

ASIAN DEVELOP. BANK

ASIAN DEVELOPMENT BANK

- 5/2/68 KRISHNA MOORTHY, VP, ADB
1. 10/2/68 Takeshi Watanabe, President
Sam-Chung Hsieh, Director, Economic and Technical Assistance Dept.
Toyoo Goyhten, Personal Assistant to President Watanabe
 2. 5/22/69 Takeshi Watanabe, President
4/23-25/69 Teruyuki Ohuchi, Operations Manager, Asian Development Bank, Philippines
(Bellagio Conf.)
 3. 9/29/69 Takeshi Watanabe, President
Bernard Zagorin, U.S. Exec. Dir., Asian Development Bank
Edward Plan, Financial Advisor
K. Nakahira, Personal Assistant
 4. 2/19/70 **Filming with Takeshi, Watanabe**
Messrs. Kitani and Kara
2/22/70 Takeshi Watanabe, President
(Montebello Conf.)
 7. 4/27/70 Krishna Moorthi, Vice President, Asian Development Bank
 5. 9/21/70 Takeshi Watanabe, President
(Copen.) Kosuke Nakahira, Personal Assistant to the President
3/15/71 Takeshi Watanabe, President
 6. 10/1/71 Takeshi Watanabe, President
Kosuke Nakahira, Personal Assistant to President Watanabe
11/14/71 Takeshi Watanabe, President
(Manila) C.S. Krishnamoorthi, Vice President
Douglas C. Gunsekera, Secretary
S.M.A. Kazmi, Treasurer
Lewis A. Carroll, General Counsel
Howard Farrelly, Director of Operations
Sam Chung Hsieh, Director of Projects
Shinsaku Kudo, Director of Administration
P.S. Hariharan, Chief Information Officer
Perry P. Chang, Assistant Chief Economist
Cornelio Balmaceda, Director, Philippines
Alejandro Melchor, Jr., Temporary Alternate Director, Philippines
K.S. Islam, Alternate Director, Pakistan
Enno Carstensen, Director, West Germany
Alexander A.W. Landymore, Alternate Director, Australia
L.J. Downey, Director, Indonesia, New Zealand
R.A. Kartadjoemena, Alternate Director, Fiji, West Samoa
Yves Louis Fievet, Director, Italy, France, Belgium
Robert Lempen, Alternate Director, Switzerland
Tatsuakai Hirai, Director, Japan

8. 6/2/72 Krishna Moorthi, Vice President
9. 7/19/72 Takeshi Watanabe, President
10. 9/28/72 Takeshi Watanabe, President
Kunihiko Takai, Personal Asst. to Mr. Watanabe
11. 3/22/73 Shiro Inoue, President
Mr. Nambara, Personal Asst. to Mr. Inoue
- 3/12/74 Lunch at IDB: Shiro Inoue, President
Theodore Mesmer, Project Manager
Akira Nambara, Personal Asst. to the President
12. 3/14/74 Shiro Inoue, President
Akira Nambara, Personal Assistant to the President
13. 9/4/75 Shiro Inoue, President
Minoru Masubuchi, Personal Assistant to the President
- 1/60-10/76 Shiro Inoue, President
(Dev.Cte.,
Kingston)
- 6/3/76 Krishna Moorthi, Vice President
14. 10/1/76 Shiro Inoue, President,
(Manila)
15. 9/30/80 Messrs. Yoshida (President)
Annual Isusaka
Meeting Nishida



Mr. McNamara - to see please.
WBS 10/14

OFFICE MEMORANDUM
CONFIDENTIAL**DECLASSIFIED****SEP 19 2012****WBG ARCHIVES**

TO: Records

DATE: October 14, 1968

FROM: Jochen Kraske *JK.*SUBJECT: ASIAN DEVELOPMENT BANK: Meeting of Mr. Watanabe with Mr. McNamara

Mr. Takeshi Watanabe, President of the Asian Development Bank, called on Mr. McNamara on October 2. Mr. Watanabe was accompanied by Messrs. Sam-Chung Hsieh, Director, Economic and Technical Assistance Department, and Toyoo Gyohten, his Personal Assistant. Messrs. Knapp, Cargill and Kraske were present at the meeting.

Mr. McNamara said he was pleased to meet Mr. Watanabe; he was sorry not to have been able to visit Mr. Watanabe in Manila on the occasion of his recent trip to Indonesia. Mr. McNamara expressed the Bank's interest in the activities of the regional development institutions and his willingness to assist and cooperate with these institutions.

Mr. Watanabe replied that he was most grateful for the assistance rendered by the Bank so far and for Mr. McNamara's assurances of continued cooperation. Two areas had been excluded from this cooperation by Mr. Woods who did not like the ADB to recruit any of the Bank's staff and felt that any competition in the capital markets should be avoided. Mr. Watanabe informed Mr. McNamara that the ADB had just made a bond issue in Germany of DM 75 million and that he was at present discussing an issue in Switzerland. He would hope that this would not interfere with the Bank's efforts to raise money in these markets; in any event, he felt that since Switzerland is a member of the ADB, the ADB could perhaps claim priority in Switzerland.

Mr. McNamara replied that he did not intend to limit his willingness to cooperate and certainly as far as the recruitment of staff was concerned Mr. Watanabe had a free hand. Although Mr. McNamara did not want to lose any of his staff to ADB, he felt that this was a decision that should be left entirely to the individuals.

Mr. Watanabe then introduced Mr. Hsieh who had just completed the Agricultural Survey of Asia. The report had received high acclaim and will be published later this year. Mr. McNamara expressed keen interest in the report and asked Mr. Cargill that a copy be made available to him.

Mr. Watanabe informed Mr. McNamara that the ADB had been requested to carry out a comprehensive transport survey of Southeast Asia. Mr. Watanabe was grateful for the Bank's assistance in drafting terms of reference for the survey. Since this survey was an undertaking on a very large scale, the ADB was anxious to receive further help and advice from the Bank. Mr. McNamara assured Mr. Watanabe that the Bank was prepared to cooperate with the ADB on this project to the extent possible.

cc: Messrs. McNamara, Knapp, Cargill
Goodman, Street, Gibbs

JKraske:vcm

President has seen

OFFICE MEMORANDUM

TO: Records

DATE: May 23, 1969

FROM: Raymond J. Goodman *RJG*SUBJECT: Visit of Mr. Takeshi Watanabe,
President of the Asian Development Bank

During a discussion yesterday with Mr. McNamara, at which I was present, Mr. Watanabe made the following points:

Collaboration with IBRD

He much appreciated the help which IBRD continued to give ADB, and he particularly welcomed the frequent visits of members of IBRD's management and staff to Manila. This enabled ADB to keep up to date with our activities in and thinking about Asia, and he hoped that the exchange of information was also useful to us. Mr. McNamara assured Mr. Watanabe that he could continue to count on all the assistance within our power.

Membership and Resources

Hong Kong had recently joined ADB as a full member, and was the first associate member of ECAFE to do so; Fiji was another possible full member in this category. Hong Kong did not expect to borrow and India had agreed not to do so, at least for the time being, which meant that 15 developing countries in the ECAFE region were looking to ADB for assistance. (Iran was the only ECAFE member not also a member of ADB.) ADB had already made loans in seven of these 15 countries amounting to \$66.4 million, and had technical assistance projects in a number of others.

Asians regarded ADB as their own Bank, which made it easier for the latter to give them advice which they might be less ready to accept from the outside.

In answer to a question from Mr. McNamara, Mr. Watanabe said that ADB had 10 directors, of which 7 represented regional members and 3 non-regional members. Two of the former (Japan and Australia) were developed countries so that there was in fact an even division between developed and developing countries. They would probably add two more directors in a year or two, one from each group.

Japan and Canada had already made contributions to ADB's Special Funds, and Secretary Kennedy, whom Mr. Kennedy had seen earlier in the day, had said that now that the IDA Bill had been passed, the Administration was considering legislation permitting the U.S. to make its contribution to these funds. This in turn would make it easier to approach others for a contribution. Mr. Watanabe was trying to persuade members to loosen up the tying and other special conditions which they attached to these contributions.

President has seen

He had hoped to make a bond issue in Germany this spring but had decided to postpone it at the last minute owing to the uncertain conditions in that market. ADB was not in need of money at this time and the operation had been designed to establish ADB's name. It was therefore very important that this first issue should be a success.

Regional Study

ADB had published a study of Asian agriculture last year and was engaged on a regional transport survey, for which the U.S. had offered a contribution of \$1 million. At the April conference in Bangkok of Ministers from South East Asia, representing nine governments in the area, it had been decided to ask ADB to make a study of the effects on the economies of these countries in the near term of a cessation or de-escalation of the war in Vietnam. ADB had not yet decided whether to undertake the study but if it did so it would include the effect of such other factors as the withdrawal of Britain from Malaysia and Singapore, and the prospects for rice exports and prices.

Mekong

Mr. McNamara mentioned the approach that had been made to him by U Thant asking IBRD to take a more active part in the development of the Mekong Basin. He said that after checking with a number of his member countries he was proposing to reply affirmatively. He hoped that IBRD and ADB could collaborate in this work, and Mr. Watanabe said he hoped so too. The latter was curious to know why U Thant had approached IBRD first, but went on to say that in his view it was a question of the two institutions working on particular projects included in the Mekong scheme rather than attempting to tackle the development of the Mekong Basin as a whole. There might be cases where it was appropriate for the two institutions to collaborate on a particular project but for the most part he thought that each institution should work separately but keep each other informed. Mr. McNamara did not comment on these suggestions.

Mr. Watanabe said that the Government of Cambodia had asked ADB to study the Battambang project in that country and ADB had agreed to do so. During his recent visit to Cambodia this was the only project that had been mentioned and it obviously occupied a very high place in the list of Cambodia's development priorities. The cost was estimated at \$51 million, with a first stage at \$20 million of which about two-thirds in foreign exchange. (Note: This project has also been referred to us by the Mekong Committee but I told Mr. Watanabe after the Meeting that we would now regard Battambang as an ADB project.)

Indonesia

Mr. Watanabe referred to the recent appraisal of the Pusri Fertilizer project in Indonesia to which he had assigned a staff member. ADB was considering the possibility of making a loan for this project but a problem had arisen in that Japan, which was the most likely source of funds, was examining an alternative project in Java. Mr. McNamara said he was delighted that ADB was considering participating in Pusri which he regarded as a most important project for Indonesia. (Note: Mr. Watanabe was presumably referred to the Tjirebon project, and the problem from his point of view is that he would presumably propose to use the Japanese contribution to his Agriculture Special Fund which Japan might not agree if it was contemplating a direct investment in Tjirebon. After the meeting I told him that the appraisal mission had worked closely with the Mitsui people who had been in Indonesia at the same time. It seemed clear that the market could not sustain both these projects if they went ahead at the same time, and a decision would have to be made as to which should be started first. I said I would get in touch with ADB as soon as I had a clear reading on the situation after talking to the appraisal mission, but the present indications were that, if only because the gas at Tjirebon could be conserved whereas that at Pusri was being flared, the Pusri plant should go ahead first.)

ADB had taken a look at Bapindo, the development bank, but had decided that it needed a basic reorganization and were considering whether they could provide some technical assistance for this purpose. Mr. McNamara agreed that it was not possible to work with Bapindo as it now is but thought that it could be transformed into a useful institution. IBRD was willing to try if the Indonesians wanted us to.

Philippines

Mr. Watanabe commented on the difficulties of working in the country as headquarters of ADB and of working with the Philippine authorities on projects. ADB had made only one loan there - for PDCP - and this had raised a problem of the guarantee. He was glad to learn that our difficulty on that score looked like being resolved.

Private Investment Corporation of Asia (PICA)

PICA had asked ADB for a loan but Mr. Watanabe said he felt PICA should rely on private sources of finance. However, he did not preclude the possibility of ADB's making a loan for a project associated with one of PICA's investment, e.g. for infrastructure.

Mr. McNamara said that institutions like Adele and PICA had an important role to play which he felt was supplementary to that of IFC rather than in competition with it. He welcomed the establishment of PICA.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Raymond J. Goodman *RJG*

SUBJECT: Visit of Mr. Watanabe, President of ADB

DATE: May 21, 1969

Mr. Takeshi Watanabe, President of the Asian Development Bank, is calling on you tomorrow, Thursday, at 5:00 p.m. I attach a note on recent developments in the ADB.

You will no doubt wish to take this opportunity of informing Mr. Watanabe of your recent exchanges with the U.S. Government and the United Nations about IBRD taking a more active part in the work of the Mekong Committee, and of discussing possible collaboration between our two institutions in this regard. He may wish to ask about your recent experience in raising funds, particularly in Germany, where ADB contemplates making a bond issue shortly.

Relations between ADB and IBRD at the staff level continue to be close and cordial. Members of the East Asia and Pacific Department have standing instructions to call on the ADB in Manila whenever possible. Mr. Fontein and Mr. Gibbs are there now. I called on ADB early in March and Mr. Bernard Bell joined me for part of the time. Messrs. Cargill and Street attended ADB's second Annual Meeting in Sydney last month.

Pusri

We invited ADB to consider participating in the financing of the Pusri fertilizer project in Indonesia, and while Mr. Watanabe has not yet committed himself, he did agree to assign a staff member (Mr. Evans, a chemical engineer) to our recent appraisal mission. The mission is now returning and Mr. Evans will be coming to Washington early in June to help prepare what is intended to be a joint report on this project. Approximately \$70 million is likely to be required, of which about \$10 million for gas conservation and transmission and the balance for the fertilizer plant itself. Mr. Watanabe has indicated that he may be willing to contribute up to \$10 million and it would be helpful if you could encourage him to be receptive to a specific proposal, which we will put to him as soon as the appraisal report has been drafted. The source and terms of ADB's contribution will be important. At present \$20 million have been provisionally promised by the U.S. for this project, and we have tentatively earmarked \$25 million of IDA funds in the FY1970 program. Mr. Bell and I have discussed with the Japanese Government the possibility of their making a contribution to cover procurement in Japan. They were interested but non-committal, pending our appraisal of the project. ✓

President has seen

RECENT DEVELOPMENTS IN ADB

ADB is beginning to overcome its initial difficulties in finding qualified staff and suitable projects. Its professional staff increased from 55 to 94 during 1968 and is expected to increase to 146 by the end of this year.

ADB has made 11 loans totaling \$66.4 million in seven countries and has approved 12 technical assistance projects for a total of \$1.7 million. It has under consideration 24 projects in 11 countries and 13 technical assistance proposals in 10 countries.

Capital Resources

At the end of 1968, ADB's paid-in capital amounted to a total of \$289.8 million, of which \$243.7 million was in convertible currencies. There is the prospect of a bond issue in Europe this year.

Special Funds

Three Special Funds have been set up so far, from which grants or loans on concessional terms may be made. Contributions to these funds by donor countries have been made under agreements which for the most part tie them to procurement in the donor country and in some cases provide that the purposes and terms on which the contributions may be used must be agreed with the donor. The funds are: The Agricultural Special Fund, the Multi-purpose Special Fund and the Technical Assistance Special Fund. Japan has contributed \$20 million of tied funds to the first of these to be relent at not less than 3% interest; Canada \$25 million (tied) over five years to the second; and several countries a total of about \$800,000 to the third - the Dutch Government has promised to contribute 4 million guilders to the last named, which so far is the only one that has been used. A possible U.S. contribution up to \$200 million is under consideration, but legislation has not yet been drafted. The Charter of ADB permits the transfer of up to 10% of paid-in capital to the Special Funds; an initial transfer of \$14.5 million to the Multi-purpose Special Fund was approved by the Governors at the recent Annual Meeting.

Regional Activities

ADB published an Asian Agricultural Survey in March 1968, which was well received. A Regional Seminar on Agriculture was held in Sydney last month, at the end of ADB's second Annual Meeting, to discuss the main themes emerging from the survey. A Regional Transport Survey is being undertaken by ADB at the request of several member countries. ADB has also undertaken to make arrangements for the Fourth Regional Conference on Development Banks in Asia, to be held in Manila during July 1969.

Organization

Initially the operational work of ADB was conducted by two departments, one known as the Operations Department and the other as the Economic and Technical Assistance Department. A reorganization came into effect in March

1969, and there is now an Operations Department, which corresponds approximately to our area departments, and a Projects Department. A new Economic Office has been set up to handle the basic and special economic work of ADB.

May 21, 1969

Dally

OFFICE MEMORANDUM

TO: Records

DATE: September 30, 1969

FROM: Raymond J. Goodman R/J.

SUBJECT: Annual Meeting Discussion with ADB

Mr. Watanabe, President of the Asian Development Bank, called on Mr. McNamara at 2:00 p.m. on September 29th, accompanied by Mr. Bernard Zagorin, United States Executive Director of ADB, Mr. Edgar Plan, Financial Advisor, and Mr. K. Nakahira, Personal Assistant. Mr. Shoaib and I were also present.

Mr. Watanabe asked about developments on the Mekong and Mr. McNamara referred to his recent decision to set up a Special Projects Department, under the direction of Mr. Robert Sadove, whose main concern would be the Mekong. He had also asked Mr. Shoaib to keep an eye on Mekong affairs and to represent IBRD in its relations with the United Nations and interested governments. Mr. McNamara said it would take some time to recruit sufficient staff to examine the various projects that had been prepared by the Mekong Committee, but in any case not much could be done until the Amplified Basin Plan was ready, which he understood would be about the end of this year. The Government of the Republic of Vietnam had asked IBRD to take a look at its Mekong Delta project and we would do so. We would count on very close cooperation with the Asian Bank in these new activities. Mr. Watanabe said that he too looked forward to a close collaboration with us. He mentioned the Battambang project in Cambodia, which ADB had agreed in principle to finance. The first stage would cost between \$10 and \$15 million, of which two-thirds in foreign exchange; a loan of this magnitude would be within ADB's capacity. The second stage of the project, which would include power and some irrigation facilities, would probably amount to more than this. ADB also had other smaller projects in Cambodia, which form part of the Mekong complex, and in Laos had agreed to give technical assistance to a project for pump irrigation in the Vientiane plain using power from the Nam Ngum dam. ADB was also considering the financing of the Non Kai bridge across the Mekong, south of Vientiane. In Thailand they were likely to finance a number of small irrigation projects which could be considered pilot schemes for the Pa Mong project.

Republic of Vietnam. The Government had approached ADB for the financing of a large fertilizer project. This was likely to be too big for ADB and Mr. Watanabe wondered whether it would be possible for this to be done jointly with IBRD, as in the case of Pusri in Indonesia. In general, the Government was impatient for action by ADB. Mr. McNamara said that the Government had also made approaches to us but he doubted whether the World Bank would be in a position to help at the present time in view of the situation there and the fact that the United States was responsible for almost all the development activities in that country.

Indonesia. Mr. McNamara said that we were anxious to get ahead with the Pusri project and asked whether ADB had decided to participate. Mr. Watanabe said yes, and the only question was the amount of ADB's participation;

provisionally he had earmarked \$10 million which would come from Japan's contribution to ADB's Special Funds. The Japanese Executive Director of ADB had said that he would not raise any objection to ADB's drawing on these funds for Pusri. In answer to Mr. McNamara's question whether Japan would make a direct contribution, Mr. Watanabe said he had had a number of discussions with the Government and understood that there were divided views among government departments on the subject. However, he believed the principal difficulty was one of timing, since he did not think that Japan would be able to make a commitment until next April. Mr. McNamara said he intended to raise the matter of Japan's investment in this project with the delegation later in the day. [Note: The Japanese Minister of Finance indicated that timing was not a problem, but that there were still doubts about the project in official circles, particularly as to the transport and distribution arrangements for fertilizer in Indonesia.]

In answer to Mr. McNamara's question Mr. Watanabe said ADB had provided three advisers to ministries in Indonesia but had not yet decided whether to have direct representation there. He (Mr. Watanabe) thought this raised difficult questions about relations with headquarters and he had therefore been slow to commit himself. Mr. McNamara said that he realized this was a problem. In the meantime, Mr. Watanabe said, IBRD's resident mission had been very helpful and he was happy with the arrangements.

Mr. McNamara then turned to Japan's own aid program and asked Mr. Watanabe's opinion on how the Government was likely to move. Mr. Watanabe said that Japan was sympathetic to increasing its contribution to multilateral institutions and that so far as ADB was concerned, the Government was showing signs of becoming more flexible. Specifically it had indicated that it might remove or modify some of the limitations on its contributions to ADB in respect of a) the terms (3% interest, 25 years of repayment including seven years of grace) which Mr. Watanabe said were not suitable for all of ADB's borrowers; b) the heavy emphasis on agriculture; and c) the restriction on the use of these contributions to Southeast Asia. While Southeast Asia would remain Japan's main sphere of interest, the Government accepted that ADB had a responsibility for assisting development in other parts of Asia.

Mr. Watanabe confirmed that ADB's Special Funds were at the moment confined to two annual contributions of \$20 million each by Japan, a contribution of \$5 million by Canada (its first annual contribution), a contribution by Denmark of \$2 million and by the Netherlands of \$1.1 million. Nothing had been obtained yet from the United States but Mr. Zagorin said he had hopes of a contribution of \$100 million over three years, provided Japan would contribute a similar amount over four years instead of the five years envisaged at the present.

Mr. Watanabe said that ADB had made 14 loans so far amounting to \$85 million. Commitments in this calendar year, which was also ADB's fiscal year, would amount to about \$80 million, double the amount of last year. He hoped that in 1970 there would be a further increase of 50 or 60%. Apart from ADB's lending, which he recognized would always be considerably more limited than that of the World Bank, he put stress on the importance of technical assistance; he thought that an Asian bank had a special opportunity here as its advice might be more acceptable to Asians than that of others. He referred to the agricultural survey that had already been carried out, to

the survey of transport in Southeast Asia that was under way, and to the studies of Southeast Asia in the 1970's that had recently been put in hand. The latter would be coordinated by Professor Myint of the London School of Economics, in collaboration with a number of others, including Mr. Okita of Japan. The group had undertaken to present an interim report on these studies at the April meeting of Southeast Asian Ministers.

cc: Mr. McNamara ✓
Mr. Shoaib
Mr. Knapp
Mr. Demuth
Mr. Cargill
Mr. Sadove

RJGoodman:ypg

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

MR. KITANI (will ask the questions)

MR. HARA

Mr. William Clark

February 17, 1970

Dinesh Bahl

Dialogue between Mr. McNamara and Mr. Watanabe

1. Recording is at 3 p.m. on Thursday, February 19.
 2. It is proposed that the discussion take place across the conference table in Mr. Shoab's office. The microphones will be arranged accordingly.
 3. Before the recording, we hope to take three sets of pictures:
 - (a) Mr. McNamara and Mr. Watanabe standing in front of a globe or a map of Asia -- in Mr. McNamara's office, if possible.
 - (b) Mr. McNamara and Mr. Watanabe having the discussion.
 - (c) Mr. McNamara and Mr. Watanabe having a discussion, with the Asahi man (probably Mr. Kitani) in the middle.
- Pictures (b) and (c) can be taken in Mr. Shoab's office. All these pix have been requested by Asahi.
4. An Asahi representative will be present during the discussion. He will most probably be Mr. Kitani; or, in his absence, Mr. Hara.
 5. Apart from Mr. Kitani (or Mr. Hara), those present during the recording will be Mr. William Clark, Mr. P. S. Hariharan (Chief Information Officer of the Asian Development Bank), Mr. J. Martin (who will do the recording) and -- only if required -- myself.
 6. After the recording is completed, it will be transcribed. The transcript will be edited both by us and by the ADB before it is delivered to Asahi.

DB:mmh

cc: Mr. Lind
Mr. Christoffersen ✓
Mr. Lightowler
Mr. Martin

W 3/3

1. (a) Mr. McNamara, now the World Bank is increasing activities around the globe. How great importance do you attach to Asia?
- (b) Mr. Watanabe, can you give us your assessment of Asia's importance in the global development effort?
2. (a) Mr. McNamara, do you think that we need new strategy for development in the seventies?
- (b) Mr. Watanabe, what point would you like to emphasize in a new development strategy?
3. (a) Mr. McNamara, it is generally felt that the debt problem of the developing countries are becoming a quite serious. Do you agree?
- (b) Mr. Watanabe, can you give us your views on what can be done about debt problem?
4. (a) Mr. McNamara, do you think the developed countries should do more to promote the economic progress of the poorer nations, and has there been any change in thinking since the Peason Report was published?
- (b) Mr. Watanabe, how do you assess the outlook for aid and trade in the seventies?
5. (a) Mr. McNamara, Japan has begun her conscious effort in development aid. How do you evaluate Japan's policy and what do you expect from Japan?
- (b) Mr. Watanabe, however good Japan's motives may be, her assistance for the Asian nations tends to create political, economic or social consequences. How do you see this peculiar situation and what are the reasons behind?
- (c) Mr. McNamara, do you have any comment or advice on this matter?

6. (a) Mr. McNamara, how closely the World Bank cooperate with the Asaian Development Bank?
- (b) Mr. Watanabe, do you think there is a scope for closer cooperation between you and the World Bank?
7. (a) Mr. McNamara, does the World Bank hope to play a role in the development of Mekong Basin?
- (b) Mr. Watanabe, how great is the Asian Development Bank interest in developing Mekong area?

POINTS FOR DISCUSSION WITH MR. WATANABE

copy with
RSM

1. Asia's importance in the global development effort, and how this importance is reflected in the World Bank's activities.
2. The importance of a new strategy for development in the 1970s. The need to take a comprehensive view of the development process, and to do the things that make economies strong in the longer run. In this way, to promote the self-reliance of developing nations. Technical assistance, including planning.
3. The debt problem.
4. What the developed countries can do -- by way of promoting aid, trade and private investment. The Pearson Report. Aid outlook in the 1970s. The importance of routing more development assistance through multilateral channels. The greater role of Japan in the development effort: in the world; in Asia.
5. The scope for cooperation between global organizations like the World Bank and regional organizations like the ADB.
6. The development of the Mekong area, as an example of the possibilities for World Bank-ADB cooperation.

1. In terms of dollar volume, Bank Group hopes to invest substantially more money in Asia than in any other continent during the five years to FY 1973.

In FY 1969, Bank Group (including IFC) committed roughly \$840 million in Asia -- more than in any other continent. The entire \$840 million went to south and east Asia, the area of primary interest to the Asian Development Bank.

Compared with the previous year, Asia got -- both in proportional and in absolute terms -- a bigger increase than any other continent. Bank Group lending to Asia was 172% higher in FY 1969 than in FY 1968.

Since 1946, Bank Group (including IFC) has invested over \$6 billion in Asia -- more than in any other continent. Over 95% of the Asian total has been invested in south and east Asia.

The Bank is not "turning away" from Asia. It is fully aware of Asia's importance. Development concerns people -- human beings -- and more people live in Asia than in any other continent. Their living standards are extremely low. Yet there are great development opportunities. Japan of course is in a category all its own, but a number of other Asian countries, such as Singapore, Taiwan and Korea, have demonstrated their ability to make good use of these opportunities. It is in Asia that the green

revolution offers possibly its greatest promise in the years immediately ahead, thus creating vast new scope for sound investment.

That is why while the Bank Group is greatly increasing its worldwide activities, it is increasing them enormously in Asia too. In the five years to FY 1973, we expect to lend \$12 billion round the globe. That is about twice what we lent in the previous five years, and is roughly equal to all we lent in the first 22 years of our history. It is this very large increase which makes it possible for us to lend substantially more not only to Asia, but also to Africa and Latin America. Africa has got relatively little from us so far, so the proportional increase in its case looks much bigger. In Latin America, much of the basic infrastructure has been built; very substantial economic progress has been made; so large new investment opportunities have arisen. As a global organization with 112 member countries, we have to respond to our worldwide responsibilities.

Our interest in Asia is underlined by our activities in Indonesia. We have set up a Resident Mission there. Until the middle of 1968, we had lent nothing to Indonesia. Since then, we have extended five IDA credits totaling \$66 million. We expect to be able to do a great deal more in the years ahead.

2. We have already taken some new initiatives. Stronger emphasis on population policy, educational reform and agricultural expansion.

But a piecemeal "project-here, project-there" approach will not do. We need a comprehensive development strategy; an overall plan into which particular policies and individual projects can be fitted as logical, integral parts.

Strategy must provide for an attack on the interrelated problems of unemployment, urbanization and industrialization.

Expanded program of Country Economic Reports. Emphasis on preinvestment studies. These intended to help better planning in developing countries; better allocation of pre-investment assistance; and better project preparation. Will also be made available to bilateral and international organizations, so that they can assess economic priorities in individual countries more effectively.

First Mission to Colombia for this purpose follows in parallel ILO mission; Bank mission includes UNDP representative. Along with UNDP, experts from other UN Specialized Agencies -- FAO, WHO, Unesco, etc. -- may participate in such missions as required. Several such missions will go to other countries in 1970 and later years as part of continuing program.

Jackson Report.

Provision for technical assistance in Bank/IDA lending is increasing.

3. The seriousness of the debt problem is illustrated by the following statistics:

Preliminary Estimates, 1969

(Based on data for 79 developing countries covering an estimated 95% of the total debt of all developing countries.)

1. Total Debt Outstanding, December 1969: \$55.0 billion

2. Total Debt Service Payments, 1969:

To Official Creditors	\$2.5 billion
To Private Creditors	<u>2.1 billion</u>
Total	<u>\$4.6 billion</u>

3. Debt Service Ratios, 1969

Average: about 10%

Afghanistan and Argentina: about 24%

Spain and Thailand: about 3%

Projections for 1975 and 1980

(Estimates based on current position of the same 79 countries and projections of Creditworthiness Studies Unit.)

	<u>1975</u>	<u>1980</u>
1. Total Debt Outstanding:	\$85-90 billion	\$125-135 billion
2. Total Debt Service Payments:	\$8 billion	\$12 billion

Term Indicators

(Annual average values of terms of gross flows from DAC countries to developing countries and multilateral agencies.)

	<u>1964</u>	<u>1968</u>
Interest rate	3.1%	3.3%
Maturity	28.4 years	24.8 years
Grace Period	6.4 years	5.8 years
Grant Element (discounted at 10%)	54.0%	48.0%
Grants as % of total commitments	60.0%	49.6%

Estimated Debt Service as Share of Gross Disbursements
from All Sources

(Expressed as per cent; based on projections of Creditworthiness Studies Unit for a limited number of countries.)

<u>1970</u>	<u>1975</u>	<u>1980</u>
Above 55%	60-70%	80-90%

Industrialized and developing countries have both contributed to debt problem. Industrialized countries have done this by providing finance on **onerous** terms, especially in suppliers' credits. Developing countries have contributed to problem by improvident borrowing and misuse of aid. Worst Asian example was Indonesia. Elsewhere bad examples were Ghana under Nkrumah, Mali, perhaps Turkey. In Latin America, Brazil, Argentina and Mexico have relatively high debt service ratios.

But many countries have made good use of loans. For example, India and Pakistan. Their needs are very large. So their debt burden has become very large, even though the money has been used well.

Lesson for future: it would be wrong to reduce aid, because that would reduce growth rates. So terms of lending must be adjusted according to each country's circumstances. That is why concessionary finance, such as IDA's, is important.

Industrialized countries must recognize it is absurd to offer loans to a developing country and then refuse to take its exports.

4. Development is a task in which both developed and developing countries have a joint responsibility.

Developed countries need to realize that "development does work", e.g.,

- First Development Decade target of 5% annual economic growth has been achieved, on average, although performance of individual developing countries has varied widely.
- 85% of this development has been financed by developing countries from their own resources, with only 15% coming from external sources.
- Developing countries can efficiently and productively use far larger external resources than they have been getting.
- Developed countries have the ability to provide these extra resources. GNP increase. Armaments expenditure. Consumer gadgetry.

The problem is that the "political will" in favor of development has been weakening in some developed countries. They need practical, politically-feasible programs that can command popular support.

Pearson Report has had an impact. Note statements by Prime Minister Wilson and Chancellor Brandt. Statements favoring increase in development aid have also come from Japan, Netherlands, Sweden, Denmark, Norway, and New Zealand.

United States is the big exception. Pressure of domestic problems creating confusion over priorities. Hopeful feature is President Nixon's firm commitment to development aid: "It is my personal conviction that such assistance remains vitally necessary if we are to effectively cooperate with less wealthy countries struggling to improve the lives of their citizens."

Rudolph Peterson's Task Force on International Development expected to come up with new and innovative proposals.

Japan has a special role in the worldwide development effort. Her economic success has enabled her to increase her contribution to development since early 1960s. With vigorous economic expansion forecast for the 1970s, her contribution could increase rapidly.

We hope Japan's development interest will be worldwide, rather than regional. Japan can make an almost unique contribution to the know-how required for promoting agriculture and industry in developing countries, particularly in the small-scale sector. Foreign Minister once said to Mr. McNamara that "Japan was the first graduate of the World Bank Development School".

Japan has recently made advance repayments of \$162 million against loans made to her earlier by World Bank.

Bond issue in Japan??

Increase in Japan's subscription to Bank's capital (Is this public yet?).

5. We welcomed the establishment of the ADB in 1966. Made available to it our experience concerning organization, procedures, and methods of working. Foundations of cooperation were laid even before ADB was formally established. Cooperation has steadily grown as we have worked together on practical problems.

We have worked together on projects and studies, exchanged economic and project reports; had our staff frequently visiting ADB and vice versa. Formal contacts have been strengthened by informal ones.

IDA and ADB both expect to invest in Pusri fertilizer project in Indonesia (IDA \$25 million, ADB \$10 million). First example of joint financing by the two. Also, first example of IDA-ADB joint appraisal report.

In Thailand, the Philippines and Singapore, we have both supported, although at different times, projects sponsored by the same organizations. (Industrial Finance Corporation of Thailand; Private Development Corporation of the Philippines; Development Bank of Singapore).

We look forward to even closer coordination as new opportunities arise for working together on specific projects and problems. For example, on Mekong Basin development.

Hope our greatly expanded program of preinvestment studies will be useful to ADB. We cooperated in ADB's

Asian Agricultural Survey. Are now cooperating in ADB's study of economic development problems of south-east Asia in the 1970s. World Bank and ADB also cooperate in studying external debt problems of common member countries.

We hope to benefit from findings of ADB's Regional Transport Survey.

We welcome ADB's participation in meetings of Consultative Groups for some countries. Hope ADB will participate in more CGs.

Immense challenge of Asian economic development means there is more than enough work ahead both for us and for ADB. Experience, rather than a priori judgments, will enable each organization to see for which kinds of jobs it is better suited.

Pearson Commission suggested closer technical cooperation between World Bank and ADB. It said ADB could, in time, take over some of our activities and help in preinvestment studies.

6. We welcome the idea of becoming more closely associated with Mekong development. It is necessary to work out arrangements so that we can help in:

- (a) formulating an overall plan for development of the Basin;
- (b) determining investment priorities under that plan which reflect development needs of riparian States;
- (c) making arrangements for financing and implementing high-priority projects.

We strongly favor ADB playing an important role in Mekong development. We want to work closely with ADB, UN, and Mekong Committee.

We are studying the work already done by the Mekong Committee. A Special Projects Department was recently established. A special unit within it is working on Mekong. We are setting up technical mission in Bangkok for Mekong.

We expect to appoint a Special Representative for Mekong Basin affairs??

When our studies have advanced sufficiently, we hope to discuss how we can participate with ADB and others in a specific plan of action.

World Bank has been Administrator of Nam Ngum Development Fund since May 1966.

October 7, 1970

9/21

Meeting with the Asian Development Bank--Monday, September 21, 1970, 6:00 p.m.

Present: Messrs. McNamara, Knapp, Watanabe, Watanabe's personal assistant, and Goodman (who joined later)

Mr. Watanabe expressed his satisfaction with the close cooperation now in effect between the two institutions. He was particularly pleased that it was now fairly common occurrence for Bank missions to stop over in Manila. He was also grateful to Mr. McNamara for the prompt settlement of the potential dispute between the Bank and ADB with respect to the Singapore port project. Notwithstanding his general satisfaction with the good cooperation between the two institutions, he was somewhat embarrassed about a specific problem which had arisen in Indonesia. A recent ADB study of potential irrigation project areas had revealed that a specific project area had been found suitable for ADB financing. Virtually all ministries concerned with the project proposal had agreed with the finding of the ADB study. However, Mr. Bell had attended some of the meetings in Djakarta and had on these occasions expressed himself very critical of the proposed project. Subsequently the Government had decided not to go ahead with the project and ADB had been left in a very embarrassing situation, particularly Mr. Watanabe's position with respect to the Board. Mr. Watanabe thought it was in the interest of both institutions that he was very frank on this matter. He realized that the Bank's strategy in water resources development in Indonesia was to place major emphasis on rehabilitation schemes rather than on new project areas. However, the ADB study had specifically analyzed these two alternatives and in this particular case had come out in favor of the proposed project. Mr. McNamara said he did not know the details of this project but promised to have Area Department look into the matter and report back to him.

Mr. Watanabe then went on to mention that as the pace of ADB operations increased they were facing a serious problem with respect to the high level of interest rates. He was trying to raise funds in Japan, perhaps about \$50 million, on terms of about five to seven years. He hoped that soft-term funds would become available from the U.S. Perhaps he might also propose early contributions to an increase in the ADB's capital.

Mr. Watanabe was extremely happy with Mr. McNamara's letter to U Thant regarding the proposed Mekong study. He noted that the letter had mentioned the need for close cooperation with the ADB.

Mr. McNamara said that he hoped the ADB would become a full member, rather than an observer, of the new consultative group arrangement for Thailand. Mr. Watanabe said that ADB had on purpose moved very slowly on this matter since he initially had felt it first necessary to assemble an adequate and experienced professional staff. At the moment he had about 150 professionals and within a year or so he expected to have perhaps another 100. Consequently it would now be easier for him to recommend that ADB take up full membership in consultative group arrangements. On the other hand, some countries had a preference for consultative groups chaired by the ADB rather than the Bank.

Mr. McNamara asked Mr. Watanabe whether more Asian countries could be expected to receive loans from ADB. Mr. Watanabe answered that India had not requested any loans. Burma was not a member.

With respect to Ceylon, Mr. Watanabe said that he did not envisage serious problems with the Government. After the Government had reviewed its IBRD projects, some renegotiations might be necessary for the ADB projects, but he did not think these would be of substantive importance.

President has seen

Mr. Goodman finally mentioned the problem of external short-term borrowing by the Philippine Central Bank from commercial banks in New York. This could create a problem for the proposed consultative group for the Philippines. Mr. Watanabe added that ADB also had operational problems in the Philippines, particularly with respect to loan negotiations and loan administration.

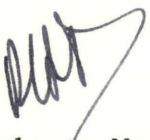
L.E. Christoffersen

cc: Mr. Knapp
Mr. Shoaib
Mr. Demuth
Mr. Goodman

LEC:m1

OFFICE MEMORANDUM

TO: Files

FROM: Richard H. Demuth 

SUBJECT: Visit of Mr. Watanabe to Mr. McNamara

DATE: October 8, 1971

Mr. Watanabe visited Mr. McNamara at 5:00 p.m. on Friday, October 1. He was accompanied by Mr. Kosuke Nakahira. Mr. Knapp, Mr. Chenery, Mr. Shoaib, and I were also present.

Mr. Watanabe referred to the exchange of Board documents and other information which he had heard that the IBRD was working out with the IADB; he hoped that a similar arrangement for exchange of information could be worked out between the IBRD and the AsDB. Mr. McNamara said he would favor such an arrangement.

There was some discussion of the status of Chinese membership in the two Banks. It was decided that the legal departments of the two institutions should remain in contact on this issue. Mr. Watanabe explained that the AsDB's exposure in Taiwan amounts to \$99 million out of total hard-loan commitments of \$450 million. Of this \$99 million, however, only \$25 million has been disbursed. AsDB intends to continue its loan activities in Taiwan.

Views were exchanged on the situation in Pakistan, which had recently been visited by an AsDB mission. Mr. Watanabe mentioned a loan application to the AsDB to finance the Karachi Electric Supply Corporation (KESC), to which the IBRD has already made loans.

Mr. McNamara explained the IBRD's policy with respect to participating in debt rescheduling exercises. He hoped that there would be a common position on this matter by the IBRD and the regional banks. Mr. Watanabe said he agreed fully with the position expressed by Mr. McNamara.

Turning to the Mekong, Mr. Watanabe said that the partnership between the two Banks was working well. He particularly welcomed the frequent visits paid to the AsDB by Mr. Shoaib. He was also grateful for the arrangements made by the IBRD to have all important missions to the area stop in Manila to exchange views with the AsDB.

On the matter of operations, Mr. Watanabe said that AsDB expects to lend this year about the same amount as last year, i.e., \$245 million. He said the AsDB had "reached its temporary cruising altitude." One of its real difficulties was the small size of its Special Fund. Because of the limited Special Fund resources available, AsDB has had to concentrate on the wealthier developing countries in its area. AsDB cannot do as much for the poorer countries, such as Nepal and Afghanistan, as it would wish to do. To give it more flexibility in its financing, AsDB is not only seeking

President has seen

additional and increased contributions to its Special Fund but is also seeking a capital increase in order to get more paid-in capital.

Mr. Watanabe explained that, while the AsDB had the same kind of debt limitation in its charter as the IBRD, it had agreed, in connection with its borrowings, to limit the amount of its debt to the total of the callable capital of members whose currencies were convertible. He said that at the present time the limit on AsDB's borrowings, as a result of this covenant, was \$345 million. He hopes to increase this limit by a 150% increase in capital, of which 20% would be paid in and 80% would be callable. He expressed the hope that the U.S. would find itself in a position to vote for this capital increase even if it should be unable to subscribe to its share of the increase immediately.

RHD:tf

cc: Messrs. Knapp, Chenery, Shoaib, Cargill, Goodman and Christoffersen
Mr. Broches

→ Polly
to file

OFFICE MEMORANDUM

TO: For the Record

FROM: Douglas J. Fontein *DJF*

SUBJECT: Visit of Mr. C. S. Krishna Moorthi
to Mr. McNamara

DATE: November 22, 1971

On April 29, 1970 at 4:55 p.m., Mr. Krishna Moorthi, Vice President of the Asian Development Bank (ADB) called on Mr. McNamara. He said he had no particular business to discuss but wanted to convey greetings from Mr. Watanabe and his associates. He said he was here to ask congressional leaders for their backing of continuing U.S. financial support of the ADB. Asked about the working relationships between the Bank and the ADB, Mr. Moorthi said he was entirely satisfied.

DJFontein:gwh

cc: Mr. Gould

8.

OFFICE MEMORANDUM

TO: For the Record

DATE: November 17, 1972

FROM: Raymond J. Goodman *RJG.*

SUBJECT: Visit of Vice President C.S. Krishna Moorthi of ADB

Mr. Krishna Moorthi called on Mr. McNamara on June 2. I was present. He asked how the Bank was proposing to deal with the question of China's representation if it was raised at the forthcoming Bank/Fund Annual Meeting. Mr. McNamara explained briefly where matters stood. Mr. Krishna Moorthi confirmed that the question had not been raised at the ADB's own Annual Meeting last April and that there had been no references to it subsequently.

1/22

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 2, 1972

FROM: Gregory Votaw *GV*1200 *uou*SUBJECT: BANGLADESH - Asian Development Bank

Mr. C.S. Krishna Moorthi and I spent about an hour yesterday talking about Bangladesh. I do not know how much more he will want to discuss this in his meeting with you at noon today. I told him everything I know but he may want one or two points reconfirmed directly from you.

6/2
He first asked if we anticipated any difficulty over membership. I told him that I knew of no opposition and that we saw no reason to expect difficulty and were therefore planning on the assumption that membership formalities would be completed by the end of June.

He asked if an aid group would be formed. I said I thought such a group was almost certain. The donors seem to want the Bank to organize such a group. The Bangladesh authorities have some misgivings about aid consortia, probably based in part on the advice they are getting from India about the ineffectiveness of such groups, nevertheless I expect that authorities in Bangladesh will recognize that the consortium mechanism makes it much easier for many donors to justify bilateral assistance and will therefore do their part to make an effective aid group possible.

We discussed the status of our discussions with Bangladesh on the assumption of debt servicing and other obligations for projects physically located in Bangladesh. I said I thought that we would reach agreement fairly quickly regarding projects which are still under construction and that Bangladesh would assume full responsibility for amounts already disbursed. Regarding credits already fully or largely disbursed it may take a little more time to reach agreement since Bangladesh will want to avoid any action which would seem to set a precedent that could be awkward for them in their relations with other creditors. Similarly the loans which provided financing for assets which are physically located in West Pakistan as well as Bangladesh would take time to sort out. In one or two cases there might be a special problem concerning assumption of debt servicing responsibility for assets which were destroyed during the war but this does not seem to be a major factor in connection with our projects. I reported that so far the Bangladesh authorities had been responsible and pragmatic in all of our discussions on these matters. Both sides realize that a settlement between Bhutto and Mujib would make matters much easier for all creditors; we and other creditors seem to be willing to allow a few more months to pass before forcing these issues, ~~in the hope that such a settlement would be reached.~~ The Bank had not asked for and had not been offered any written assurance on the assumption of these debt servicing responsibilities and no such formal assurance was considered as a condition of membership.

President has seen

June 2, 1972

Mr. Krishna Moorthi described to me his discussions with Cargill in Vienna on the possibility of a general purposes reconstruction commodity credit out of a \$50-60 million IDA allocation for Bangladesh in FY.73. I said I thought we would be working fairly urgently on preparation of such a project within a month or two but would probably want to get at least some of the on-going projects sorted out before recommending commitment of new money. Krishna Moorthi said that he expected ADB to offer a reconstruction loan, including possibly some local cost financing, as soon as Bangladesh became a member. (ADB understands that Bangladesh will apply for membership as soon as IMF, IBRD/IDA membership is assured and that ADB would be able to act on that application within two or three months).

We noted that the job of the ADB and IDA would be much easier if the UN were successful in mobilizing the large scale international support for reconstruction. Krishna Moorthi said that his informal discussions with knowledgeable people at the UN suggested to him that UN fund raising efforts would fall very far short of currently discussed targets - for example, requirements noted in the Sailer report. There was therefore no doubt in his mind that a lot of reconstruction financing would be required from ADB and IDA.

During our meeting we also discussed West Pakistan briefly. I think ADB will go ahead fairly quickly with a loan for the Karachi Electricity Supply Company, which we agree is urgent, however they wish to do an economic report first and propose a mission to Pakistan in September for that purpose. I am exploring the possibility of cooperation between the proposed ADB mission and our own economic work planned for roughly the same time. The ADB is also considering a \$20-25 million line of credit for PICIC.

cc: Mr. M. Wiehen

GVotaw;ls

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 31, 1972

FROM: Raymond J. Goodman *RJG*

SUBJECT: Meeting with Vice President C.S. Krishna Moorthi of ADB.

Mr. Krishna Moorthi is calling on you at 12 noon on Friday, June 2nd. He tells me that the three matters he wishes to raise with you are:

- a) China
- b) Bangladesh
- c) Implications for the Bank of recent changes in international monetary arrangements (maintenance of value, currency of denomination of loans, etc.).

5/31
As to a), Mr. Krishna Moorthi has asked to meet with Mr. Broches and myself earlier the same morning. I take it you would have no objection to my mentioning the two points that you asked Messrs. Chen and Wong this morning to relay to Taipei.

As to b), Mr. Krishna Moorthi will be meeting tomorrow afternoon with Mr. Votaw in the absence of Mr. Cargill. I have asked Greg to consider whether you would wish to have a brief on this subject.

As to c), I have arranged for Mr. Krishna Moorthi to see Messrs. Rotberg and Gabriel together on Friday afternoon. You could therefore refer Mr. Krishna Moorthi to them for any information on this subject if you wished.

cc: Mr. Broches
Mr. Votaw
Mr. Rotberg
Mr. Gabriel

RJGoodman/am

9

OFFICE MEMORANDUM

TO: For the Record

FROM: Douglas J. Fontein *DF*

SUBJECT: Visit by Mr. Takashi Watanabe

DATE: July 25, 1972

7/26

1. Mr. Takashi Watanabe, retiring President of the Asian Development Bank, called on Mr. McNamara on July 19 at 6 p.m. I was also present. Mr. Watanabe said that he was visiting the United States, Canada, the United Kingdom, France and Germany. The main purpose of his trip was to regularize the method of raising monies from countries contributing to ADB's Special Funds. He said that at present there were several types of Special Funds and different conditions attached to their use by the various countries contributing to them. At the moment the ADB had available to it \$173 million equivalent of Special Funds of which it had committed \$124 million equivalent. At the recent Annual Meeting of ADB indications had been received of further contributions to the Special Funds in the amount of \$144 million equivalent. Of this amount Yen 12 billion would come from Japan and \$100 million from the U.S. the latter subject to congressional appropriation. Japan had also announced that one-third of any further contributions to be made by it to the ADB would be in the form of Special Funds.

2. Mr. Watanabe said that his purpose in calling on Mr. McNamara was to pay his respects and to discuss the question of the membership of the Republic of China. He had no particular questions about the World Bank group's lending operations. On the Republic of China's membership, Mr. Watanabe said that the ADB was still sending missions to Taiwan to investigate new project proposals. He was afraid that this might raise the hopes of government officials in Taiwan for new loans from the ADB. In fact, it might be quite difficult to get ADB's Board to approve further loans to the Republic of China. Unlike the World Bank, loan proposals in the ADB required the approval of the majority of the total voting power of its Board, so that an abstention had the same effect as a negative vote. He did not know how Japan would vote on any further loan proposals to the Republic of China, but he had been informed that India had instructed its Director to vote against any such proposals. Out of a total of about \$660 million of loans made to date by ADB, about \$100 million equivalent were to the Republic of China. The membership question had been avoided at ADB's recent Annual Meeting.

3. Mr. McNamara then described how he saw the problem of the Republic of China's membership in the Bank group and he and Mr. Watanabe speculated on the attitude of the People's Republic of China towards membership in the World Bank group and the ADB.

President has seen

4. Mr. Watanabe said that Bangladesh had not yet applied for membership in the Asian Development Bank. Mr. McNamara said while Bangladesh was not yet a member of the Bank group, we had recently approved a \$50 million IDA credit to Pakistan, subject to IDA funds becoming available. Mr. Watanabe said that in the past, ADB's lending to Pakistan had been on hard terms in consideration of the concessional terms given by IDA and bilateral lenders. However, he now thought that it might be necessary for ADB to lend to Pakistan on a blend of soft and hard terms.

5. Mr. Watanabe mentioned that Yugoslavia had enquired about membership in ADB, as had the Solomon Islands and Cook Island. He also mentioned the U.N. proposal to establish a development bank for the South Pacific but did not think it made much sense.

6. Mr. Watanabe said he might come to the World Bank's Annual Meeting at which time ADB's new President would probably have been elected. The only nominee so far was Mr. Inouye, Executive Director of the Bank of Japan in charge of foreign financial affairs. He was not well known in the developing countries, but had participated in meetings of the Group of Ten.

7. Mr. Watanabe concluded by expressing his happiness about the close working relationships between the World Bank group and the ADB.

DJFontein:gwh

cc: Mr. Street
Mr. Humphrey
Mr. Kalim

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 18, 1972

FROM: Raymond J. Goodman *RJG.*

SUBJECT: Visit of President Takeshi Watanabe

President Watanabe is calling on you tomorrow at 6:00 p.m. I know of no particular points that he wishes to raise with you but would expect him to refer, as did Vice President Krishna Moorthi during his talk with you last month, to the problems of Bangladesh and the admission of the People's Republic of China. He has been quoted as referring to these matters as problems that he would like to see solved before his retirement next November and also to the question of whether the Soviet Union intended to join ADB. As you know they sent an observer to ADB's Annual Meeting last April.

7/18
He has also been quoted as saying that he would like to see what attitude the People's Republic would take at the World Bank's Annual Meeting in September. In the meantime he will not be bringing any operations in Taiwan before his Board.

cc: Mr. Cargill

RJGoodman/rf

President has seen

10.

OFFICE MEMORANDUM

TO: Files

DATE: November 1, 1972

FROM: William Diamond *WD*

SUBJECT: Meeting with Mr. Watanabe, President
of Asian Development Bank

1/2
Mr. Watanabe called on Mr. McNamara on September 28, 1972. Messrs. Knapp, Cargill and Diamond were also present, as was Mr. Watanabe's Personal Assistant. Mr. McNamara congratulated Mr. Watanabe on the fine work that he had done and on ADB's first five years of progress under his leadership. He said that the Bank would continue to work in close collaboration with Mr. Watanabe's successor. For his part, Mr. Watanabe appreciated the cooperation of the World Bank in ADB's work.

There was some discussion of the new situation in the Philippines and of conditions in other Asian countries.

cc: *✓* Mr. Robert McNamara

WDiamond:clr

President has seen



MEMORANDUM FOR THE RECORD

Visit of Mr. Inoue, President of the Asian Development Bank, March 22, 1973

Present: Messrs. McNamara, Rickett, Nambara, Personal Assistant to Mr. Inoue

Mr. Inoue had been in Manila for three months and had recently come from a London meeting to discuss the special fund of the AsDB. The major problem there had been the lack of support from the United States which, several years back, had indicated its willingness to contribute some \$100 million, but to date had not done so. If the U.S. would be forthcoming, then others would contribute up to an amount of about \$500 million. This would be a new system as opposed to past ad hoc contributions. The matter would be resolved hopefully at a meeting in late April in connection with the AsDB's Annual Meeting. Japan was expected to contribute one-third of a total replenishment of the special fund. France had indicated that it would not contribute. Australia would give \$27 million.

Mr. Inoue raised the question of reconstruction in Indochina. His predecessor had expressed the willingness of the AsDB to play a prominent role. Vietnam seemed eager for aid and Laos and Cambodia are members of the AsDB. Most members of the AsDB were in favor of the bank also becoming active in North Vietnam, but there had been no direct contact and Mr. Inoue felt that there is a dilemma of becoming too active in South Vietnam and later being unacceptable in North Vietnam.

Mr. McNamara said that no one knows the North Vietnamese position, including North Vietnam. A commission will meet this week in Paris to discuss the U.S. bilateral program to North Vietnam. But that country is unfamiliar with most nations except its own allies, the Soviet Union and China. Also they are not very much pressed for financial aid and not interested in multilateral or bilateral assistance at the moment.

South Vietnam had asked for the Bank's participation in aid efforts, but Mr. McNamara had said that this would only be acceptable in cooperation with the AsDB. The World Bank would also be willing to operate in North Vietnam, but chances at the moment are small. Laos and Cambodia have not asked for assistance.

In South Vietnam the pressing need is for the balancing of the economy away from the distortions of the war effort. A program for this must be designed and this would require an input of economic expertise. South Vietnam should explore with the two Banks the possibility of creating a consultative group. He was not as concerned as Mr. Inoue about the disadvantages of being active only in South Vietnam initially. South Vietnam has the advantages of a strong infrastructure, low debts, fertile land and trained manpower.

Mr. McNamara did not feel that it was necessary or productive to initiate action in North Vietnam at this point.

In a discussion at the U.S. State Department, Mr. Inoue had said that the consensus had been that everyone is waiting for an initiative from a multilateral agency or from South Vietnam. Mr. McNamara cautioned that most countries are still cool to aid to South Vietnam and Mr. Inoue agreed that Japan is one example, and may have difficulty coming forth with aid at this moment. Mr. McNamara said that he would be meeting with President Thieu in April and it was agreed that if asked he would state the willingness of the World Bank and the AsDB to work jointly in South Vietnam and he would also state the willingness of the two Banks to endeavor to form a consultative group. He would inform Mr. Inoue by letter of the results of that discussion.

cc: Sir Denis Rickett, Mr. Cargill

AL
March 23, 1973

12.

MEMORANDUM FOR THE RECORD

Meeting with Mr. Inoue, President of Asian Development Bank, March 14, 1974

Present: Messrs. McNamara, Inoue, Knapp, Goodman and Nambara (Mr. Inoue's Personal Assistant)

Mr. McNamara said that both Banks were facing problems raising additional money. He mentioned the paper recently distributed on the impact of oil prices on developing countries and the ones facing severe problems, such as India. Mr. Inoue asked whether the Bank would resort to increasing program lending. Mr. McNamara said the Bank would focus on project loans and that hard loans in particular may have to expand since soft funds would be severely limited. This in turn may require an increase in budget and staff.

Mr. Inoue mentioned that he had had lunch with Secretary Shultz earlier in the week and been impressed by the favorable comments received from members of Congress on IDA and the Asian Development Fund. Mr. McNamara said that Mr. Shultz' resignation, which had just been announced, would be unfavorable for the prospects of early passage of IDA and the Asian Development Fund proposals in U.S. Congress.

The two Presidents agreed that the best strategy regarding Indonesia would be to phase out soft loans and increase hard loans in view of the increase in oil revenues but continuing severe development problems. Mr. McNamara said he had told Messrs. Wardhana, Wijoyo and Suharto so during his recent visit.

Mr. Inoue said that, since Indonesia was the only oil country in his region, his prospects for receiving direct grants of oil money were very small. He hoped, however, to cooperate with future Arab institutions in order to possibly be entrusted with funds for on-lending.

Mr. Inoue agreed with Mr. McNamara that borrowing in small countries' currencies would not be advisable for the future.

Mr. Inoue said that he was contemplating increasing the lending rate in view of the cost of borrowing. Mr. McNamara said that this may well happen in the Bank, too, when the new Five-Year Program paper reaches the Board in early summer.

In response to Mr. Inoue's question, Mr. McNamara said that he had received no reply from China and did not know why. If there were a vote, Taiwan would be ousted.

In response to Mr. McNamara's question, Mr. Inoue said that the AsDB had just initiated operations evaluation activities, both through its own economic unit and through plans of hiring independent consultants or institutions to evaluate its projects. Much of this had been in response to pressure from the United States.

AL
March 14, 1974

cc: Mr. Goodman

Mr R.S. McNamara

March 14, 1974

Asian Development Bank

The following notes have been prepared as background to your meeting with Mr Inoue today at 3 p.m.

Operational Summary 1973

ADB's lending in 1973 increased by 33 percent to a record of \$421 million, bringing the cumulative total to \$1,376 million (see Table 1). The 1973 total of 54 loans comprised 30 ordinary loans for \$303 million and 24 concessional loans for \$118 million. Almost a fifth of ADB's loans were to the Philippines making it the largest borrower for the first time. But, overall, South Korea remains the largest single national borrower of ADB (see Table 2). ADB also made its largest single loan in 1973: \$30 million to Malaysia for the Kuantan Port. We understand that ADB plans to lend about \$500 million in 1974 and \$600 million in 1975.

US Contribution for Concessional Lending

The Asian Development Fund was approved in November 1973 by ADB's Board of Governors and provides for contributions of \$525 million to finance ADB's concessional lending to the end of 1975. Under the arrangements, Japan will contribute one-third (\$177 million) and the US slightly less (\$150 million). The contributions will be made in two stages with two-thirds coming in the first stage. It was agreed to accept the overdue \$100 million contribution from the US as its first stage contribution. As the \$100 million had already been authorized by the Congress on a tied basis, it was agreed to accept tied contributions in the first stage.

In December 1973, the US Congress appropriated \$50 million, which is part of the \$100 million authorized in 1972, as a contribution to ADB for concessional lending. This was the first contribution by the US to ADB for concessional lending and accounts for half of the US first stage contribution to the new Asian Development Fund. Congress has agreed to appropriate the second \$50 million in the first half of FY 1975. The first stage of the contributions was to have been completed by mid-1974, but the ADB has apparently agreed with the US to extend the deadline to December 31, 1974. ADB has also agreed with the US to lower the Fund's trigger from \$260 million to \$225 million, presumably to allow the Fund to become effective even if the initial US contribution stays at \$50 million. In the wake of the IDA vote it was decided to postpone presenting to Congress the bills authorizing the final \$50 million of the total \$150 million contribution and the increase in the US capital subscription by \$362 million, 20 percent of which would be paid-in.

President has seen

Loan Evaluation

Under prodding from the US, it is reported that ADB is considering asking an independent firm to carry out an evaluation of its lending. ✓

ADB/Bank Relations

Our relations with ADB continue to be good. The recent US contribution to ADB for concessional lending has largely removed the financial uncertainty hindering ADB's plans to co-finance with us a fertilizer project in Bangladesh. We are also considering with ADB ways to co-finance the Magat multi-purpose project in the Philippines. Because of its very large size, the project will probably be postponed from FY 1975 to FY 1976 or FY 1977.

Annual Meeting

ADB's Seventh Annual Meeting will be held in Kuala Lumpur from April 25 - 27. Mr Goodman will represent the Bank and Mr Soejima will also be there.

cc: Mr J. Burke Knapp
Sir Denis Rickett
Mr Raymond J. Goodman

Atts

East Asia and Pacific Department
March 14, 1974

Table 1.

LOAN APPROVALS: 1968-1973

	Loans From Ordinary Capital Resources		Loans From Special Funds Resources		Total Loans	
	Amount (\$)	Number	Amount (\$)	Number	Amount (\$)	Number
1968	41,600,000	7	—	—	41,600,000	7
1969	76,095,000	14	22,000,000	6	98,100,000	20
1970	211,940,000	22	33,693,000	10	245,633,000	32
1971	202,520,000	16	51,510,000	12	254,030,000	28
1972	221,750,000	16	94,340,000	16	316,090,000	32
1973	303,320,000	30	118,160,000	24	421,480,000	54
TOTAL	1,056,325,000^{1/}	103^{1/}	319,709,000	68	1,376,033,000^{1/}	171^{1/}

^{1/} Excludes \$0.4 million approved in 1968 and refinanced in 1970 and \$0.5 million approved in 1970 and refinanced in 1971.

Table 2

PROJECTS AND LENDING BY COUNTRY

Country	1973		1968-1973 (Cumulative)	
	No. of Projects	Amount (Million \$)	No. of Projects	Amount (Million \$)
Afghanistan	1	14.900	2	29.050
Bangladesh	4	33.050	4	33.050
Burma	2	19.100	2	19.100
British Solomon Islands	—	—	—	—
China, Republic of	—	—	11	99.990
Fiji	1	2.000	2	6.700
Hong Kong	—	—	1	21.500
Indonesia	5	41.220	19	110.860
Khmer Republic	—	—	1	1.670
Korea, Republic of	2	46.300	18	246.800
Laos	1	1.350	3	5.693
Malaysia	4	55.960	16	138.860
Nepal	—	—	7	37.710
Pakistan	3	52.700	10	138.050
Papua New Guinea	—	—	2	14.000
Philippines	6	78.600	14	193.850
Singapore	1	10.000	10	104.250
Sri Lanka	1	2.800	9	38.340
Thailand	3	47.000	8	122.000
Tonga	1	1.300	1	1.300
Viet-Nam, Republic of	3	12.900	6	24.200
Western Samoa	1	2.300	4	7.600
	39	421.480	150	1,376.033

Table 3
LENDING OPERATIONS BY ECONOMIC SECTOR
1968-1973

SECTOR	No. of Projects	Amount (Million US\$)	Amount (Percent)
Agriculture	35	\$ 172.053	12.50
Electric Power	35	365.290	26.55
Industry and Development Banks	29	342.770	24.91
Transport and Communications	35	328.950	23.91
Water Supply	13	153.860	11.18
Education	3	12.100	0.95
TOTAL	<u>150</u>	<u>\$ 1,378.033</u>	<u>100.00</u>

13.

MEMORANDUM FOR THE RECORD

Meeting with the Asian Development Bank, September 4, 1975

Present: Messrs. McNamara, Knapp, Bell, Inoue, President ADB, and Masubuchi,
Personal Assistant to President

Mr. Inoue said that ADB's commitment authority would expire by the end of 1975. He was seeking a \$1 billion replenishment for three years. The U.S. had participated with 28.6% the previous time. If the U.S. again would participate, which was not at all certain, it would be with a lower figure. The reason for U.S. hesitancy was ADB's involvement in Indochina. An important project had been co-financed in Laos with USAID. After USAID had been forced to leave the country, a \$5 million gap would have to be financed by ADB. However, if ADB went ahead with the project, it was likely to lose support in the U.S. Congress. Mr. McNamara said that disputes with the U.S. were not unknown to the World Bank. He advised Mr. Inoue to adhere to his principles and ultimately revive U.S. support. It would also be helpful for Mr. Inoue to talk directly to the U.S. Treasury and State Department. Mr. Inoue expressed the hope, not only in jest, that the World Bank would move soon into Indochina upon which the ADB could follow.

Mr. Inoue said that at the latest Annual Meeting of the ADB India, Pakistan, Sri Lanka and Nepal had requested expulsion of Taiwan. ADB had not made any new commitments to Taiwan in the last three years. However, Taiwan owed the ADB \$90 million so expulsion would be financially dangerous to ADB.

SB
September 9, 1975

Mr. Shiro Inoue - President
of the Asian Development Bank

Before succeeding Mr. Watnabe as President of the Asian Development Bank, Mr. Inoue was an Executive Director of the Bank of Japan and is a well known authority on international finance. His father was Finance Minister and Governor of the Bank of Japan in the 1930s.

Mr. Inoue is a Japanese national, aged 59. He graduated from Tokyo University in 1938 and joined the Bank of Japan the same year. He is fluent in English and has participated in various international finance conferences. The main posts that he has held in the Bank of Japan are:

Section Chief, Planning Section, General Affairs Department
Manager, Maebashi Branch (located near Metropolitan Tokyo)
Representative in the New York Office
Advisor to the Governor in charge of International Affairs
Manager and Executive Director, Nagoya Branch
Executive Director in Charge of International Affairs

East Asia and Pacific Department
August 21, 1975

14.

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MEMORANDUM FOR THE RECORD

CONFIDENTIAL

From: Bernard R. Bell *BRB* December 9, 1976

Subject: Meeting of Mr. Inoue, President of Asian Development Bank, with Mr. McNamara on Friday, October 1, 1976

1. Mr. Inoue, President of the Asian Development Bank, met with Mr. McNamara in Manila on Friday, October 1. Mr. Bell was also present.

12/10
2. Mr. Inoue said that he would like Mr. McNamara's advice on how the Asian Development Bank ought to proceed in relation to Viet-Nam. Specifically, ADB faced not only the question of the membership of the Socialist Republic of Viet-Nam in ADB but also the question of the resumption of disbursements on several project credits which had been made in past years to the Republic of South Viet-Nam. On the one hand, the Government of the Unified Viet-Nam was asking that execution of and disbursements for the several projects be resumed promptly. On the other hand, the U.S. Executive Director in ADB had indicated that the U.S. would oppose such action and that its repercussions in the U.S. Congress would endanger U.S. contributions to ADB's special fund. Mr. Inoue asked what Mr. McNamara's assessment of this prospect was. Mr. McNamara replied that he would be inclined, if he were in Mr. Inoue's position, to go ahead with the establishment of normal working relationships with Viet-Nam, that it was probably correct that there would be a negative reaction on the part of some members of the Congress, but that in his judgement the issue was declining in importance and that ADB's moving ahead in the normal way, as it would with any other member, would not have adverse effects. Mr. Bell said that our own plan was to first send a mission to Viet-Nam, probably in a few months, to educate ourselves with respect to Viet-Nam's economic and financial position and prospects, its reconstruction and development problems and needs, and its plans, and that it would be only after, as a result of the work of this mission, we had adequate information about, and understanding of, the Vietnamese situation, that we would move forward to the consideration of specific lending operations. Mr. Bell suggested that presumably ADB would need to follow a similar course prior to undertaking either any new lending operations or the resumption of disbursements on existing loan commitments.

3. Mr. McNamara asked Mr. Inoue why he was retiring. Mr. Inoue indicated that since he was now 61 years old, he felt that he did not wish to be working in a position as hard and demanding as his present one. Mr. McNamara asked Mr. Inoue whether he would be available and willing to, from time to time, advise the World Bank and said that he would very much like to be able to call on him. Mr. Inoue indicated that he appreciated this question but was otherwise non-committal in his response.

cc: Mr. McNamara's Office


BRBell:ea

15

OFFICE MEMORANDUM

TO: Files

DATE: January 12, 1981

FROM: Edward V.K. Jaycox, Director, AEA SUBJECT: Annual Meeting 1980, Meeting of Asian
Development Bank Officials with Mr. McNamara

1. Officials of ADB, President Yoshida, Mr. Tsusaka, Chief of the Development Policy Office, and Mr. Nishida, personal assistant to the President, met with Mr. McNamara on September 30. Also present were Messrs. Stern, Husain, Jaycox and Koch-Weser.
2. The meeting was essentially a courtesy call. Mr. Yoshida thanked Mr. McNamara for the many forms of cooperation the World Bank had given the ADB over the years, and recited the benefits that this had produced for both institutions. He was particularly pleased with the recent development of co-financing with the World Bank in the smaller Pacific nations, where the ADB provided the technical work on which both institutions would rely.
3. Mr. McNamara said he was extremely pleased that our cooperation was going so well, and asked about the progress of the ADB in replenishing its soft window resources and in its access to capital markets. The two Presidents exchanged information on the difficulties entailed in raising finance for multi-lateral assistance.
4. Mr. Husain outlined the schedule of consultations and ongoing special cooperative efforts over the coming year, including a coordination meeting in Manila in January, a meeting of Messrs. Stern and Vice President Bambawale in February, the co-financing operations during this fiscal year, and our cooperation on energy sector work in East Asia to strengthen our coordination in energy lending. There was a brief discussion of these plans and the meeting adjourned.

cc: Messrs. Stern, Husain, Koch-Weser/Lafourcade

EVKJaycox:ncp

OFFICE OF THE PRESIDENT

Meeting with Mr. Yoshida, President of Asian Development Bank, September 30, 1980

Present: Messrs. McNamara, Yoshida, Isusaka, Nishida, Husain, Jaycox, Koch-Weser

In introducing the meeting, Mr. Yoshida said that the ADB had excellent cooperation with the Bank; particularly Mr. Husain had been very helpful. Therefore, he had nothing to complain about. In response to a question by Mr. McNamara, he said that, at the moment, ADB did not face a serious funding problem. But the ADB had begun to focus on planning the financing of its 1983-87 lending period; he planned to increase ADB's present capital of \$9.5 billion by 125%.

In response to a question by Mr. McNamara, Mr. Yoshida said that the PRC had not yet approached the ADB for membership. The Republic of China was an active member of the ADB. In his view, if China agreed that both Taiwan and China could be represented by Governors, PRC membership would be possible. But at present, the ADB did not lend to big countries, such as India, and he did not expect that policy to be changed. Countries such as Bangladesh posed considerable demands. Mr. McNamara said that the Bangladesh Government was making progress in its development program. Therefore, the Bank expected to increase its lending to that country to \$600 million in 1985.

10/08
In response to a question by Mr. McNamara, Mr. Yoshida said that energy presently represented the second priority sector in ADB lending, after agriculture; most lending in this sector was for hydropower development. East Asia had a high percentage of noncommercial energy resources; ADB would substantially increase forestry lending. Mr. McNamara suggested cooperating in the field of forestry development because the Bank would also have to do much more in this area than it had done in the past. Mr. Yoshida said that the ADB planned to put more emphasis on coal mining development as well as the development of renewable energy resources. At present, the ADB was conducting an energy sector study for East Asia. Mr. McNamara said that the Bank was also increasingly working with countries on comprehensive energy plans.

Mr. Yoshida said that ADB was increasingly pressed by countries for opening local offices. He would be interested to hear about the Bank's experience with its field offices. Mr. McNamara replied that he would recommend against opening a large number of small, "post office-type" field offices. For certain functions, such as supervision, posting staff in the field was useful. One difficulty was that the relationship between local offices and the head office was always very difficult. Mr. Husain added that one had to differentiate by functions. In the case of the ADB, headquarters were close to member countries.

CKW
October 7, 1980