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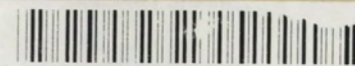
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McNamara Papers

Memos for the record
1974 (Jul.-Dec.)

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President's papers - Robert S. McNamara Memoranda for the Record - Memoranda 09

MEMORANDUM FOR THE RECORD

7912/2/66

Meeting of Policy Review Committee to discuss Urban Transport Sector Paper,
December 20, 1974

Present: Messrs. McNamara, Knapp, Baum, Chenery, Clark, Knox, Kirmani, Thalwitz, Husain, Weiner, Chadenet, JAdler, Haq, van der Tak, Jaycox, Vibert, Dosik

Mr. Knapp said that the paper was appropriately conservative with respect to subsidies and felt that the proposed lending program was large, particularly as concerns urban development. Mr. Chenery said that the approach of the paper was similar to the rural development paper in its attempt to help increase the productivity of the urban poor. Mr. Baum found that the paper was an important step towards formulating a Bank policy for urban transportation.

Mr. McNamara agreed with Mr. Baum. He said that cities, particularly in the LDCs, tended to be overbuilt and provide services mainly for the elite. All reference to metro systems should be deleted. Mr. McNamara was opposed to subsidies if they would benefit the rich but not to those which could help increase the productivity of the poor. The paper should include the information on past expenditures for the urban sector included in Mr. Chenery's memorandum of December 13, 1974, but not the operations program. The paper should be distributed to the Board on December 30.

SB
December 20, 1974

792/2/65

MEMORANDUM FOR THE RECORD

Meeting with Dr. Prosterman of University of Washington, December 17, 1974

Dr. Prosterman had asked to see Mr. McNamara who was unable to receive him and asked me to meet with him.

Dr. Prosterman had done substantial work on land reform in the Philippines and described what he thought were serious shortcomings of the program.

He said that compensation was being paid 10% and 90% in land bank bonds at 6% over 25 years. In an environment of 40% inflation, this was very unsatisfactory and led to various efforts for evasion, such as backdating of deeds.

Dr. Prosterman knew about Wolf Ladejinsky's conclusions from his visit in the Philippines, but pointed out that achievement of transfer of land and actual payment of land owners may in fact be substantially lower than Mr. Ladejinsky had understood. The process of land valuation was being delayed and only a very small part of the resources made available to the land banks had actually been paid out.

Dr. Prosterman felt that the root of the evil was the low percentage paid in cash and the unfavorable terms of land bank bonds. He hoped that these could be changed and that the World Bank would be able to allocate a substantial part of its funds earmarked for the Philippines to financing the payment of land owners in order to expedite the program. I told him that, as I understood it, we had come to the conclusion that we would rather finance complimentary programs but that he may wish to inform us of his findings in writing and possibly have a discussion with those more immediately involved in the Philippine program. He agreed to send us his paper on the subject and he proposed to contact Mr. Bell early in 1975 after another visit to the Philippines.

cc: Mr. Knapp
Mr. Bell

Anders Ljungh
December 18, 1974

792/2/64

OFFICE MEMORANDUM

TO: Files

FROM: Eugene H. Rotberg *ER*

SUBJECT: U.S. Bond Issue

DATE: December 16, 1974

CONFIDENTIALSUMMARY OF MEETING

Present: Mr. Robert S. McNamara
Mr. Eugene H. Rotberg
Mr. John Gutfreund, Salomon Brothers

12/17

Mr. McNamara and I met with Mr. John Gutfreund on Friday, December 6, re our forthcoming U.S. bond issue and the acceptability of the Bank bonds in the market in general. Gutfreund made the following points:

(1) The market was receptive to a Bank issue. There was a substantial demand for intermediate-term securities and there should be little difficulty in successfully placing the entire \$500 million. He said they would endeavor to price the issue as close as possible to U.S. Agencies. Further, they would seek to price prospectively, i.e. consider not only the market on the day of pricing, but the projected trend over the next several days.

(2) Gutfreund expressed the view that the Bank should be able to raise up to \$2 billion a year in the U.S. market. The Bank's name and overall financial strength were attractive to investors who were seeking the most creditworthy-type obligations. In this connection he noted that there had been a shift of investor preferences as yield spreads increased substantially in the last year between "good" and "prime" quality obligations.

(3) Gutfreund noted that, speaking for his own firm, they would be prepared to offer the Bank advice and suggestions on the kind of instruments which the market might accept; the timing of the issuance of our obligations, and the ways we might condition the market to readily accept substantial placements of our bonds.

(4) Gutfreund observed that the pricing of our forthcoming issue should be done in a manner which would sell the bonds but that the bonds should not be sold too cheaply since that could have a negative effect on downgrading our financial image. He observed that the purchasers of bonds had "short memories" and that, if the buyers thought the bonds were fairly priced, they would be potential buyers for future issues.

cc: Mr. McNamara ✓
Mr. Cargill

EHRotberg:emk

CONFIDENTIAL

OFFICE MEMORANDUM

TO: Files

DATE: December 16, 1974

FROM: Eugene H. Rotberg, Treasurer SUBJECT: Pricing Meeting: U.S. Note Issues; New York, December 10, 1974Present: Salomon Brothers, John Gutfreund;
Morgan Stanley, H. Lawrence Parker,
Vance Van Dine;
The First Boston Corporation, Greg Doescher;
World Bank, Lester Nurick, Eugene H. Rotberg

Gutfreund opened the meeting by supplying us with pricing sheets which contained the coupon and price of recently offered intermediate term issues; historical yield spreads between World Bank obligations, corporate obligations and U.S. agency obligations; current market prices in the secondary market for intermediate term issues including World Bank issues, U.S. agencies, etc.; information on the pending debt calendar, etc. We reviewed these papers and were advised as follows concerning our two issues:

With respect to the \$300,000,000 5-year issue not more than \$50,000,000 of the bonds remained unsold--perhaps not more than \$30,000,000. And of these, a portion were underwritten by banks who were expected to hold the securities in their own portfolios and not reoffer to the public. With respect to the ten-year issue, possibly \$50,000,000 were unsold. There was substantial interest from major banks such as First National City Bank, Continental Illinois, Harris Trust, etc. The use of coupon bonds attracted trading accounts, i.e., bond portfolio managers who wished to have liquid instruments which they might wish to sell on relatively short notice. The managers believe this will help the secondary market considerably.

We then reviewed the pricing suggestions of about forty firms. None was lower than a 7.90 yield for the five year issue; most clustered at 7.90-7.95 although about twenty-five percent of the firms thought the issue should be priced to yield 8%. With respect to the long-term bonds there were three or four suggestions for pricing at 8.05 with the bulk falling between 8.10 and 8.15. Twenty percent recommended 8.20 to 8.25. Federal agencies with a 5-year maturity were yielding 7.65 at the secondary market. The market was stable and the views of the syndicate that we price our 5-year bonds between 7.90 and 7.95 reflected their belief that we were within 25 basis points of 5-year agencies. However, these suggestions were made before the pricing a half hour previously of a 5 year FHLB at 7.50. The underwriters believe that this unilateral pricing by the Agency was too far ahead of the market and that it was priced in anticipation of lower rates in the market. Further, it reflected the potential preference of commercial Banks to purchase securities which could be used as collateral for their loans from the Federal Reserve Bank, and securities for which there was consistent visible

December 16, 1974

and open market support by the Federal Reserve Bank of New York. The U.S. Agencies were priced very close to Treasury Notes. The spread of Bank Bonds from Treasury Notes has narrowed from 90 points in 1971 to 70 points in 1972 to about 50 points currently. (We discussed the advantages of pricing over placements with OPEC at a spread over U.S. Treasury obligations rather than linking them to U.S. Agencies.)

The managers also observed that the Agencies were extremely liquid securities; at least 100 different securities maturing over a five year period were interchangeable with each other; they matured in substantial amounts virtually every month over the next five years.

I asked that the underwriters check two of the government securities dealers again for their pricing ideas. They went back to Discount Corporation and Aubrey Lanston & Co. These firms' pricing views did not change. Gutfreund stated that the three managers had reached a consensus to offer us the following:

5-year bond: 8% coupon: Price \$100.284. Yield to public,
7.93%.

10-year bond: 8.15% coupon: Price Par. Yield to public,
8.15%.

(Gutfreund had previously advised me that there were differences among the underwriters as to our pricing. Some of these differences became clear at the meeting--others subsequently.) First Boston took the position that the issues should be "attractively" priced, that is, they should be priced so as to sell out. While they believed that we could do a little better, perhaps 3-5 basis points on the 5-year issue, they did not think either we or they should take that risk. They felt the long-term bond was adequately priced. Morgan Stanley supported that view and indicated that \$500,000,000 was twice the size of any issue previously done and that they agreed with Gutfreund's observations.

I telephoned Mr. McNamara, summarized the foregoing, and it was agreed that we should accept their proposal.

Subsequent to the meeting I was advised by Salomon Brothers that the secondary market for World Bank bonds had substantially improved in the last several years--that blocks could be bought and sold in size. The trader for federal agencies, however, confirmed that banks were not willing to take substantial positions because of the more favorable characteristics of the agencies. Our issues, however, were doing quite well and were virtually sold out.

December 16, 1974

I think that Salomon Brothers was trying to price the bonds slightly better than the co-managers, that, in fact, Morgan Stanley gave them more pricing support than First Boston, which took the more conservative approach as to pricing. However, it appears that by far the largest business has been done by Salomon Brothers, who, I believe, have sold almost a \$100,000,000 of the issue or about three times their underwriting commitment. First Boston has also sold a substantial amount--possibly twice their commitment. Morgan Stanley sales apparently are lagging in comparison to the other two, though they were in fact more aggressive in their pricing ideas. Merrill Lynch has done very little. Some of the commercial Bank underwriters have performed badly, i.e., Mellon, Manufacturers Hanover, Wells Fargo, etc.; First National City may have purchased as much as \$50,000,000 of the bonds for their own account and for trust accounts. This indicates that certain Banks may be interested in the World Bank, possibly because of the tax ruling,^{1/} or have aggressive sales forces, or have realized the strength of the Bank's obligations vis-a-vis others, while other commercial banks have no affirmative interest, and in a financial market in which there are a great deal of investment alternatives, they are spending their time and effort elsewhere.

I have asked for a detailed breakdown of precisely who sold how many bonds, as well as who were the purchasers by category and by name, for our issues. If certain banks are unwilling or unable to sell our bonds, they should not be in our underwriting syndicate, and others who have demonstrated a capacity to place our obligations should have their participation increased.

cc: Messrs. McNamara ✓
Cargill
Nurick

^{1/} Gutfreund, in answer to our question, said that he could not then be very precise as to the effect of the tax ruling on sales. We will get more information on this subject.

792/2/63

Meeting to Discuss Financial Policy Paper, December 4, 1974

Present: Messrs. McNamara, Knapp, Adler, Alter, Baum, Kirmani, Benjenk, Broches, Gabriel, Chadenet, Chaufournier, Stern, Clark, Husain, Weiner, Shoaib, von Hoffmann, Kearns, Rotberg, Wood, Fowler

Mr. McNamara asked that Messrs. Adler and Wood provide a redraft of the paper by Monday, December 9, at noon for Messrs. McNamara, Knapp and Broches to study. The paper should be distributed to the Executive Directors on Wednesday, December 11.

The conclusions of the paper were discussed in order.

- a. The lending program would be as recommended.
- b. The borrowing program would also be as recommended.
- c. The liquidity policy would be retained, although it is irrational.
- d. Mr. McNamara said that the principal risks to be covered by net income are variations in income from investment, receipts on loans, administrative cost, and the cost of borrowing. It was agreed that the discussion of risks of default would be made more cautious. At Mr. Knapp's suggestion, there would be mention of the possibility of adding to the reserves to provide for variations in income.
- e. The target for useable capital should be maintained at 15%, although Mr. Knapp proposed 20%. There was discussion of the principles of valuation of a re-scheduled loan. Mr. McNamara said it should be computed at the present value taking into account changes in interest rate and maturity and deduct it as a loss from reserves, or, if necessary, from equity.
- f. The lending rate would be proposed at 8.5%.
- g. It was agreed not to propose a different lending rate for high-income countries but countries with per capita incomes above \$850 would have maturities of 15 years or less.
- h. The idea of a trust fund would be deleted.
- i. The third window discussion would be retained but it was clear that it was a desirable idea without financial support. The Bank would not provide a major subsidy since this would not raise the volume of aid unless there were outside contributions.
- j. No comment.
- k. IDA transfer deferral accepted as proposed.
- l. Regarding the FY75 budget, there would simply be a statement that there is no increase contemplated.
- m. For the FY76 budget, Mr. McNamara proposed a reduction in staff growth from 7.8% to 6%. This was not accepted by most of the participants. Mr. McNamara asked Messrs. Knapp, Baum and Regional Vice Presidents to discuss the consequences of lower staff growth and report back to Mr. McNamara before the middle of February 1975.

AL
December 4, 1974

792/2/62

Discussion of Financial Policy Paper, November 25, 1974

Present: Messrs. McNamara, Adler, Baum, Broches, Chenery, Stern, Schulmann, Wood, Shoaib

Mr. McNamara asked for comments on the draft Financial Policy Paper. Mr. Shoaib said that the question of phasing out of lending to high-income countries, such as Israel, was a sensitive topic in the Arab world.

Mr. Chenery said it was regrettable that the weight placed on financial criteria makes the Bank conservative. On the question of multiple rates, he advocated placing focus on the lower-income group where most of the subsidy should go and advocated a criterion other than income.

Mr. Baum recommended caution on rate differentiation but welcomed mention of the Thai formula. He recommended including a clause on reconsideration of loans if conditions change.

Mr. Broches said that there was confusion on the terminology regarding useable capital and reserves. He said that there is a difference between evaluation reserve and a liquidity reserve. Mr. McNamara agreed and asked Mr. Broches to draft language to this effect.

Mr. Stern said that a differential interest rate is politically very difficult to manage. He recommended taking better count of inflation by moving to the middle of the range of predicted inflation rates. On Mr. Stern's suggestion, Mr. McNamara asked him to rewrite Section II.1.

AL
November 26, 1974

MEMORANDUM FOR THE RECORD

792/2/61

Meeting to Discuss Health Sector Paper, October 25, 1975

Present: Messrs. McNamara, Knapp, Alter, Adler, Baum, Bell, Benjenk, Chadenet, Chenery, Husain, Weiner, Kanagaratnam, Stern, Gulhati, Thalwitz, Goodman, Dosik, King, Vibert

Mr. Knapp commented that perhaps there should be some analysis of the success of the barefoot doctor scheme in China. Also he pointed out that apparently food requirements of individuals are greater if they are ill than when they are well. Finally, he suggested that a public health specialists be placed in Mr. Lee's office.

Mr. Chenery pointed out how little is known about the relationship between health and productivity and population growth.

Mr. Baum said that greater credit should be given to water supply as a vehicle of public health. He also mentioned that the first nutrition appraisal mission was going to the field the following week.

Mr. Bell said that the recommendations were over-cautious and suggested that the Bank do a major project in one country. Mr. McNamara felt that this need not be done in a project context but rather in the form of advice to governments. Mr. Adler said the recommendations should be a little more forthcoming and the Bank should be willing to experiment. Mr. Benjenk, on the other hand, felt that caution is justified in this wide and untested field.

Mr. McNamara decided that the Bank should proceed according to option 1, that is essentially continuing health activities within the context of its normal types of projects. Even doing this well would be difficult. He asked Mr. Ljungh to speak to Mr. Clark about publishing the paper. He asked to have the paper back by Wednesday morning, October 30, in order to review it for distribution to the Executive Directors.

Mr. McNamara asked that, in the future, papers concerned with fields where other UN agencies are active should be reviewed with them before they are discussed by the PRC.

Mr. McNamara asked Mr. Baum to propose a staffing and procedures for systematic health review of the Bank's projects. This should be completed in one-two months. Finally, he asked that the Bank's performance in the health field be reviewed in one-year's time.

In response to Mr. Alter's question, Mr. McNamara said that the Bank can finance family planning and health projects which are solely called health projects for political reasons, provided that the projects are sound from the family planning viewpoint and are judged on demographic criteria.

AL

November 4, 1974

MEMORANDUM FOR THE RECORD

792/2/60

Meeting to Discuss the Bank's Fertilizer Program in India, October 25, 1974

Present: Messrs. McNamara, Knapp, Baum, Weiner, Fuchs, Yudelman, Brown

There was a discussion of the reports that U.S. fertilizer capacity is being increased at a rate where it would be sufficient together with other plants to cover world supply in 2-3 years' time. Mr. McNamara asked whether this changes the economics of Indian fertilizer production and asked that, within a period of 2-3 weeks, the fertilizer paper under discussion would be supplemented with a chapter on food production, consumption and stocks in India. Also there should be a list of fertilizer plants in India, both existing and planned, with an indication of which ones have financing arranged.

Mr. Knapp said that the rapid construction of fertilizer plants in the United States was driving up the cost of fertilizer plant, particularly stainless vessels which are also in great demand for nuclear power plants.

Mr. McNamara asked that Mr. Fuchs explore the possibility of the Bank publishing a "newsletter" showing fertilizer plants in production and being constructed or planned, so that planners throughout the world could have an idea of future capacity. This would lead to a reduction in the cyclical fluctuations of fertilizer demand and supply. Mr. Fuchs replied that the TVA is already planning to do something of this nature and that he would discuss it with them to ensure that the appropriate information is included.

AL

October 30, 1974

792/2/59

MEMORANDUM FOR THE RECORD

Meeting to Discuss the World Food Conference, October 25, 1974

Present: Messrs. McNamara, ~~Blapp~~, Baum, Yudelman, Koffsky, Hoffmann

Mr. McNamara said that he would welcome participation by the Soviet Union in a foodstock scheme but he thought that it would be difficult to have productive participation from the Soviet Union or China in production schemes.

In general it was concluded that the Bank should take a positive attitude to anything that seems to emerge as a consensus out of the World Food Conference. Initially there should be less emphasis on the cost of new schemes in which the Bank may participate or their effect on relations with FAO. These questions would be faced later.

AL
October 30, 1974

MEMORANDUM FOR THE RECORD

792/2/58

Meeting to Discuss Financial Policy Paper Outline, October 24, 1974

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

The discussion was based on a memo by Mr. Chenery. Mr. McNamara addressed in turn the suggestions Mr. Chenery had made.

- a. Interest rate section of the paper would be drafted as intended. There would be no discussion about floating rate.
- b. The liquidity formula should not be changed.
- c. There should be reference to lending to low-income countries but discussion of creditworthiness criteria must be tentative in view of the establishment of a portfolio analysis unit.
- d. Mr. McNamara insisted that he would like to continue transfer of IBRD profit to IDA.
- e. Mr. McNamara wholeheartedly agreed with the idea of increasing the service charge on IDA credits. He asked Mr. Adler to make a calculation whereby full administrative expenses would be allocated to IDA. There should be an aim to cover administrative costs by service charges over a period of five years.
- f. Regarding the third window, Mr. McNamara said he was doubtful whether this would be productive at the moment since it would not bring any more funds from donor countries for development.

AL
October 30, 1974

MEMORANDUM FOR THE RECORD

Conversation with Mr. Khelif, October 18, 1973

I met with Mr. Khelif at this request. He told me that he had been in New York to attend the ECOSOC session where Mr. McNamara made his annual report and that he had taken the opportunity to contact the Chinese Delegation in addition to his own Ambassador at the UN. He had spoken among others to the First Secretary of the Chinese Delegation who, according to Mr. Khelif, is responsible for economic affairs in the U.S. His purpose was to enquire further about the intentions of China as to membership in the Bank and the Fund. He had told the Chinese Delegation that he would report to Mr. McNamara on his conversation.

The Chinese had told him that they would be very interested to know what questions were currently arising in the Bank as a result of their approach through the cable from their Foreign Minister. Mr. Khelif said they were quite devious as to their own intentions, but, when asked specifically as to whether their cable should be interpreted as an expression of their desire both to oust Taiwan from the two organizations and to occupy the Chinese seat, they said that this was the correct interpretation but that this would have to take place in two steps.

At the time when Mr. Khelif spoke to the Chinese, he had not seen the paper distributed for the October 30 Board Meeting. After reading the paper he was even more concerned than before that the October 30 Meeting may result in a confrontation over Chinese membership and he said that the responses which were coming in from various countries indicated that governments were in doubt as to whether there would be a vote and, if so, the vote would be based on the cable from the Chinese Foreign Minister or on the paper distributed by the Bank. He mentioned the example of Iran which had sent a message saying in short that they support installation of the People's Republic as the rightful occupant of the seat for China.

Mr. Khelif offered to return to New York to discuss with the Chinese the legal implications and other issues which will arise if and when their membership is considered. He said he wished to do this only if it would serve to avoid a confrontation on October 30 and facilitate communications.

I told Mr. Khelif that I would report our conversation to Mr. McNamara and come back to him with some form of advice as to what action, if any, he might take.

My impression is that Mr. Khelif made this approach on his own accord and without much enthusiasm from his Ambassador in the UN and possibly without the prior knowledge of his Government. He is motivated by an earnest desire to be useful but it was obvious that he had not managed to communicate very well with the Chinese (probably due to language barrier) and that they had been extremely devious as to their intentions. For obvious reasons they liked the thought of receiving some information on what preparatory work is going on in the Bank. It seems as if Mr. Khelif really believed that they knew very little about the legal implications of possible membership in the Bank. I fail to see, however, how the furnishing of information to the Chinese Delegation in New York would relate to the risk of a confrontation at the October 30 Meeting.

Mr. Khelif raised two ^{other} points. First, he asked whether the Egypt Population Project would be considered at a future Board Meeting. I explained to him the procedure whereby it was removed from the Agenda and its consideration postponed for at least 48 hours at the request of an ED. I said that it was likely to be scheduled for the following week's Board Meeting but that it was of course technically possible that another Director would ask for further postponement.

President has seen

Second, Mr. Khelif mentioned that he had offered Mr. Chadenet to provide any documentation which the Bank may be interested in from the conference in Algiers of non-aligned countries. If the Bank is interested, he would like to know quickly so that he could ask Ambassadors of several countries who would be present at the following week's meeting of the UN in New York.

AL
October 18, 1973

UNITED STATES - Discussions with Part I Countries

Mr. Paul Volcker, Under Secretary of the US Treasury for Monetary Affairs, Mr. William Casey, Under Secretary of State, Mr. John Hennessy, Assistant Secretary of the Treasury for International Affairs, and Mr. Charles Sethness, US Executive Director, called to see Mr. McNamara on Thursday, September 27th, at 6 p.m. I was also present.

Representation of China

Mr. McNamara began by referring to the discussion in the Joint Procedures Committee on the membership of China in the Bank and Fund. This was a difficult and complicated problem which would have to be considered by the Bank Board as soon as possible. The final result would almost certainly be that the Board would decide that the Chinese seat on the Board should be occupied by a representative of the People's Republic of China. One question which would arise was the probability that loan service and repayments due from the Formosa Government would be met. He agreed with Mr. Hennessy that some considerable time would be needed for the Congress to study the matter. His aim was to have it dealt with as slowly and as quietly as possible.

Aid to Indochina

In reply to a question from Mr. Volcker, Mr. McNamara said that the allocation of \$50 million for aid to Indochina could not be taken for granted. The first question to be decided was whether or not there should be a meeting of a consultative group in Paris on October 16th. He could not give a firm commitment. Some governments did not wish to attend unless IDA would be in a position to contribute. There was, however, a reasonable assurance that the meeting would be held. The matter would be decided before the end of next week. As to the \$50 million tentatively set aside for Indochina in FY74 only \$1070 million remained to be committed out of Third Replenishment resources. This was already fully allocated. The Board would only agree to divert \$50 million to Indochina if he could satisfy them that this was the only way to obtain a replenishment of \$1500 million a year and that if aid was not available for Indochina the total of replenishment would drop to \$1200 million. He would have to speak in strong terms to some governments such as Sweden who were allowing their decision on this matter to be influenced by domestic politics.

President has seen

Mr. Volcker doubted whether the \$1070 million had been precisely allocated. The President's interest in the Fourth Replenishment was bound up with the \$50 million for Indochina in FY74. Mr. McNamara could not tell the Board that a replenishment in an annual amount of \$1500 million was assured.

Mr. McNamara said that Congressman Reuss had understood the position very well and would talk to Congressmen Gonzales and Patman. Mr. Reuss was anxious to see the bill move through the House this session. Democratic support was reasonably certain but the Administration must get the Republican votes in. Mr. Hennessy suggested that the Bank had reversed its position and was now treating the replenishment target of \$1500 million as a pre-condition of the allocation of \$50 million to Indochina, whereas the US Treasury had understood that the opposite was the case. Mr. McNamara said that his position was on record in a written statement. The facts as represented to him by the US Treasury had changed. He agreed with Mr. Volcker about the danger that Congress would cut simply for the sake of cutting. He mentioned Congressman Rhodes as somebody whose attitude had changed considerably in the past week.

Mr. Hennessy said that the sooner the \$50 million were allocated the better the chances of getting the full \$1500 million for the replenishment. What was the difficulty? Vietnam was a member of IDA in good standing.

Mr. McNamara said that their import program had little economic value and consisted to far too great an extent of luxury imports for what he called "a Honda economy". Such imports, as Mr. Hennessy suggested might be valuable in mopping up excess liquidity. A further difficulty was that the political support for the Thieu regime depended to a large extent on the people getting such luxury imports. Mr. Hennessy said that the important thing was to make aid for Indochina a multilateral operation and to give it a new dynamic. We must make rapid progress after the meeting on October 16th. The Japanese would support this.

Negotiations with Chile and Peru

Mr. Hennessy summarized the present state of negotiations. Those with Peru had met with a complete reversal. Agreement had nearly been reached but the Peruvians had raised their bid and made it impossible for talks to

continue. What was at issue was a gap of \$160 million being the difference between the US request for \$200 million and a Peruvian bid of \$40 million. If agreement could be reached, substantial amounts of credit would be available in the pipeline. The situation was, however, critical and negotiations might break down.

Negotiations with Chile, however, had taken a turn for the better and they were prepared to enter into negotiations in good faith. The CIAP would call a inter-agency meeting and Mr. Santamaria, the Chairman, was anxious to send a joint IMF/CIAP mission to examine the situation. Would the World Bank also join such a mission? If Chile adopted sound policies, the next step might be to call together the consultative group.

Mr. McNamara said he would consider a joint Fund/Bank mission and would discuss it with Mr. Knapp. He was prepared to go ahead with lending to Chile provided that this could be reconciled with a consistent US policy. The loan documents were now before the Board but no discussion had been scheduled because the US and the UK had hitherto been opposed. Dr. Allende had agreed to the discussion being delayed until after the meeting of the Paris Club.

Mr. Hennessey said this meeting had been postponed until January and would like to delay any loan operation until after the meeting.

Mr. McNamara said that he could not send a Bank mission until the position had become clearer. Chile was in default. They had refused to make a small payment this week and a larger payment (\$3 to \$10 million in October). Mr. Sethness said that a balloon payment was also due at the end of the year.

Mr. McNamara said he would bring the matter to the Board between now and next January. Why had the Paris Club meeting been postponed? Mr. Hennessey said that Chilean debts could not be rescheduled in a sweeping fashion until a full report had been made. The British had now agreed that the Bank should not continue disbursements.

Mr. McNamara said that it was important to get the Chilean economy back on its feet. At present they were completely bankrupt. They needed capital inflows.

Mr. Hennessey said that he would keep in close touch with the Bank. The objectives should be (a) to restore a strong Chile, (b) to find them

fresh external capital, and (c) to persuade those countries who were reluctant to do this. Mr. McNamara thought that the Paris meeting should not be deferred for too long. Was this being done because the US wished to save face or because they could not get support from other countries? A joint mission should be sent and the Bank would move on loans to Chile if the US would support this. He would start talking to the Fund and to the British.



D. H. F. Rickett
Vice President

September 28, 1973

Present: Messrs. McNamara, Knapp, Stern, Cargill, Damry, Shoaib, Nurick, Schulmann, Sommers

Mr. McNamara said he had discussed with his senior associates a modified approach to Board discussion of financing matters. First, there would be no major change in the five-year lending program during the next year. The FY74-FY78 program would be extended to FY79-FY80 on basically the same assumptions, subject to the approval of Executive Directors.

A policy paper for the Mid-Year Review would be prepared which would consider together all financial topics which had previously been planned for separate papers and Board discussions. Included would be:

1. The Bank's lending rate;
2. Split interest rate;
3. A Third Window;
4. Lending to high-income countries;
5. Lending to low-income countries;
6. General and special capital increases;
7. IDA transfers;
8. The impact of offset borrowing on the Bank's capital and guarantee capacity;
9. Performance against FY75 budget;
10. Outlook for FY76; and
11. Revisions to the five-year program.

The paper would not deal with possible capital increases in the 1980s, nor would it include any reconsideration of basic assumptions about the world's economy.

Mr. Cargill would prepare an outline by October 18 and a draft paper for Mr. McNamara's review by November 21 so that the paper can be distributed to the Directors on December 6 and discussed by the Board on January 14.

Mr. McNamara said that some of the topics were so sensitive that he would wish to discuss them with a small number of people before even putting them on paper. This would be true particularly of the question of an IDA transfer.

cc: Mr. Knapp
Mr. Cargill
Mr. Damry

AL
October 16, 1974

792/2/56

MEMORANDUM FOR THE RECORD

Meeting to Discuss India, October 4, 1974

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Weiner, Diamond, Baneth, Kraske, Baum

Mr. McNamara said that the first criterion in considering lending to India is creditworthiness and the Bank must analyze creditworthiness of countries in relation to its total capability to absorb risks. His guess was that the Bank could lend more to India than what is now outstanding and then ventured that fertilizer is a good sector to start in. Mr. Knapp expressed skepticism to IBRD lending to India on creditworthiness grounds.

After some discussion about the concept of creditworthiness, it was decided that a study would be completed in two weeks laying out the past and present figures on fertilizer production and requirements, foreign exchange expenditure, the connection with food production and possible future production programs for fertilizer.

Secondly, it was decided that the first fertilizer projects to come to the Board would be financed with IDA money, rather than Bank, in anticipation of the study which Mr. Cargill would be making in his portfolio analysis unit. That study would be completed by the end of the year.

Finally, on Mr. Chenery's recommendation, it was agreed that India should be told that the Bank is interested in helping it promote its exports. Mr. McNamara did not think it useful to design a specific program in this field.

AL
October 8, 1974

MEMORANDUM FOR THE RECORD

792/2/55

Meeting on India, September 27, 1974

Present: Messrs. McNamara, Knapp, Cargill, Weiner, Diamond, Gilmartin, Kraske

Mr. McNamara commented on the unresponsive nature of Mrs. Gandhi's reply to the letter he had sent. Mr. Gilmartin felt that the situation in India was very serious and there were no prospects for improvement in the near future. There was no news of Cabinet changes.

Mr. McNamara proposed that the Bank help India lay out a plan for food provision including the necessary input of fertilizer and then focus on helping India provide that fertilizer through its own production, thereby saving foreign exchange. Mr. Knapp expressed his doubts as to India's political will to carry out any such program. Mr. Cargill commented that producing fertilizer alone is not a solution to India's food insufficiency.

After some discussion, Mr. McNamara concluded that Indian food production must be limited largely by availability of fertilizer. Mr. Kraske outlined some figures of stocks and production capacity and said that India would need to spend \$1 billion in the current fiscal year for fertilizer imports. Mr. McNamara asked for a note on this subject.

Mr. Cargill said that a main constraint to fertilizer production was poor management of state enterprises and the failure of the Government to issue licenses to private producers.

Mr. McNamara suggested that a senior official in the Bank be put in charge of an expanded Bank program in fertilizers in India.

AL
October 4, 1974

792/2/54

MEMORANDUM FOR THE RECORD

Development Committee

At pre-Board Meeting on September 19, Mr. McNamara asked Mr. Stern to provide a scenario for work on the Development Committee during the Annual Meeting, including list of invitees for the working lunch on Sunday, September 29, and the likely outcome of that meeting. Plans for caucusing of delegations, selection of chairman, and executive secretary, and the agenda for meeting of ministers.

AL
September 20, 1974

792/1/142

CONVERSATION WITH MRS. SAARELA, SEPTEMBER 18, 1973

Mrs. Saarela said that the Nordic statement for the Annual Meeting was under preparation, mainly in Sweden. Mr. Klackenberg had suggested including a statement about Chile to the effect that Bank action or inaction had been a contributing factor in the downfall of Allende. The Nordic office here was strongly opposed to the inclusion of such a statement. Secondly, the Swedes have proposed a paragraph in the speech suggesting that Country Program papers be subject to wider review in the Bank and its Board. Mrs. Saarela and I agreed that this would not be a feasible idea since each member country has a continuous dialogue with the Bank regarding the contents of its Operations and Lending Program and secondly that an escalation of these discussions to the general political level would probably have effects on the Bank's work which would be contrary to what the Nordic countries would wish.

Mrs. Saarela asked whether there had been a specific commitment by the Bank to allocate a certain amount of an IDA replenishment (and funds also in FY74) to Indochina. I said I knew about the conditions which the United States had mentioned during the IDA negotiations last July but that the Bank had made no such commitment.

Mrs. Saarela mentioned that the Nordic office had discussed the idea of a consultative group for Indochina with Mr. Cargill. She said that the Nordic countries would be pressing for a formal meeting which would not be confined to Part I countries but would also include Part II countries, possible in the form of an Executive Session of the Board. I said that as far as I knew the form of any group meeting had not been rigidly set and that the Nordic countries' view would certainly be taken into account.

Mrs. Saarela said that the Nordic countries may be trying to hold back or reconsider its IDA contribution in order to induce the United States to remove its condition regarding Indochina. I emphasized strongly that the U.S. position on Fourth IDA Replenishment is currently so uncertain that any such attempt before the Nairobi meeting would be likely to be very damaging to the whole existence of IDA. Whether such an action of reconsidering the contribution or to make a counter-proposal regarding conditions after the Nairobi meeting would be in the interests of IDA and its borrowers would have to depend on the outcome of the meeting.

Mrs. Saarela enquired what preparations were being made for the IDA Seminar. I said that Mr. Knapp had given thought to the format of the meeting and was working on an introductory statement. The Nordic office may be in touch with Mr. Knapp on this subject. She said that the Swedish Government had contacted a number of developing countries to ensure that they would be present at the conference but had been fairly secretive about the details of their preparations.

cc: Mr. Knapp
Sir Denis Rickett

AL
September 18, 1973

President has seen

792/2/53

Meeting to Discuss Staff Development Report, September 17, 1974

Present: Messrs. McNamara, Knapp, Chadenet, Baum, Clarke, Richardson

Mr. Chadenet requested that Mr. McNamara see the task force chiefs before further work proceeds. Mr. McNamara said he was reluctant because this should be handled by Mr. Chadenet. Mr. McNamara asked that there be clear statement of the cost-benefit relationships in future proposals resulting from the task force's work. He emphasized that there has to be a definite offset in terms of benefits to training cost. The plan must fit within an over-all scheme for the Bank's financial solvency.

Mr. McNamara said that he felt there is a need for both professional and operationally recruited personnel officers. Professionals are needed particularly to deal with pensions and compensation. Professional personnel officers also often have a better idea of the motivations of persons at various stages in their careers.

Mr. McNamara asked that the report's final recommendations do not exceed the Bank's capacity to monitor and absorb changes.

Mr. Knapp emphasized the need for rotation and the need to control it centrally so that agreed upon assignments and changes are in fact implemented.

Mr. McNamara asked that someone in Personnel be responsible for monitoring inflation and its effects on compensation in national and international institutions.

AL

September 18, 1974

Memorandum for the Record

September 12, 1974

Raymond J. Goodman

India: Forum for Debt Renegotiation

Mr. Thomas Enders, U.S. Assistant Secretary of State for Economic Affairs, accompanied by Mr. Sethness called on Mr. McNamara yesterday evening.

Mr. Enders, recalling that the Indian Consortium had concerned itself with debt re-scheduling since 1968, said it was now the presumption that debt relief would be part of the annual aid package for India. In consequence the distinction between new aid and the rolling over of old debt was becoming fainter. Hitherto the Administration had been allowed a fairly free hand in deciding its contribution to debt relief, but there were signs that the Congress wanted to take a hand. It could be argued that it was anomalous to have the subject of debt renegotiation considered in a forum where the Bank was chairman, since the Bank itself was reluctant to participate and in general encouraged debtors to pay their debts when due. For these reasons the U.S. felt that after this year they would prefer to see the matter discussed in a different forum such as the "Paris Club". This year, in response to the Bank's urging, the U.S. was prepared to increase its contribution to debt relief from \$29 million, as announced at the time of the last meeting, to \$45 million.

Mr. McNamara said that the Bank claimed no proprietary right to preside over debt renegotiations. The Bank's role was different in different cases; for example in the re-scheduling of Indonesia's and Ghana's debts, particularly the latter, we had done much of the work but one of the bilateral creditors had acted as Chairman. He recognized that some creditors thought the Bank was too inclined to take the debtors' part, and that others did not see why the Bank, since it declined to re-schedule its own loans, should take a leading role in disposing of other people's money. We were therefore quite relaxed about who should preside at discussions on this subject. Nevertheless there was a close connection between aid and debt relief and he thought it was useful that the Bank's staff should service whatever group undertook the latter task.

Mr. Goodman agreed that it might be advisable to consider debt relief in a different forum, but pointed out that as a practical matter, given India's circumstances, it would be very difficult to run the Consortium and to solicit pledges of aid in the absence of appropriate arrangements to consider debt relief. One difficulty was that many creditors, including several of the European countries, were determined not to "institutionalize" debt relief; hence in the past the Paris Club had tended to meet only to deal with a threatened default situation. The last time the matter had been discussed - at the aid coordination meeting sponsored by the Bank in 1971 - it had been agreed that debt renegotiation was not a proper function of aid groups. He wondered however whether it would be possible for India's creditors to agree on a multi-year rescheduling, which would permit the Consortium to consider the annual requirement for fresh aid.

Mr. McNamara emphasized strongly the need for an exercise, whoever presided over it, that would provide a complete package for India over a period of years ahead, preferably 10 but certainly 5 years. As a citizen he felt that the U.S. should consider carefully its attitude to Indian assistance and the possible effects on the U.S. itself of permitting intolerable economic pressures to build up on India with the consequent danger of political turmoil.

Mr. Enders agreed that these points were well taken, but in the present climate it was not possible to consider a multi-year approach to the Indian problem. There were powerful voices in the Administration itself that would prefer not to give India any aid at all. There was in any case nothing in the Indian situation corresponding to the 1966 change of regime in Indonesia that might persuade the U.S. to agree to the kind of debt settlement on very generous terms that was subsequently arranged for that country. Meanwhile, it was better to separate the debt problem from the question of aid, although he recognized that in economic terms they amounted to the same.

In response to Mr. McNamara's question as to the next step, Mr. Enders said that the U.S. would consult the other Consortium members at the next meeting, and also the Indians, on its proposal to take the subject of debt relief out of the Consortium, but had first wanted to mention the matter to Mr. McNamara. The latter repeated his readiness to be guided by the wishes of the members. If Indian debt renegotiations were to be taken up by a creditor's group, he thought, and Mr. Enders agreed, that the British might be the best qualified member to provide the Chairman.

cc: Mr. McNamara's office
Mr. Knapp
Mr. Weiner
Mr. Chauffournier

RJGoodman/rf

792/2/51

Meeting to Discuss the Development Committee, September 9, 1974

Present: Messrs. McNamara, Knapp, Broches, Cargill, Rickett, Nurick and Stern

Mr. Knapp said that the discussion the following day should proceed in the Board as planned but that no consensus should be expected. Mr. Stern recommended proceeding with a discussion without the ambition of coming to an agreed version of the resolution and then await the subsequent discussion in the Fund's Board.

In response to Sir Denis' question, Mr. Stern said that the objective of the breakfast meeting planned for September 29 was to sort out agenda and procedures for the ministerial meeting during the Annual Meeting week.

Mr. McNamara said that it was clear that the U.S. intends to use the committee as a forum for general discussion of capital transfer, not only to developing countries. He asked what candidates had been put forward for the post of Executive Secretary. Mr. Stern said that Messrs. Volcker, Williams and Strong were not presently being considered. The U.K. had put forward Mr. Arthur Brown of Jamaica as a candidate. Mr. Damry said that rumors had it that Mr. Kafka, Brazilian ED in the Fund, would be proposed by the U.S. Mr. McNamara said that the following day he would refer to the draft before the Executive Directors, the alternative version circulated by the U.S. and the subsequent Fund discussion. He would indicate that the subject would possibly be scheduled for future discussion again.

AL
September 9, 1974

792/2/50

SWEDEN: Meeting with Mrs. Sigurdsson and Mr. Klackenberg, September 3, 1974
(Development Minister)

I had asked for the appointment mainly to discuss Swedish relations with the Bank.

Since Sweden would not be directly represented in the Nordic office for at least two years, I asked how communications would be handled. Mr. Klackenberg said that the preferred solution would be to appoint a second technical assistant in the Nordic office or alternatively to strengthen the staff of the Swedish Embassy.

Mrs. Sigurdsson referred to the left-wing criticism of the Bank in Sweden and how she and Mr. Klackenberg had attempted to reply to it. Their philosophy was one of participation within the system so as to maintain Sweden's influence. I strongly supported this approach and hoped that communications could be maintained both officially through the Nordic office and more informally through visits by senior Swedish officials in the Bank. I encouraged Mrs. Sigurdsson to come at her early convenience. She said she would be in New York and the UN in October but would not be able to visit the Bank at that time. She would not participate in the Annual Meeting (due to the strange fact that she is neither a Governor nor Alternate Governor in the Bank or Fund). The delegation would be led by the Minister of Finance and the Minister of Commerce who would both very much appreciate an opportunity to meet with Mr. McNamara.

I mentioned that I had discussed with people in SIDA their proposal for regular review meetings with the Bank covering joint financing, research documentation, sector and economic studies and training. Mr. Klackenberg was predictably negative to this proposal on the grounds that "it would distort communications between Sweden and the Bank." I still strongly favor the idea and expect that we will hear from SIDA on the subject.

The Swedes were keen to hear about plans for the Development Committee. They had received the draft resolution and favored an independent body with its own staff and a strong executive secretary so that it could serve as a forum for wide-ranging discussions of development problems, but they did not want it to be a substitute for UN action. I mentioned some of the political factors surrounding the proposal and urged that they take them into account when determining what the Nordic position should be in view of the true interests of the developing countries.

Mr. Klackenberg asked about plans for a meeting of the aid group in Indo-China. I said that a meeting in the fall may be unavoidable but that the Bank's management would not push for Bank aid to South Vietnam. We agreed that the situation had changed slightly when Laos had expressed a desire for a consultative group. Mr. Klackenberg said that the Pathet Lao side seemed to prefer a separate consultative group for Laos.

By way of footnote, Mr. Klackenberg had just returned from North Vietnam where he had negotiated a Sw.Cr. 700 million (\$160 million) aid program over the next five years, consisting of a large forestry, pulp and paper project and two hospitals. The program has been widely debated in Sweden, with critics pointing to the large part of Swedish aid going to North Vietnam. We did not discuss this.

AL
September 10, 1974

MEMORANDUM FOR THE RECORD

792/2/49

Meeting to Discuss Financial Work, July 31, 1974

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Broches, Damry, Adler

Mr. McNamara wanted to discuss and schedule work as a result of the previous day's Board Meeting on the Five-Year Program. He asked that Mr. Damry extract from the verbatim record of the Meeting all items which needed action. Issues for Board discussion should be shown on the August 1 schedule of Board Meetings.

1. Review of the Bank's Interest Rate

(Mr. Cargill responsible, Board Meeting December 3)

1. E. not in Nov

The Bank's financial tables and in particular Table 1 would be revised to show IDA transfers in future years, drawn last. Projections would revert to the old liquidity formula. The borrowing program for FY75 should be \$2,575 million. The minutes of the meeting should show that amount and the fact that the President would feel free to take advantage of additional possibilities for borrowing at advantageous rates charging it against the borrowing program of the following fiscal year.

2. Split Interest Rate

(Mr. Cargill, Board Meeting October 15)

Initial work should be a listing of countries in order of per capita income with lending amounts in accordance with the Four-Year Plan. Next there should be a cumulative column; then there should be shown several alternative split interest rates, starting with one point in each direction, all averaging 8% lending rate and indicating the cut-off point between countries at the higher and lower rate. This should be completed in 10 days.

3. Offset borrowing and lending

(Mr. Cargill, Board Meeting November 12)

The paper should discuss the means and effects of separating offset lending and borrowing in high-income countries from the remainder of the Bank program.

4. Lending to High-Income Countries

(Mr. Cargill/Mr. Chenery, Board Meeting November 5)

The paper should propose a policy for treating countries reaching the higher incomes among Bank borrowers. Mr. Alter had prepared a paper on the subject which would be considered in drafting.

5. Third Window

(Mr. Cargill, Board Meeting December 17)

The paper would consider various proposals for financing Bank lending at a low rate including the scheme put forward by Mr. Ahmad at the Board Meeting.

6. Prepayment of Existing Loans

(Mr. Cargill, Board Meeting October 22)

Mr. McNamara said that this was a sensitive subject which may be a part of a financing package arranged with high-income countries, but which in some cases may be avoided in return for borrowing on favorable terms (Japan).

7. Increase in Subscribed Capital

(Mr. Cargill, January 1 but not scheduled for Board discussion)

8. Review of the Bank's Five-Year Program through FY80
(Mr. Cargill, Board Meeting February 25, 1975)

It was agreed that the group would meet monthly to discuss the progress of work on capital increase, the five-year paper and portfolio analysis until those assignments have been completed.

There should be a Board Meeting to review the Bank's family planning program. Mr. Baum proposes that Dr. Kanagaratnam make an oral statement at the Board Meeting on September 17 followed by discussion if necessary. The education program will be discussed individually with those Directors who had raised questions and later on October 22 when the Education Sector Policy paper is discussed by the Board.

cc: Mr. Knapp
Mr. Cargill
Mr. Chenery
Mr. Broches
Mr. Damry
Mr. Adler

ALjungh
July 31, 1974

MEMORANDUM FOR THE RECORD

792/2/48

Meeting to Discuss Board Action on the Five-Year Plan, July 29, 1974

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

Mr. McNamara said that it was likely that the U.S. would go along with approval of a two-year plan and that the Germans would support the U.S. The Japanese may join with this line of argument. The French would be opposed as usual. He was inclined to propose approval for one year with three years being a tentative program for planning purposes.

Sir Denis thought that Mr. McNamara's assessment was accurate. The British may be more favorable since they saw the program as a necessary minimum, but may have been influenced by conversations with the U.S. Mr. Knapp favored a looser commitment for a longer period, since he did not like having only one year plans.

The order of speakers was discussed.

It was decided that, on the issue of a split lending rate, approval would be sought for an increase to 8% with the promise of a proposal later for a split rate.

Mr. McNamara asked Mr. Adler to provide him with a note on the lending rates of the Asian, Inter-American and African Development Banks by the end of the day.

The attempt to draw on the Bank last for IDA contributions did not seem to have any great support and it was decided not to try to push it through.

The liquidity policy proposed in the paper provided for low liquidity and Mr. McNamara was inclined to let that increase in view of the fact that substantial borrowing possibilities were available from Arab countries in the near future. A possibility would be to go back to the previous formula which would bring an approximate \$300 million additional liquidity room for the coming fiscal year.

AL
July 30, 1974

MEMORANDUM FOR THE RECORD

792/2/47

Meeting to Discuss Creditworthiness Unit, July 26, 1974

Present: Messrs. McNamara, Knapp, Cargill, Adler, P. Richardson

Mr. McNamara introduced by saying that the Bank wants to move away from the premise that receivables are worth nothing from the point of view of creditworthiness assessment. He asked that a unit be established which would have as its terms of reference to study the creditworthiness of individual countries and establish credit limits to ensure that the Bank can borrow in capital markets. He would place the unit under the responsibility of Mr. Cargill. It would be called Portfolio Analysis Unit, or something similar, and should more generally also help formulate the whole philosophy of financial management of the Bank. To achieve its objective, it would have to do debt studies for the entire developing world. He suggested that it be placed in P&B under Mr. Adler but Mr. Cargill said that for reasons of workload he would put it immediately responsible to him. This was also justified on the basis of certain jealousies existing in other parts of the Bank.

It was agreed that Mr. Richardson would prepare a statement of functions of the Portfolio Analysis Unit which he would submit to Mr. Cargill for further discussion with Mr. McNamara.

AL
July 30, 1974

MEMORANDUM FOR THE RECORD

792/2/46

Meeting on Five-Year Program, July 24, 1974

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

In view of opposition from the United States to an increase in the Bank's Five-Year Program, Mr. McNamara asked what form of language should be prepared to be submitted to the Board in case full approval seems impossible.

It was agreed that Messrs. Rickett and Adler would draft language to the effect that plans for all years beyond FY75 would be indicative and that the Five-Year Program would be reviewed after one year.

A meeting would be held on Monday, July 29, at 11:30 to discuss the language.

AL
July 25, 1974

792/1/135

MEMORANDUM FOR THE RECORD

Meeting to Discuss GAO Investigation of Bank Forestry Project, July 23, 1973

Present: Messrs. McNamara, Knapp, Baum, Hoffman, Lee, Merriam

Mr. McNamara said that the GAO's investigation was potentially dangerous since it may create another blast from the GAO. The Bank may be criticized for not being concerned with environmental impact of projects when, in fact, it led much of the concern which has gradually developed. He asked what lies behind the GAO investigation and suggested that the Bank contact the U.S. Treasury, GAO and Congressman Reuss, who apparently had initiated the GAO action.

Mr. McNamara said there were several points to be made with the U.S. First, the projects under investigation were processed before the establishment of the Bank's environmental office. Second, the Bank now has environmental standards. Third, the Bank is a leader in the field of environment concern. It has been repeatedly complimented by such authorities such as Maurice Strong and Barbara Ward. Fourth, it should be clear exactly what effect the projects under consideration are having on the environment.

It was established that the projects in Kenya and Zambia had no relation with the type of projects discussed in a Sierra Club Journal article which had caught the interest of Congressman Reuss. The Jenka Triangle project in Malaysia was more sensitive since it involved the cutting down of tropical virgin forest.

Another serious problem to be looked at is whether the GAO has the authority to investigate the Bank on behalf of the U.S. Congress in another sovereign nation as it proposed to do by sending missions to the three countries in question.

Mr. McNamara asked Messrs. Hoffman, Lee and Merriam to take charge of the matter and to obtain a dossier of complete correspondence on the matter. He asked Mr. Merriam to contact Mr. Reuss' Administrative Assistant to enquire about Mr. Reuss' attitude and his knowledge of the status of the GAO investigation. There would be a second meeting on July 25. He also raised the question as to whether documents produced by consultants or joint Bank/FAO missions or the countries should be released as had been requested by the GAO.

AL
July 24, 1973

President has seen

MEMORANDUM FOR THE RECORD

792/2/45

Meeting to Discuss 1974 Annual Meeting Speech, July 22, 1974

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

Mr. McNamara asked for comments on the structure and substance of the speech and requested Mr. Chenery and others to rewrite portions. All rewriting should be completed and submitted to Mr. McNamara by Friday evening, July 26. Mr. McNamara would then plan to rework the speech on Saturday, July 27. The following week Messrs. Clark and Maddux would work on editorial points, while the speech would be given to Mr. Knapp and other members of the President's Council for comment.

Accuracy checks would be done by Messrs. Chenery and Adler through Messrs. McPheeters and Colaco to be completed by Friday evening, July 26. P&B would be responsible for World Bank data and ODA figures and DPS for everything else.

In a subsequent meeting with Messrs. Baum, Yudelman and Christoffersen, it was agreed that Mr. Baum would submit a proposed revision to the part of the speech dealing with the Nairobi program by Friday, July 26.

It was also agreed that Messrs. Yudelman and Christoffersen would prepare an initial summary sheet showing the Bank's program in rural development in future years by August 1.

AL
July 25, 1974

MEMORANDUM FOR THE RECORD

792/2/44

Meeting to Discuss the Development Council, July 18, 1974

Present: Messrs. McNamara, Knapp, Rickett, Nurick, AL

There seemed to be no great need for the Fund and Bank to resolve major differences on the draft resolution establishing the Council, and it was agreed that the Bank would proceed with drafting a resolution with alternative clauses where differences of opinion or alternative formulations existed. Messrs. Nurick and Rickett would think through the timing of activities. If there were to be a meeting of the Bank and Fund Boards in the course of establishing the Council, this must take place in September.

The United States had proposed the establishment of a technical group as an independent body for evaluation of bilateral and multilateral programs. It was agreed that from the Bank's point of view it would be preferable to have groups set up ad hoc for special tasks, while most of the business would be handled by the Bank and Fund Boards.

The main issues seemed to be the role of the Boards, the question of deputies or full-time staff, and the selection of a chairman.

The number of persons attending the meetings of the Development Council should not be excessive. The Fund proposal seems to lead to a total of close to 200 people in the room which would effectively bar productive discussion.

Another issue which had been raised in the discussions with the Fund was the participation of other institutions. Mr. McNamara favored excluding others than country representatives, but the matter was left for further consideration.

AL

July 22, 1974

792/2/43

MEMORANDUM FOR THE RECORD

Discussion of International Agricultural Research, July 16, 1974

Present: Messrs. Baum
Yudelman
Graves
Cheek

Within a few years, the Agricultural Research Centers would be facing a period of financial stringency since their needs would be increasing rapidly. The budgets which had been drawn up tentatively for discussion in the Agricultural Centers Week did not include money for new investments and institutes; one was the Middle East Center, planned to investigate arid and semi-arid agriculture, particularly water management and sheep and goat farming. The cost was estimated at \$20m investment and \$5m per year in operating costs. It would have stations in Lebanon, Iran, Syria and Tunisia or Algeria. A second planned new organization was a fertilizer institute which would work on chemical fertilizers, organic fertilizers and nitrogen fixation. It was quite possible that the US could finance and execute the first part through the TVA but still wished to give the project an international flavor.

The budget for 1975 is tight, showing available some \$42m and possibly \$3m in unexpended funds from earlier years. The US was intending to contribute 25% together with IADB but this was unacceptable to the Bank and other participants and was under negotiation to increase the US share alone to 25%. The large Foundations are in financial trouble and Mr. McNamara estimated that the Ford Foundation would maintain its level of contribution in current terms. The Ford Foundation was contemplating initiating a food institute along the lines of the Institute for Strategic Studies. It was agreed that the US, Canada, France, Europe in general and the Asian Development Bank should be asked to contribute more. Mr. McNamara asked that the number of professionals in each Institute be shown on the summary tables provided to him. He asked Mr. Baum to come back to him if there was a shortage of money and his efforts would be required.

There was a discussion about the productivity of units where Mr. McNamara felt that some are not as efficient as others. He asked that the Institutes be prevented from over-investing before they could effectively utilize their installations. The Bank should definitely take responsibility for reviewing designs and suggesting changes.

The so-called outreach programs were not included in the budget estimates but were considered an important part of the Institutes' activities. Mr. McNamara said he could well justify employing a promotion manager to ensure that all potential users are aware of the availability of outreach programs.

P & B is initiating a review in 1975 of the activities of the Institutes and their effectiveness.

As to progress in individual institutes, Mr. Grant of CIAT is returning to New York, the Institute's physical plant is complete and an in depth study will be performed by TAC shortly. CIMMYT has reached a steady state, has a good outreach program and is probably the best run Institute. CYP is a modest operation but economical and well suited to its purpose of research in potato growing. ICRISAT is well managed and functioning effectively. IITA has also reached steady state but its capital plant is too big for its present level of activity. Its performance has been particularly good in research on root crops, management of tropical soils and disease control. IRRI maintained a steady state of operations through 1973 when its new Director, Mr. Brady, descended with a host of new ideas. At present its budget and plans are too ambitious. At least five of the Centers will be looking for new directors within the next two years.

AL

July 17, 1974

792/2/42

MEMORANDUM FOR THE RECORD

Meeting with Mr. Livingstone Armstrong, July 15, 1974

At his insistence, I met with Mr. Livingstone Armstrong who had seen a number of Bank staff previously to discuss his scheme for health care in Africa.

I told him two things. First, in order to consider a request for financing at all, it should come from a member government through official channels. Secondly, even if the Bank were to receive such a request, the chances of our being able to provide financing are practically nil since we, as a matter of policy, do not finance projects in the health field.

792/2/41

Dag Hammarskjöld Conference in Stockholm, July 1974

Present: Messrs. Knapp
Chenery
Broches
Clark

Mr. McNamara said that the summary of discussions showed a proposal for revision of the Bretton Woods System in which the Foundation would be instrumental. Position papers would be prepared by participants. Mr. Haq, who had been there, should keep in contact with the work of the Foundation and report on the proposals as they evolve. Messrs. Chenery and Clark would be responsible for reporting to Mr. McNamara on the subject.

AL

July 17, 1974

792/2/40

MEMORANDUM FOR THE RECORD

Meeting to Discuss OPEC Participation in the Bank, July 15, 1974

Present: Messrs. McNamara, Knapp, Cargill, Shoaib, AL

Mr. Cargill said that a paper would be reaching Mr. McNamara shortly. He and Messrs. Shoaib, Nurick and Rickett had discussed the future of Bank borrowing in oil countries and what Mr. Shoaib should say on his forthcoming trip. There were several issues:

The current program for borrowing in FY 75 showed no amounts for Kuwait and Abu Dhabi which Mr. Cargill thought was wrong. Mr. McNamara agreed, and asked that a program be established and expressed in terms of annual amounts over a longer time period. He suggested, and it was agreed, that a figure to aim for in Kuwait and Abu Dhabi was \$500 million per year each.

Mr. Shoaib said that Mr. Abdlatif Al-Hamad probably was under the impression that the Bank would float one more issue amounting to KD25 million in local currency. Mr. McNamara agreed to this, provided that it was understood that future issues would be in dollars and that there would be a borrowing program over several years.

The second issue concerned capital subscriptions. The paper would analyze an increase of OPEC shares to about 15% with the same proportions between countries retained. This would mean the infusion of \$4.1 billion additional capital for the Bank. Venezuela would almost reach the level of shares of Japan, but would not remove Japan from the category of countries appointing Directors.

It was agreed that Mr. Shoaib would propose to the countries he visited (Saudi Arabia, Kuwait and Abu Dhabi) a tripling of their capital stock in the Bank. The problem of pre-emptive rights of other countries would only arise when the authorized capital needs to be increased.

As to OPEC contributions to IDA, Mr. McNamara asked that this question not be raised for the time being since the prospects of obtaining funds were small.

The borrowing terms for loans from OPEC countries should be at least ten years' average life and at an interest rate of 8%, or alternatively slightly higher than the US 10-year Treasury bill rate. The amount for FY 75 should preferably be agreed upon and there should be discussion of amounts for future years, but with terms to be discussed later.

AL
July 15, 1974

Meeting with Part II Country Directors to Discuss Five-Year Program, July 9, 1974

Present: Messrs. McNamara, Shoaib, Knapp, Kochman, Sen, Ahmad, Choi, Demeksa, Guarnieri, Barco, Mapa, Gavalda, J. Adler, Cargill, Chenery, Damry

Mr. Kochman introduced by saying that the group had met to consider initial reactions to the Five-Year Program paper and gave the word to Dr. Sen.

Dr. Sen said that there were three broad areas of support for the document. First, Part II countries supported five-year planning as such and there had been fears that long-range planning would be dropped in times of crises. Secondly, it was agreed that the Bank should increase its lending program to the approximately \$30 billion envisaged for the next five years. Thirdly, there was broad agreement with the proposed liquidity policy. However, there was disagreement on the proposed increase in lending rates. Several Directors had proposed a step-wise increase with smaller increments than the currently proposed increase to 8%. Others proposed keeping 7½% for poorer countries while charging a higher rate for the more developed. There have been proposals to transfer \$100 million of the profit to subsidizing a third window instead of transferring to reserves. Finally, Dr. Sen asked for Mr. McNamara's advice on the Joint Bank/Fund Committee on Transfer of Resources.

Mr. McNamara started by emphasizing that the amount of concessional funds available to LDCs will be insufficient. The energy paper to be issued the following day would show that ODA, which is currently at \$12 billion, will need to increase to \$30 billion in 1980 to give the poorest developing countries a chance of achieving a growth rate of 2.1% per capita per year. Due to the rapid inflation, developing countries can afford to borrow under intermediate terms, such as those for the Bank. He agreed that the Bank could well have a third window between the terms of IDA and IBRD. However, a 4% interest subsidy would require to have available either guaranteed income over a number of years or a liquid amount equaling 50% of the face value of the loans made.

Mr. Ahmad proposed that the developed countries and OPEC countries could give the Bank a guarantee of a 4% interest subsidy on part of the funds with which the Bank borrows there.

Mr. McNamara said that the energy paper would be the starting point for the Joint Ministerial Committee. He recommended Directors to read the paper carefully. He said that the Committee should have a link to the Boards of the Fund and Bank but that the form of this relationship was not yet determined.

low income

He returned to the subject of intermediate borrowing by/developing countries and said that an 8% interest rate may be justified under present conditions, provided that the investment is made for higher return, that it earns enough foreign exchange to pay debt service, and that the Bank as a lender does not participate in debt rescheduling. The Bank must maintain its creditworthiness regardless of whether it intends to borrow from OPEC or on Wall Street. This requires adequate reserves and prudent financial management in general. He had met with investment bankers in New York the previous week and they had assured him that the Bank can raise substantial amounts of money in the U.S. market for the proposed Five-Year Plan, provided that financial prudence is maintained, including no participation in debt rescheduling.

Mr. McNamara said that inflationary conditions make budgeting very difficult. The budgets as proposed are as tight as possible without being overly optimistic.

On the subject of a split interest rate for poorer and richer LDCs, Mr. McNamara said it would be divisive in that it would be very difficult to agree upon criteria for determining interest rates to individual countries. Mr. Choi agreed with this position but Mr. Demeksa said that a split interest rate would be fair. Mr. Ahmad suggested, and Mr. McNamara agreed, that maturity and grace periods can be increased. Mr. Guarnieri said that his countries would accept the split rate but that the average rate must be sufficient to keep the Bank operating. Mr. McNamara said that an 8% interest rate is now necessary. A lower rate would require a lower level of lending. Mr. Gavalda said that his countries would accept the higher of alternative interest rates.

Dr. Sen suggested that the Bank's creditworthiness criteria may have to be changed. Mr. McNamara said he agreed that the criteria for creditworthiness should be reviewed and made more sophisticated. This is necessary because of the changing economic conditions in the world and because the Bank is being increasingly pressed by Part I countries to participate in debt rescheduling. The arguments given are, among other things, that the Bank recommends others to participate and that the Bank puts such conditions on borrowers that it precipitates rescheduling.

Dr. Sen said that, when the Bank is borrowing from so-called off-set countries, it must have the same rate as that at which it lends to those countries. Mr. McNamara agreed to that .

AL
July 10, 1974

792/2/38

MEMORANDUM FOR THE RECORD

Financing from Oil Countries, July 8, 1974

Present: Messrs. McNamara, Cargill, Adler

Mr. McNamara asked Mr. Adler to undertake the following assignments:

1. A written proposal for increasing participation by OPEC countries in the Bank.

- (a) A theory for the entry of OPEC member states into the Bank, including justification and computation of amounts and percentages;
- (b) Application of this theory of computation into specific OPEC members; and
- (c) A procedure for their entry into the Bank, including a description of the present situation, how additional capital can be made available for subscription, what kind of voting procedure should be adopted and whether the entry of OPEC members would have repercussions on the participation of other member states.

2. A written statement of the FY75 Borrowing Program and its financial implications.

The statement should describe the sources and amounts of financing and the timing of various operations. It should certainly include the \$500 million from Venezuela, \$1 billion from Saudi Arabia, \$200 million from Iran and an undetermined amount from Libya. The effect of this borrowing program on the Bank's earnings and liquidity should be stated.

The two statements should be submitted to Mr. McNamara in time for a meeting on Friday, July 12.

AL
July 10, 1974

Conversation with Mr. Khelif, July 8, 1974

Mr. Khelif had just returned from a tour of his constituency to participate in the discussion of the Bank's Five-Year Program which had, however, been postponed. He made a number of points, most of which probably emanate from his own country, Algeria, but some of which may be more generally applicable to Arab States.

He complained that translations into French of the Bank's Five-Year Program had arrived late and therefore had given governments very little chance to consider this complicated document. He stressed the need for more time to study the Bank's policy papers, particularly on behalf of the less well-equipped LDC governments.

He said that some of his governments were very reluctant to agree to any increase in the interest rate but that he would probably not vote against it. Similarly, he was concerned about the decision not to recommend any further transfer of profit to IDA.

He asked whether I thought it wise for him to recommend to countries to come back with reactions to the Five-Year Program before July 30 and whether perhaps it would be wise for him to make another tour to his countries to continue his discussion of the plan with the governments. We agreed to have lunch on Friday, July 12, and I said I would give him an indication of my recommendations with respect to these questions and other points below.

In Algiers Mr. Khelif had received the impression that members of his Government were baffled by the contrast between the extensive and frank discussions they had had with Mr. McNamara during his visit and the pedestrian approach of officials of the Bank visiting Algiers subsequently. They felt it was important to maintain a dialogue about the cooperation between the Bank and Algeria. Particularly, he felt that the Bank's technical assistance in the form of advice on industrialization strategy, choices of technology and dealings with foreign investors and suppliers would be very welcome and valuable and that the arrangements for such technical assistance should be made soon.

He said that this lack of continuous dialogue and the general political uncertainties surrounding UN institutions, the Bank and the IMF made his governments reluctant to approve an ambitious five-year program before the Annual Meeting of the World Bank. He even suggested postponing the discussion until then or later to allow governments more time and to allow for the resolution of some political uncertainties. I strongly recommended against this, since adding one more complicated subject to the topics for discussion at the Annual Meeting would not simplify the political process and, in addition, valuable time would be lost in the Bank's work. I argued that the Bank should make its plans in an orderly fashion independent of political conflicts or opinions.

Mr. Khelif expressed some frustration at the position of the U.S., which had seemed to be forthcoming at the beginning of the UN's General Assembly but which had made no aid commitments then or later ("and now Simon is going to the Middle East to try to lower oil prices, according to the press").

Mr. Khelif said that there was a general feeling in the Arab world that, although some of the nations had become very rich or at least were building up great liquid reserves, the total needs of the Arab world were at least as great as the income it gained from oil, and that this should be taken into account in

the planning of institutions such as the Bank. Also there was an increasing feeling that too many institutions are being created and that many of them will never become operational, or at least not for a long time.

AL
July 9, 1974

MEMORANDUM FOR THE RECORD

792/2/36

Meeting to Discuss Energy Paper, June 28, 1974

Present: Messrs. McNamara, Knapp, Baum, Chenery, Stern, Tims, Schulmann, Vibert, Hulley and Miss Yudin

Mr. Knapp thought the paper was a great improvement over the last draft but Mr. McNamara felt that considerable redrafting was needed. Figures inserted and in particular Section 6 needed to be revised.

It was decided that the title of the paper would be "Impact of Recent World Developments on Prospects for Growth and Capital Requirements of Developing Countries."

There was considerable discussion of Section 6 and the cases to be chosen as projections of ODA to developing countries.

It was decided that a revised draft would be submitted to Mr. McNamara on Monday morning, July 1, along with revised summary and conclusions for final distribution to the Board on Wednesday, July 3.

AL
July 1, 1974