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PUBLIC DISCLOSURE AUTHORIZED

President's Council Minutes
July - Dec. 1977

The World Bank Group
Archives



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Records of President Robert S. McNamara President's Council minutes - Minutes 08

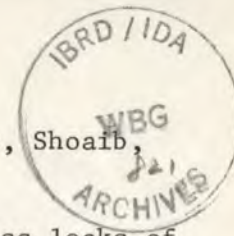
Folder 8



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821/8/1
President's Council Meeting, July 12, 1971

Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Demuth, Sir Denis, Shoaib, Adler, Gaud, Henderson, Clark and Twining



Mr. Knapp explained the course of events that led to recent press leaks of the Bank's East Pakistan report. It was clear that the press had received information from inside sources in the Bank. Mr. McNamara emphasized that it was not true that the U.S. Government had asked to suppress the report.

Mr. Knapp mentioned that he and Mr. McNamara, together with Mr. Nurick, had lunched with Mr. Irwin and other State Department officials. They had discussed Bank and U.S. policy considerations regarding expropriation problems. Mr. Irwin had mentioned that various different approaches were under discussion within the U.S. Government, among them the possibility of getting more third party involvements in future disputes. Mr. McNamara asked Mr. Broches to prepare a note, which he would send to Mr. Irwin, on how ICSID could be of use to the U.S. in this matter.

Mr. McNamara asked Mr. Adler to prepare a short statement of the FY72 program for Bolivia, Chile, Ecuador, Guyana and Peru. He planned to send it to the IDB and would then ask for similar information on their FY72 program in return.

Mr. McNamara thought perhaps the U.S. could be moved towards further action on IIIA. He asked Messrs. Broches and Demuth to obtain preliminary agreement among interested countries on how it should be established.

Mr. Demuth mentioned that the Technical Advisory Committee of the International Agricultural Research Consultative Group had met in Rome. Sir John Crawford had chaired an excellent meeting.

Mr. Demuth also mentioned that during visits to Geneva and London it appeared that the proposal for a Supplementary Finance Scheme had run out of steam. It may perhaps not even be included on the Agenda of UNCTAD III.

He also mentioned that agreement seemed imminent in DAC on proposals towards the untying of aid. The Bank would be asked to provide a panel of experts to review potential disputes.

Mr. Demuth also mentioned that it was likely that the People's Republic of China would be admitted to the UN this fall. In that case the General Assembly might ask the specialized agencies to admit China. Mr. McNamara asked Mr. Broches to review what problems this might cause to the Bank Group.

Mr. Adler reported that portions of the debt section of the Annual Report had caused problems to certain EDs. Mr. McNamara asked Sir Denis, together with Messrs. Adler and Clark, to meet with these EDs before Tuesday's Board Meeting and work out an acceptable solution.

Mr. McNamara asked Mr. Adler to analyze the reasons why the IDB appeared to be able to show a relatively high financial rate of return.

Mr. McNamara also asked Mr. Adler to review projections for the Bank's net income for FY72. He would like to have this by the end of the week.

Mr. Aldewereld reported on borrowing possibilities in the U.K., Germany and the U.S.

Mr. McNamara mentioned that the German ED had requested a three-week lead time between Board distribution and discussion of country economic reports. Mr. Mendels should ensure that this request was complied with.

President has seen
LEC

July 14, 1971



Record Removal Notice



File Title Records of President Robert S. McNamara President's Council minutes - Minutes 08		Barcode No. 1770821		
Document Date July 22, 1971	Document Type Minutes			
Correspondents / Participants				
Subject / Title President's Council Meeting, July 19, 1971				
Exception(s) Prerogative to Restrict				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date 24-Feb-17</td></tr></table>	Withdrawn by Shiri Alon	Date 24-Feb-17
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821/813

August 2, 1971



President's Council Meeting, July 26, 1971

Present: Messrs. McNamara, Rickett, Shoaib, Broches, Chenery, Demuth, Cope, von Hoffman, Twining, Clark, Adler, Mendels

Mr. Chenery reported on his visit to Turkey.

Mr. McNamara said that he was concerned to hear that IMF might consider setting up a separate computer center. He asked Mr. Chenery, together with Mr. Shoaib and Mr. Muller, to look into this problem in early September.

Mr. von Hoffman mentioned that Mr. Patterson had returned from Chile. The Government had received him in a very friendly manner, although it was obvious that private industries faced severe problems, including IFC-financed projects.

Mr. Adler reported that he was preparing a work outline for a study of the Bank's future borrowing program. Mr. McNamara asked him to include in the outline an examination of individual capital markets and future possibilities for raising funds through Central Bank bonds and BIS loans. Future IDA levels should be realistically assumed without concern, for the time being, as to whether it could be released outside the Bank. Mr. McNamara said he was particularly interested in the creditworthiness issues arising from the external debt study. He said he would wish to discuss the paper on Bank lending in the 1970s with Messrs. Aldewereld, Chenery and Cope sometime later in the week.

Sir Denis suggested that Mr. Adler include in his study the suggestion made by Mr. Carli regarding a common approach by all EEC countries to the issuing of Bank bonds in these countries.

Sir Denis mentioned that he would chair a meeting of representatives of Part I countries on Thursday to discuss future IDA allocations. Mr. McNamara asked Mr. Christoffersen to report on a point the Nordic countries were likely to raise at that meeting; that IDA lending policies should be separated from those of the Bank, particularly with respect to disputes about expropriation and compensation issues.

Mr. Shoaib reported on the separation of the Administration Department into two new departments. He also mentioned that several firms had now expressed interest in undertaking the compensation study. Mr. McNamara remarked that this year member governments were likely to take a much more active interest in this issue than they had before. A year from now the compensation policies of the Bank would be scrutinized when the Governors would be asked to consider a new general salary increase for EDs.

Mr. Aldewereld outlined the proposal to float a U.S. bond issue on August 11. Mr. McNamara commented that the U.S. had initially agreed to let the Bank float an issue of \$250 million, but had subsequently asked that it be reduced to \$175 million. This again underscored the uncertainties which the Bank faced in the various capital markets. He asked Mr. Aldewereld to approach the Canadian Government about the possibility of a new bond issue there. Perhaps he might ask Mr. Rasminsky if he would be willing to hold a larger volume of IBRD Central Bank bonds.

President has seen

Mr. Aldewereld emphasized the need to watch carefully throughout the year the processing of projects. He planned to keep tighter control over projects programmed for Board action in the first half of FY '72. Mr. McNamara asked Mr. Cope to remind Area Directors of this point. They should not be hesitant to ask either himself or Mr. Knapp for help in getting projects processed without delays through governments in borrowing countries.

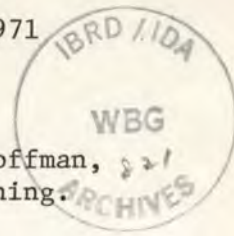
Mr. McNamara noted that Mr. Isbister had been worried about whether the arrangements for the Kennedy Center ballet evening during the Annual Meeting might be criticized as "excessive." Mr. McNamara asked Mr. Adler to analyze the cost of this event, compared to social functions during previous Annual Meetings, and relative to total membership. He asked Mr. Clark and Mr. Mendels to review carefully the proposed arrangements for the event.

Mr. McNamara asked PC members to report to him any significant comments made by staff with respect to the handling of the East Pakistan report. It was not as important to find the particular person who had leaked the report as it was for the staff to understand what destructive effects leaks of this nature had on the overall effectiveness of the Bank Group's work.

L.E. Christoffersen

821/8/4

August 2, 1971



President's Council Meeting, August 2, 1971

Present: Messrs. McNamara, Aldewereld, Broches, Rickett, Cope, Hoffman, Adler, El Emary, von Hoffmann, Clark, Henderson and Twining. (Mr. Hayes joined the meeting later.)

Mr. McNamara mentioned that he had met with the "5:30 group" last week. He had enjoyed the discussions that took place at the meeting which lasted for two hours. It was, however, sad to see how many of those present felt that they were inadequately briefed by their superiors about Bank policies and positions and how many misunderstandings and frustrations arose because of this. He said that Senior Staff must be particularly sensitive to this problem.

Mr. McNamara said that one of the issues that had apparently caused difficulties to the staff was that the Bank apparently during the last year or two had hardened its position on international competitive bidding under Bank and IDA projects. Consequently, staff were frustrated with what they thought was insistence on unnecessary international competitive bidding under circumstances where such practice led to inefficient use of Bank staff work and perhaps also involved a cost in terms of the projects efficiency. He asked Mr. Aldewereld to look into this problem.

Mr. Hoffman mentioned that the Washington representative of ILO had informally explored the possibility of using a Bank economist to lead the next ILO employment mission to Iran. He said he would be lunching with Mr. Weaver today and would ask him then to use the regular channels for such an approach.

Mr. Clark mentioned that the Bank visit last week by 15 African professors had been very useful and that similar groups, about three each year, would be arranged in the future.

Mr. Aldewereld reminded that the price of the UK bond issue would be determined tomorrow. Mr. McNamara asked him to mention at Tuesday's Board Meeting the proposed Central Bank roll-over bond issue.

Mr. McNamara referred to the Part I country meeting on IDA allocations held last week under the chairmanship of Sir Denis. It was clear that many of the delegations had misconceptions of the role of the Bank as a development institution, uncertainties with respect to IDA's country allocations, and criticism against the methods by which IDA chose projects within each of the country allocations. He asked Sir Denis to be responsible for dealing with governments in Part I countries on these issues and should not hesitate to initiate individual meetings at his own requests. Mr. Hayes will resume responsibility for the staff work on these issues including a careful analysis of how the Bank works in relationship to IDA. He asked Mr. Hayes to prepare an outline for his work in this field but reminding him that first priority should be given to completion of the paper on the Bank's future lending program. He also asked Mr. Adler to assume responsibility for the staff work which should be initiated on future fundings of IDA. This should include such questions as: should there be a fourth replenishment similar to that of the Third? should the formula for determining Part I country contributions hold in the future? should the same three-year period be covered as in the past? Mr. McNamara asked Mr. Adler to review

President has seen

carefully Mr. Vienot's remarks at the meeting with respect to IDA lending for French-speaking Africa. He asked him to revise the IDA tables on country allocations and to transmit to Mr. Vienot the statistical information necessary to reconcile the figures used by Mr. Vienot with those used by Mr. Cope at that meeting. Mr. McNamara also asked Mr. Adler to prepare a note for distribution to Mr. Knapp, Mr. Aldewereld and Mr. Chenery on the total amount of Bank and IDA financed projects for which rates of return had been calculated. It should differentiate between financial and economic rates of return and should show individual figures separating Bank and IDA lending and show the average figures for each fiscal year. He also wished to see in that note an analysis of the ratio of project costs for which rates of return had been calculated compared to total project costs in each year for each of the two types of financing.

Mr. McNamara asked Mr. Aldewereld to advise Mr. Chadenet and Mr. Ripman, upon their return to the Bank, on the preparation of a report to the Board on the Bank's supervision work. It had no immediate hurry, and it might not possibly be distributed to the Board until some time towards the end of the calendar year.

Mr. Clark mentioned that yesterday's New York Times had made a reference to a possible Bank involvement in U.N. emergency relief work in East Pakistan. Mr. McNamara said there was no basis to this allegation.

821/8/5
President's Council Meeting, August 9, 1971

Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Sir Denis, Gaud, Adler, El Emary, Hoffman, Hayes, Lind, Twining

Mr. McNamara reported that last Friday the Chilean Ambassador had come to see him on behalf of his Government to request Bank assistance for earthquake relief in Chile. An estimated total of \$250 million was apparently needed. The Ambassador had mentioned that IDB had agreed to give its support for such assistance. Mr. McNamara had said that since he was not familiar with the details of this situation he would consult with his staff and would also be in touch with IDB.

Mr. Knapp said that a representative for Anaconda Copper had indicated to him that they would wish the Bank to participate as a mediator in compensation issues in Chile.

Mr. Adler mentioned that an interim report would be ready by the end of the week on Mr. Willoughby's evaluation study of selected power projects. The full report would not be ready until October 31. Mr. McNamara suggested that Mr. Willoughby thereafter might turn his attention to an evaluation of DFC projects.

Mr. Twining reported that the firm of McKinsey & Company had been selected by the Bank to undertake the compensation study. The first stage of the study would be ready by October 1.

Mr. Broches mentioned that he would be meeting later in the day with IMF officials to discuss potential problems arising from possible membership by the People's Republic of China in the UN. Mr. McNamara asked Mr. Broches to call him at the end of this meeting and inform him how IMF planned to approach this problem.

Mr. McNamara referred to Senator Proxmire's release to the press of data on liquid asset holdings of the Bank, IDB and ADB. He had asked Mr. Adler to review carefully how the Bank compared with respect to the other institutions on interest rates granted by the various banks, and, if it received preferential interest rates, what justification there was for such differentiation. It was imperative for the Bank to examine the underlying facts in order to learn what it should do in the future. He did not think the Bank had yet developed any strong arguments against disclosure of such data.

Sir Denis mentioned that the revised debt study paper had been circulated to the EDs Friday afternoon. Mr. McNamara asked Sir Denis to meet later in the day with Mr. Lajous and other Latin American EDs to see how their objections would be minimized. Sir Denis wondered about the Bank's position with respect to the planned DAC meeting on September 16, when the debt study paper was scheduled for its agenda. Mr. McNamara said he would prefer that the Bank did not directly get involved. Hopefully one or more of the DAC members could take the initiative and bring the paper to the attention of the DAC Secretariat. He asked Sir Denis to meet with him after the Bank meeting tomorrow to discuss how this issue should be handled.

Mr. Aldewereld reported that the capital markets in London and New York had been concerned about the proposed devaluation of the dollar, as suggested by the newly published Reuss report. He feared it might lead to higher costs for pending Bank bond issues.

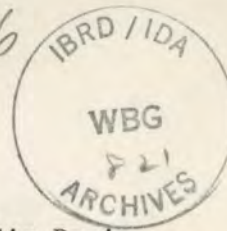
Mr. Adler reported that he would have the outline of his proposed paper on the Bank's borrowing program ready by Thursday. Mr. McNamara said that EDs did not seem to understand fully the Bank's difficult position as a capital market borrower. It did not have the flexibility of a commercial bank nor did it have the taxing capacity of a government. Consequently he felt that the potentially destructive effects of the Bank participating in debt rescheduling arrangements were not realized by EDs and officials in member governments.

President has seen

LEC

August 10, 1971

821/8/6



President's Council Meeting - September 13, 1971

Present: Messrs. McNamara, Knapp, Aldewereld, Chenery, Demuth, Sir Denis, Shoaib, Gaud, W. Clark, Blaxall, Gabriel and Rotberg.

Mr. Gabriel and Mr. Rotberg gave a short presentation on the effects of the current upheavals in the international monetary situation upon the operations of the Bank Group. Mr. McNamara asked them to prepare a note, summarizing what they had presented orally, for distribution to those present. Mr. McNamara also asked Mr. Gabriel to prepare a paper on the possibility of adopting disbursement arrangements which would equalize the exchange rate risks for all borrowers from the Bank.

It was agreed that Bank policy on Resident Missions should be discussed at the PC Meeting on October 11.

Mr. Knapp mentioned that the Commonwealth Finance Ministers Meeting, to be held immediately prior to the Annual Meeting, would have on its agenda "The Role of the Bank Group in Development". Mr. McNamara asked Sir Denis to find out what were to be discussed.

Mr. Chenery mentioned that the draft paper on the future level of Bank lending would be discussed at the Economic Committee Meeting on Thursday. Mr. McNamara said that he would wish to meet thereafter with Messrs. Knapp, Aldewereld, Chenery and Blaxall to discuss a final version that could be sent to the Board.

Mr. Chenery mentioned that another paper was being prepared in the economic staff on proposed procedures for identifying topics for internal policy discussions within the Bank.

Sir Denis mentioned that he would attend a DAC meeting on September 20 on the Bank's external debt paper. It was agreed that the bi-monthly report to the EDs would mention that upon the requests of certain DAC members, the paper had been scheduled for discussion and that Sir Denis was to attend the meeting.

Mr. Shoaib reported that a meeting in Manila with the Asian Development Bank had revealed that there were serious misgivings on their side with ADB's participation in the joint economic reporting system with IBRD. ADB's Management felt they were not treated as full partners. Mr. McNamara asked Mr. Demuth to write a paper on how the present arrangement was working and on what future plans the ADB had with respect to the preparation of country economic reports. Mr. Demuth should also review generally problems of cooperation with the IDB.

LEC

President has seen

President's Council Meeting, September 20, 1971

821/8/7



Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Chenery, Shoaib, Gaud, Clark, Adler, von Hoffmann

Mr. Chenery mentioned that the Economic Committee last week had reviewed the draft paper on projected levels of Bank lending. Mr. McNamara said he was most anxious to have this paper distributed to the Board. It should help educate member governments of the need to avoid net negative capital flows to developing countries.

Mr. McNamara said he had received from the Algerian Minister of Finance a voluminous report on the outstanding compensation issues. He asked to be reminded that, during the Annual Meeting when he met the French Minister of Finance, he would wish to discuss Algeria's lending problems with him.

Mr. Adler reported from the DAC meeting on the Bank's external debt paper. The quality of the discussions had been rather disappointing.

Mr. McNamara asked Mr. Adler to meet with him after the Annual Meeting to discuss the status of the Bank's current arrangement to exchange financial data and operational information with the Asian Development Bank and IDB.

Mr. von Hoffmann reported on the changes in composition of the IFC panel of advisors.

Mr. Clark queried what the Bank's position was with respect to press questions on the effects upon the Bank of possible UN membership by the People's Republic of China. Mr. McNamara asked him to work with Mr. Broches to prepare a simple statement to the press on this question. Care should be taken to ensure that the statement did not appear in any way antagonistic to membership applications by countries not yet members of the Bank.

Mr. McNamara said he was anxious to see what the Bank and IFC operational departments could do to get ICSID more widely accepted.

Mr. Aldewereld reported on the investment performance of the Bank's pension plan funds. Mr. Clark queried whether these investments could be broadened more internationally. Mr. McNamara said there might be some virtue in having a non-U.S. investment firm look at this possibility. He reiterated, however, that the only objectives considered in this connection should be concerns about higher returns and better security.

Mr. McNamara asked that the Kuwait Government's, and perhaps also Norway's, advance IDA contributions be quickly processed through the Board.

Mr. McNamara mentioned that he had met briefly with Mr. Escott Reid the last week. His report to CIDA on multilateral institutions were now in the process of being published as a book. Mr. McNamara said he wished to examine the appropriateness of having people of this kind having easy access to Bank documents and senior Bank officials for the purpose of writing books about the Bank.

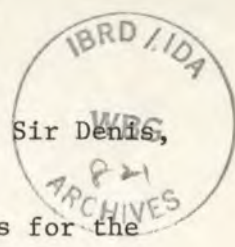
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October 13, 1971

President has seen

President's Council Meeting, October 4, 1971

821 18/18



Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Chenery, Demuth, Sir Denis, Shoaib, Gaud, Clark, Adler

Mr. Aldewereld briefly outlined further borrowing possibilities for the Bank.

Mr. Knapp reported that the Egyptian (UAR) debt issue appeared to have been settled. The Bank would now process promptly the already appraised railway project in Egypt. Mr. McNamara asked Mr. Broches to check with Mr. Benjenk on a side letter which could ensure that no disbursements would be made under the project until the Government commenced payments under the debt settlement agreement.

Mr. Knapp mentioned that a consultative group meeting would be scheduled for Peru next February. There was a possibility that the IPC case might be settled by then.

Mr. Knapp reported that the Pakistan consortium meeting last Saturday had not been able to produce any definite agreements among the donor countries. They would, however, meet again later in the month. A special Indian consortium meeting on the refugee problem would be held on October 27.

Mr. Knapp also mentioned that progress was being made towards the settlement of the outstanding expropriation issues in Algeria. Project appraisal work would likely be commenced later in the year. Mr. McNamara asked Mr. Aldewereld to examine the manpower restraints for such appraisal work and help work out, with Mr. Benjenk, their speedy solution.

Mr. Gaud reported that investors in Argentina had reported destructive Government interference with foreign private firms. U.S. Government officials had warned its investors against further dealings with the Government. Mr. McNamara added that the Government was likely to request further rescheduling of its external debt. Unfortunately this was typical of the type of situations which the Bank was likely to face in the future. In his meetings with Mr. Watanabe, President of the ADB, he had been assured that both organizations would take the same position against participation in multilateral debt rescheduling exercises.

Mr. Shoaib mentioned that Kuwait and Libya might possibly agree to further Bank bond issues.

Mr. Chenery said that Bank staff were concerned about the Bank's role in Pakistan. He wondered if Mr. McNamara could make a statement to the staff on the Bank's policy on this point. Mr. McNamara did not think this was advisable, but encouraged PC members and Department Directors to explain the Bank's policy to their staff.

Mr. Demuth thought perhaps speakers at the Annual Meeting should be requested to confirm to time limits, but Mr. McNamara did not think this advisable.

Mr. Demuth pointed out that several Governors had brought up the issue of program versus project lending. Perhaps the Bank should do more thinking on the possibility of granting sector loans. Mr. McNamara added that he had noted repeated criticism against alleged slowness of the Bank's project processing methods.

President has seen

Mr. Knapp thought the Bank had not yet come to grasp with how to design appropriate project lending for rural development, particularly in Africa. The present Projects Departments seemed to fall between two "stools" on this point. In particular, there was lack of coordination between Agriculture and DFC Departments. Some thought should be given to the possibility of establishing a new Projects Department for rural development. Mr. McNamara asked Mr. Demuth to study this suggestion, with special attention to how the Bank ought to be organized to deal with rural development, and what institution-building should be promoted in LDCs for such a purpose.

Mr. Broches mentioned that he had noted criticism against the Bank's policy on the use of consultants, and on local procurements. Mr. McNamara said he was eagerly awaiting the results of the Thalwitz mission to India. After its report was completed, he would wish to review these problems more generally.

Mr. McNamara said the French Finance Minister had expressed some coolness towards future increases in the levels of Bank lending. He now felt that the Bank's lending paper should await the completion of the Bank borrowing paper before it was sent to EDs. Mr. Adler reported that a first draft of the latter report would be ready by October 15.

Mr. McNamara mentioned he had asked Sir Denis to be responsible for a study of the methods of IDA funding beyond the Third Replenishment. In particular the Horowitz Proposal and SDR linkages should be reviewed. For this purpose the Bank might wish to use outside consultants. Messrs. Chenery and Adler were asked to work closely with Sir Denis on this study. While its main purpose was to examine the method of future IDA replenishments, it should also deal with the amount of future fundings. Sir Denis was encouraged to meet with some of the interested Part I country governments, in particular Canada, U.K., Sweden and Holland.

Mr. McNamara asked Mr. Demuth to circulate to PC members a short note on all critical comments made against the Bank during the Governors' speeches at the Annual Meeting.

LEC
October 13, 1971

President's Council Meeting, October 8, 1971

821/8/9
IBRD/IDA
84
ADP

Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Chenery, Demuth, Sir Dents, Shoaib, Gaud, Adler, Clark

A special PC meeting was held to discuss Bank policy on resident missions. Before discussions started Mr. Demuth said he would wish to eliminate para 26 from his memorandum on resident missions entitled "Resident Missions: a Proposed Policy" dated June 21, 1971.

Mr. Knapp agreed that appraisal functions should be eliminated from the scope of present and future resident missions. With respect to economic work, he believed that a resident mission should be a central, but not the central role. He did not, however, believe that lending volume should be an important criteria for determining where resident missions should be located. Instead, he reaffirmed his belief in continuing past policy of "opportunism" which provided for more flexibility. He also stressed the need to ensure that highly qualified staff would agree to take overseas assignments. On this point he was encouraged to know of the extensive interest by many ex-YPs for such assignments.

Mr. Chenery reported that the Bank's chief economists were divided on the suggestions made in para 5 of Mr. Demuth's memorandum. Those with field experience were in favor, as he himself was. On the other hand there was quite a number of criticisms against the proposal. He thought that experiences from the New Delhi mission suggested that very high quality economic work could indeed be done in the field. There should not be much difficulty in recruiting good economists for resident missions.

Mr. Gaud said that, while the paper was limited to the Bank itself, he thought a wider look ought to be taken of resident missions, in light of current trends in over-all aid programs, both bilateral and multilateral. He was convinced that the LDCs themselves would wish to have an increasingly larger role in the decision-making on aid allocations. He thought the Bank should examine more broadly new regional approaches to development aid, perhaps by using "wholesale" techniques through regional institutions, such as the regional development banks. Maybe a certain division of labor could be agreed upon by the Bank and the regional institutions. Africa, he thought, had a special problem, since in the past aid donors had done very little to assist institution-building.

Mr. Adler saw a dilemma between small resident missions which might not be very effective, particularly with respect to comprehensive economic work, and large missions which perhaps might become too exposed in the country and thus be resented by the host government. The Indonesia mission was at present a unique case, since it was heavily engaged in both operational and economic work.

Mr. Clark said he agreed with Mr. Gaud's comments about Africa. Generally speaking he thought resident missions were now more urgently needed as the Bank was moving into social fields of development. As a general rule, he also favored regional rather than country missions. In choosing staff for these missions, care should be taken to ensure that those assigned possessed considerable diplomatic skills, and ability to do political reporting.

Mr. Broches was not convinced that ADB and IDB could be assumed to be able to do "wholesale" lending better than the Bank, as Mr. Gaud had suggested, for they were much too large and had much less "retail" experience than the Bank itself. With respect to economic work, he was persuaded that field offices could do so but he saw some danger and "waste of time" if missions were too small. However, he favored the delegation of some supervision functions to resident missions. He was worried about the implications in Mr. Gaud's remarks that Bank resident missions should substitute for AID missions.

President has seen

Mr. Shoaib hoped that new fields of responsibility for resident missions would be determined in such a way as to dovetail with changes contemplated in the decision-making structure within the Bank's Headquarters staff. In the past the role of these missions seemed to have been deliberately downgraded by the Bank's management. In his opinion the main useful purposes of resident missions was: economic work; liaison with the government; aid coordination; and project preparation. Generally more delegation of authority was needed and Headquarters staff had to be willing to consider field offices an integral part of the Bank itself. This latter was not the case now. At present, because of these problems, the Bank appeared to have difficulties placing people returning from resident assignments.

Mr. Aldewereld said he favored an increase in the number of missions and the delegation of more authority to them.

Mr. McNamara noted that there was a large range of opinions among PC members on the role of resident missions. However, there seemed to be general agreement that the Bank in the past had mishandled these missions. This was disgraceful and the management now must ensure that resident missions were indeed considered an integral part of the Bank. When the mission in Indonesia was established, he had specifically asked that no decision taken by that mission within its terms of reference be overruled by Headquarters staff without explicit permission by himself and Messrs. Knapp and Aldewereld. It was now time to determine new functions for the regional offices in Africa. Both the proposed supervision work and the necessary personnel requirements would have to be re-examined to see if further expansion was needed. A new regional office should be established in Bangkok, but, before doing so, management should come to a decision on what specific functions the mission should undertake.

It was generally agreed that:

- (a) No resident mission should be established with less than two professional staff.
- (b) No regional office should be solely confined to identification and preparation work.
- (c) A program of rehabilitation of existing missions should be undertaken. Their relationships with the various departments at Headquarters should be re-examined and redefined. Mr. Demuth was asked to assume responsibility for this task. He should consult Directors and Chief Economists of all operating Departments.
- (d) This rehabilitation program should be completed within a year. It should particularly address itself to the problems and functions of the five large missions (West and East Africa, New Delhi, Jakarta, and the new office in Bangkok). All of these should have similar roles.
- (e) The chief of each of these missions should be someone with the stature of an Area Department Director.

When Mr. Demuth had drafted his report, Mr. McNamara would plan to meet with Area Department Directors, and subsequently also later with the heads of the Projects Departments.

LEC
October 27, 1971

President's Council Meeting October 12, 1971

821/8/10



Present: Messrs. McNamara, Knapp, Broches, Chenery, Demuth, Shoaib, Gaud, Adler, Chadenet, Clark, Mendels, Nurick

Mr. McNamara said he had called the meeting to discuss whether any of the Annual Meeting arrangements ought to be changed in the future.

Mr. Knapp pointed to three ideas which on various occasions in the past had been raised:

- (a) that the Bank's management might suggest a theme (one or more topics) to which Governors would be asked to address themselves in their speeches;
- (b) that a special panel of Governors be set up to speak on a topic and that it solicit questions from the floor; and
- (c) that outside speakers be invited to address the Joint Session (on a few occasions in the past this has been tried but without much success).

As for a minor point Mr. Knapp thought he and Mr. Gaud ought to be released from the duty of sitting on the podium throughout the Joint Sessions. In his opinion this was a waste of time.

Mr. McNamara said he entirely agreed with Mr. Knapp on the latter point. He asked Mr. Mendels to work out a solution with the Fund so that for each of the organizations only one executive officer at a time would be needed on the podium.

Mr. Gaud suggested that the Annual Meetings could be made more efficient by moving all Annual Meeting arrangements away from Washington.

Mr. Chenery suggested that all Governors' speeches might be circulated in advance and perhaps subsequently grouped together around major themes for discussion. Mr. Demuth opposed this idea. He felt it was important to allow Governors to speak openly on any matter they had in mind. He suggested instead that the caucuses could be made somewhat longer, more informal, and perhaps thereby more effective.

Mr. Adler suggested that the size of delegations be limited and that an over-all limit on the total guest list be considered.

Mr. Clark proposed that a theme could be suggested to the Governors by circulating Mr. McNamara's speech in advance. This would also sharpen the interest by the press in the subject matters discussed in the speech. Another possibility was to use Part II of the Annual Report for such a purpose.

Mr. Mendels pointed out that the over-all size of the guest list had not increased in recent years. With respect to social events, his Department was, together with P&B, preparing a detailed study of hospitality expenditures during Annual Meetings.

Mr. Clark suggested that the Friday session could easily be dispensed with. Mr. McNamara agreed that this possibility had great merits.

Mr. Gaud did not favor any restriction on speeches by the Governors. All should be allowed to speak their minds on any issue. He did, however, feel that by taking the Annual Meetings out of Washington, say to Hot Springs, it would bring about greater discipline in the meetings and more of the social events could be excluded. Mr. Shoaib agreed with Mr. Gaud that no restrictions ought to be placed on Governors' speeches.

President has seen

Mr. McNamara summarized the suggestions made at the meeting as follows:

1. There was a possibility that a selected theme could be discussed by the Governors if at the same time they were given freedom to comment, as they wished, on any other subject matter.
2. The Annual Meetings might be reduced to four official days by excluding the usual Friday session.
3. A re-examination of the need and usefulness of ICSID meetings should take place. Perhaps it might be restructured (or eliminated).
4. As to caucus meetings, he was not sure they served an essential purpose. Mr. Kochman had suggested that the African Caucus meeting perhaps could be eliminated. Since there were no separate official IFC meetings during the Annual Meetings, maybe the ICSID meeting could be replaced by an IFC caucus.
5. A review of all guest lists for Annual Meetings should be undertaken.
6. The poor attendance during the delivery of Governors' speeches was embarrassing to the speakers. This problem should be carefully looked into by Secretary's Department. One possibility would be to restrict admissions to the delegates hall to the early part of the morning, and then schedule speeches by the big power Governors towards the end of the day.
7. There was the inherent danger that by suggesting a specific theme for discussion by Governors this might bring out more open division among various member groups. Perhaps as another option Mr. Demuth could examine the possibility of establishing two panels on the first day of the meetings, one on development and the other on monetary issues. These would follow the opening speeches made by the Chairman and Mr. Schweitzer and himself.

LEC
November 1, 1971

President's Council Meeting, October 15, 1971

821 / 8/11



Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Chenery, Demuth, Sir Denis, Shoaib, Adler, Hayes, Holsen

The meeting was called to discuss the October 12 draft of the Board paper entitled "Capital Flows and the Flow of the World Bank FY74-78."

Mr. McNamara said he hoped to send the paper to the Board by the middle of December. Perhaps it could substitute for the usual mid-year budget review. This meant that all revisions would have to be made before November 12, including tables and annexes.

Mr. Chenery pointed out that a major point in the methodology of the paper was that it assumed the same growth rate for LDCs as that of the Pearson Report but with different estimates for development assistance; the reason being that the Economic staff had projected a more favorable export performance by LDCs. Mr. McNamara reminded Mr. Chenery that the text of the Board paper would have to state explicitly whether major assumptions were on the optimistic or pessimistic side. He also asked Mr. Adler to prepare a master paper of total aid flows to LDCs.

Mr. Chenery also commented that he had assumed a large increase in Bank lending partly to offset otherwise large increases in the assumptions about export credits.

Mr. Knapp did not think an entirely persuasive case had been made in the paper. He thought Part I countries would be more impressed if the paper started out by stating the management's best judgment for what would be the most realistic estimates for future levels of Bank lending and then subsequently test these judgments against the macro-economic framework which Mr. Chenery had outlined in his paper. Mr. Knapp said he also was amazed to see the paper project aid flows of only .45% of total GNP of Part I countries.

Mr. McNamara thought that, while these were lamentably low, they nevertheless were perhaps the only realistic ones. He suggested that the Board should receive annually a summary of projected aid flows based on assessments made by Bank staff. Mr. Knapp said he was concerned that the world might believe the Bank accepted such a low ODA level as less than .5% of GNP. At least he hoped the paper might raise this assumption to .5% rather than .45%. Mr. McNamara asked Mr. Chenery to do a sensitivity analysis of the various projections for ODA assistance by major donor countries.

Sir Denis suggested that the paper be restructured in such a way as to have a relatively short paper showing the proposed increase in Bank lending relative to proposed increases in lending by other major capital suppliers to LDCs. He would prefer to use the present draft paper as a technical annex.

Mr. McNamara asked those present to state individually their best judgment as to what annual increases in Bank lending would be most appropriate for the period up to 1978. Messrs. Chenery, Shoaib, Aldewereld and Sir Denis all suggested 8%; Mr. Broches suggested between 7% and 8%; Mr. Adler 7%; Mr. Knapp 6%; and Mr. McNamara 7%+ --all in real terms.

Sir Denis reminded Mr. McNamara that during the Annual Meeting the French Finance Minister had thought it inconsistent that as allegedly increased Bank lending provoked debt crises in developing countries, the Bank did not wish to participate in debt rescheduling exercises. He suggested that this argument had to be dealt with specifically in the paper. The point should be stressed that the Bank did not in fact provoke such crises, but rather postponed them.

President has seen

Mr. McNamara concluded by asking Mr. Chenery to redraft a new 3-4 page long Section I. Mr. Demuth was also asked to redraft this section independently. Section II would remain more or less intact but Mr. Hayes will be responsible for redrafting the revisions agreed upon.

LEC

November 1, 1971

President's Council Meeting, October 18, 1971

821/8/12



Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Demuth, Sir Denis, Shoaib, Gaud, Adler, Hayes, Lind

Mr. Knapp outlined latest events under the expropriation dispute in Chile. The Government had asked the Bank to state directly whether it was willing to continue lending to Chile. Mr. McNamara pointed out that the Bank needed to organize better its staff work on expropriation issues. He had met with Messrs. Broches, Demuth and Sir Denis and asked them to arrange for a staff member to work full time on this job under the general supervision of Sir Denis. A recent internal NAC document had showed that the U.S. Government was determined to take a hard line not only on expropriations, but also on arrears on external debts. Mr. Gaud added that the IFC copper project in Chile was facing a difficult situation in that the Government had asked to take over majority ownership.

Mr. Demuth reported from the UNDP meeting in New York. The new decentralization of responsibilities to the regional bureaus appeared to be working well. A major problem at present was the large number of ongoing projects which were not being reviewed for their effectiveness. Mr. Demuth also mentioned that, shortly after the General Assembly would discuss China's membership in the UN, a message would be sent by the Secretary-General to the various UN agencies asking them to take action on this issue.

Sir Denis mentioned that the group of Swedish Parliamentarians who had visited the Bank last week had found their visit to the Bank very rewarding. Mr. Lind commented that the group had been greatly impressed with the work of the World Bank Group. However, they still seemed to wish to separate IDA from the Bank. Mr. McNamara said that one or two groups of parliamentarians should be encouraged to visit the Bank each year.

Mr. Shoaib reported that the fire on the 4th floor of the "B" building was being investigated. Mr. McNamara queried the Bank's security system. Mr. Shoaib said that he has already asked for a special report on this.

Mr. Shoaib and Mr. Aldewereld then briefly reported on pending bond operations in Kuwait and Canada.

Mr. McNamara distributed comments sent to him by the U.K. Chancellor of the Exchequer on criticisms against the work of the World Bank Group made at the recent Commonwealth Ministerial meeting in Nassau. He asked that these comments be held in absolute confidence. It was clear from these and from other comments made during the Annual Meeting that many member governments considered the Bank very slow in its procedures for processing projects. Mr. McNamara felt the Bank should try to document the project processing more clearly. For one thing it should not wait too long without taking action on slow moving projects.

Mr. McNamara then asked Mr. Aldewereld, together with Mr. Ripman, to meet with him next week on a Board report on the Bank's work in supervision.

Mr. McNamara asked Mr. Adler to ensure that the Standard Tables be revised more promptly. He asked Mr. Adler to spell out the time schedule for revisions of all Standard Tables. Changes in major assumptions underlying these tables should be explicitly stated. The Standard Tables should be used throughout the Bank as a common point of reference for reports and documentation.

President has seen

Mr. McNamara asked Messrs. Demuth and Lind to prepare a memorandum on procedures for the processing of sector papers. Mr. Demuth would be responsible for the part up to the point of Board discussion. From thereon, Mr. Lind would be responsible for preparing guidelines through final publication. Mr. Adler would prepare a new timetable for the sector program papers. He should be particularly careful to set realistic dates.

Mr. McNamara asked that the project evaluation reports from Mr. Willoughby not be scheduled for Board discussion until they had been carefully reviewed by management carefully.

Mr. McNamara asked Mr. Demuth to prepare instructions to Projects Department staff on the appropriate content and structure of Board versions of sector papers. The Central Economic staff should be given an appropriate role in the preparation of sector papers.

Sir Denis mentioned the draft Board paper on the "Bank last" approach to drawings upon Bank profit transfers to IDA. The U.S. had informed the Bank that it hoped this could wait until after the U.S. had ratified the Third IDA Replenishment. Mr. McNamara asked Sir Denis to find out at what time a firm Bank position was needed on this point.

Mr. McNamara referred to the recent memo from Mr. Isbister on the Congo Potash project. It raised a host of questions about project appraisals by Bank staff. He asked Mr. Knapp to be responsible for preparing written answers to the questions raised in the memo.

Mr. McNamara asked about preparations for UNCTAD III. Mr. Demuth reported that Mr. El Emary was in charge of this work and that it was proceeding well. He mentioned that the Supplementary Finance proposal might reappear at the Conference. Mr. McNamara asked Mr. Hayes to review the work program for the promised major paper on commodity problems and development.

Mr. Knapp referred to the memo prepared by Mr. Demuth on points of criticism raised against the Bank by Governors at the Annual Meeting. It had in fact excluded several important points on the SDR linkage. Mr. McNamara asked Mr. Demuth to review this memo.

LEC
November 1, 1971



Record Removal Notice



File Title Records of President Robert S. McNamara President's Council minutes - Minutes 08		Barcode No. 1770821		
Document Date November 22, 1971	Document Type Minutes			
Correspondents / Participants				
Subject / Title President's Council Meeting, November 1, 1971				
Exception(s) Prerogative to Restrict				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date 24-Feb-17</td></tr></table>	Withdrawn by Shiri Alon	Date 24-Feb-17
Withdrawn by Shiri Alon	Date 24-Feb-17			

President's Council Meeting, November 22, 1971

821/8/14



Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Chenery, Sir Denis, Shoaib, Gaud, Adler, Clark, Hoffman

Mr. Aldewereld reported on the November 16 Board Meeting which he had chaired. The U.S. ED had been concerned about the problem of bunching of projects which always seem to take place at the end of each fiscal year, and suggested that perhaps it reflected both on the administrative capacity of LDCs to implement projects, and on lack of efficiency within the Bank. Mr. Aldewereld mentioned that he had asked P&B Department to prepare a note on these scheduling problems and on the causes for the delays. Mr. McNamara added that it was imperative that the Bank overcome bottlenecks such as these.

Mr. Aldewereld reported on upcoming bond issues in Germany and in the U.S.

Mr. Aldewereld mentioned that the Thalwitz paper on Civil Works Procurement in India had been distributed for comments within the Bank. Mr. McNamara asked Mr. Knapp to meet with Messrs. Aldewereld, Chadenet and Cargill later in the week to see if they could finalize a Bank position on this issue.

Mr. Aldewereld said that Mr. Willoughby had circulated his Colombia report for comments among a few selected senior staff. Mr. McNamara said he would discuss this further with Messrs. Knapp, Aldewereld and Adler after the PC meeting. He reiterated that the P&B Department should have sole responsibility for the evaluation and that there should be no "bargaining" with Area and Projects Departments. It was extremely important to ensure that the evaluation was an independent judgment by the Willoughby Unit.

Sir Denis then mentioned that staff work was now being done on the problems of expropriations and its effect upon Bank lending policy. Mr. McNamara said it was important to have a full-time staff member assigned to this duty. Mr. Knapp asked about press reports from Japan which quoted certain statements Mr. McNamara was alleged to have made on the expropriation issue during his visit there. Mr. McNamara answered that the press had grossly distorted the actual conversation between him and the Finance Minister. There was no substance to the allegation that he had been trying to pressure the Japanese Government to take a hard line on this issue.

Mr. Knapp mentioned that Mr. Lajous and other Latin American EDs had been concerned about Mr. Demuth's visit to Brazil. They thought he meant to drive a "wedge" between the Latin American countries on the question of whether they should join the IIIA. Mr. Broches mentioned that the EDs concerned had picked up this point from the Weekly Travel Bulletin. Mr. McNamara asked Mr. Shoaib to check whether there was appropriate clearance of notices which appeared in the Weekly Bulletin.

Mr. Gaud reported that he had been approached on possible new IFC projects in Pakistan. Mr. McNamara said he was reluctant to have IFC go ahead at this point because of the economic disruption which had occurred in Pakistan.

Mr. Chenery reported from his visit to Brazil and Colombia. He had concluded that the Bank must reconsider how it does its business. Bank economic reports seemed too much concerned about solely short-term economic problems. Instead it ought to stress the long-term structural problems. On this point most government planning units were rather weak. Mr. Chenery also mentioned that Mr. Campos was critical of what the present Brazilian Government was doing in the Northeast and the Amazonas. Mr. Chenery remarked that Brazil seemed to have an abundance of Bank missions. It was clear that Area Department was not in a position to be able to coordinate these mission activities properly. Mr. McNamara commented that it was indeed Area Department's responsibility

President has seen

to do so. He would later discuss with Mr. Knapp why some Area Departments were not fully effective on this point.

Mr. Chenery suggested that there was a good case for a resident mission in Brazil. Mr. McNamara said that the Government had informed the Bank that it did not wish to have one.

Mr. Chenery went on to say he had been impressed with the economic performance in Peru. The new Government was trying to do its best and it seemed to represent the people of the country. He mentioned that the USAID had been signing reconstruction loans while he was in the country. These loans were mere disguises for regular project loans.

Mr. Knapp then reported on his visit to Europe, Zambia and Congo, and Mr. McNamara on his visit to Japan, Thailand, the Philippines, Singapore and Malaysia.

LEC
November 30, 1971

821 / 8/15
President's Council Meeting, November 29, 1971

Present: Messrs. McNamara, Knapp, Broches, Chenery, Demuth, Gaud, El Emary, Adler, Clark, Chadenet, Mendels



Mr. Knapp mentioned that the Chilean Ambassador had visited him on November 26 concerning Bank lending to Chile. Mr. Knapp had stressed the danger of Chile losing creditworthiness and that there were no IDA funds available for Chile. The Ambassador claimed that the problem was temporary and explained that on the issue of expropriations the Government was acting under constitutional procedures. The Ambassador did, however, suggest that possibly the Government would be able to settle its external debt problems by late January.

Mr. Demuth who recently came back from Chile said there were indications that the economy was going downhill. Mr. Knapp added that the same conclusion was formed by the recent economic mission to Chile which is now preparing its back-to-office report.

Mr. McNamara said he was uncertain whether he should personally attend the UNCTAD meeting in Santiago in April.

Mr. Gaud pointed out that four IFC investments in Chile were facing problems of nationalization. At the same time, there were several requests for IFC appraisal of private-sponsored projects which appeared to have the Government's blessing. Mr. McNamara thought there was no reason to go ahead until IFC saw financing from other sources also forthcoming. Mr. Gaud thought that continuing IFC involvement would be a way of keeping the dialogue open with the Government. Mr. McNamara responded that for that purpose it would be better to lend to government projects rather than projects in the private sector.

Mr. Demuth mentioned that Brazil had expressed willingness to make a somewhat larger financial contribution to IIIA if LDCs were given 50% Board representation. This would also make it easier for Brazil to accept the arbitration and subrogation clauses. Mr. McNamara thought that Part I countries would not accept such a formula.

The Agricultural Research Consultative Group had met on November 26 with 21 members and 7 observers. Mr. McNamara said that the tendency of increasing number of participants was likely to be counterproductive. This should be made known to FAO and UNDP.

Mr. McNamara said that he had long felt that the role of the Paris Office should be clarified. Mr. Jean Carriere (Alternate French ED) had been offered the job as head of the Office. He had accepted. Mr. Chenery hoped the Paris Office could be used as a base for substantive economic work. Mr. McNamara asked Mr. Chenery to work on this idea with Mr. Demuth.

Mr. Adler mentioned two ongoing studies in P&B:

1. Factors determining the rate of disbursement of Bank loans.
2. Comparison of the disbursement experience of other multilateral and bilateral institutions.

Mr. McNamara asked Mr. Adler to circulate the revised version of the paper on future Bank lending and borrowing to PC members and for them to give their comments to P&B by evening, Monday, December 6.

President has seen

Mr. McNamara said he had understood that Area Directors were not always aware of their responsibility to review and clear upcoming IFC projects in their countries. Messrs. Knapp and Gaud were asked to clarify the procedure on this point.

It was agreed that Tuesday's Board Meeting would start with an informal discussion of India's Economic Program, followed by Bank/IDA and IFC business.

Mr. Chadenet told of press reports that the ex-Ambassador of Guinea to the U.S. is being tried for treason, accused of having supplied confidential information to interest groups involved in the Boke project. Mr. McNamara said that this had been known for some time by Area Department. He was surprised to hear that the Projects Departments had not been informed earlier. He asked Mr. Knapp to look into this.

Mr. Chadenet told of a procurement problem in Colombia where the third lowest bidder (Yugoslavian) had been selected before a U.S. consortium and a German firm. The U.S. firm had protested at being disqualified. Mr. Chadenet was investigating why there had been no prequalification of the bidders.

Mr. Broches said that Mr. Aldewereld had received an interesting offer from Dutch banks to buy Bank Bonds in the amount of 37.5 million guilders.

The ADB has just approved a loan to Taiwan without much discussion. Mr. McNamara asked Mr. Broches to find out who was present at the Board Meeting and what was said on that occasion.

Mr. Broches mentioned that the U.S. and U.K. Governments appeared to be actively working to have references to ICSID included in investment contracts. Mr. McNamara said he would like to know why there was no specific requirement to use ICSID clauses in all countries where it was applicable.

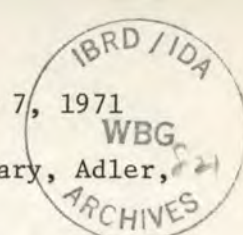
Mr. McNamara said that a specific case had now arisen in Tanzania where the Bank was considering lending to a DFC which would lend primarily to state enterprises. This seemed to be a clear change in existing Bank policy. For that reason he said he would mention this fact orally at the Board Meeting on Tuesday.

It was agreed that merit increases that had been frozen during Phase I would now be paid retroactively, since the Fund had already announced it would do so.

LEC
December 1, 1971

821/8/46
President's Council Meeting, December 6, 1971

December 7, 1971



Present: Messrs. McNamara, Knapp, Broches, Chenery, Demuth, Gaud, El Emary, Adler, Chadenet, Clark, Rotberg

Mr. Rotberg told of a number of Bank financing operations. The first, a DM250 million issue, would go to the Board on December 7 and it was expected to attract many non-German investors because of the tax advantages. In connection with this issue, there had been considerable pressure from the Commerzbank backed by the U.S. Treasury to have that bank included as co-manager of the issue. The Commerzbank had been told this was not possible on such short notice but that they would be considered in the future. Mr. McNamara mentioned that there had been three similar unpleasant examples of pressure in the last three years. The link to the U.S. Government was not clear and Mr. Rotberg was asked to explore that further.

The second operation was a Canadian Bank loan to the amount of Canadian \$50 million to be presented to the Board on December 14. The Bank of Montreal had complained that it did not get sufficient World Bank bonds in previous issues and Mr. McNamara was concerned about the poor performance of the underwriters.

The third operation consisted of the roll-over of DM25 million of previous borrowing from the Deutsche Girozentrale. The cost of the operation was quite high but it was felt that it was done mostly as a means of keeping a relationship with that institution. Mr. McNamara felt that, if more had been known about floating interest rates in Germany, a floating rate alternative offered in this case could have been considered.

Mr. Rotberg also mentioned an offer to borrow in The Netherlands and the possibility of future borrowing in France and on the eurodollar market. He also mentioned that the ExImBank is planning to raise \$1 billion on the medium-term U.S. market during 1972, in competition with the Bank.

Mr. Demuth summarized the results of the meeting December 3-4 of the Consultative Group on Agricultural Research. An amount of \$15 million had been pledged by various donors for 1972, of which IBRD had put up \$1.25 million. This will meet the requirements of the five existing research institutions. It had been decided that an institute for rain-fed agriculture would be established in India and that the Ford Foundation would continue its leadership of that project which had received widespread interest. About \$25 million had been pledged towards the cost of the institute. It had also been decided to establish a center for research of livestock diseases and improvement in Africa. The number of LDC members in the Consultative Group had been increased to 10 but only 5 seats would be available at meetings and the countries would alternate. Mr. McNamara expressed his enthusiasm for the high amount of financing pledged and for the excellent work of the Technical Advisory Committee to the Group. It was agreed that Mr. Chenery would allocate some staff time to further developing ideas in fields of research and that there would be a future discussion on this subject.

Mr. Knapp mentioned that Mr. Graydon Upton will be resigning from IDB, to be succeeded by Mr. Henry J. Costanzo.

Mr. Chenery said that evidently Area Departments do not feel free to revise the lending program in preparing CPPs. It was agreed that Messrs. Knapp and Chenery would clear up this misunderstanding.

President has seen

Mr. Chenery also mentioned that Mr. Alter hoped that the discussion of Brazil's economic program would be somewhat more substantive than the one on India and that Mr. Alter was drawing up a program for the discussion.

Mr. Adler mentioned that a \$3 million advance contribution to IDA is coming from Spain and that New Zealand is actively working on joining IDA.

Mr. El Emary said that Mr. Tazi had discussed a number of questions from Ghana regarding China and the noncommittal answers Mr. Tazi was intending to give.

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821 18/17
President's Council Meeting, December 13, 1971

Present: Messrs. McNamara, Knapp, Broches, Chenery, Demuth, Sir Denis, Gaud, Adler, Chadenet, Clark, El Emary



Mr. McNamara pointed out the bunching of 10 projects at the Board Meeting December 21. In view of the Christmas holiday, it was tentatively decided to postpone discussion of Brazil's economic program until Tuesday, January 4. Mr. Alter had indicated that his staff would be available. Mr. Barco was out of the country but was expected to be in the Bank on January 4.

The financing portion of the Bank Lending/Borrowing paper for FY74-78 had been given to Messrs. Hattori and Stedtfeld. The latter had sent his to Germany where Mr. Koinzer had had certain objections.

Mr. Demuth said that Dr. M.G. Candau, Director of WHO, had sent a letter complaining about weaknesses in Bank/WHO cooperation, especially with regard to the Indonesian population project. Mr. Demuth was asked to prepare a letter of reply. Mr. Demuth also asked what should be done about his memorandum on rural development. Mr. McNamara felt it should be discussed early in the new year and that all PC members should have copies.

Mr. McNamara felt that the time is ripe for the Bank to take a systematic approach to the role of foreign private investment in the development process. It was agreed that Messrs. Chenery and Gaud would discuss this and draw up alternative terms of reference for a background paper, possibly to be commissioned to someone outside the Bank. The paper would then serve as a starting point for formulating Bank policy.

Mr. Broches felt that the problem of foreign private investment was mainly one of fairness in the distribution of benefits among the various parties and that it is likely that projects presently under way will not stand the test of time. Mr. Gaud said that Bank policy formulation is a much easier task than that of approaching the whole problem.

Mr. McNamara asked whether there is not a need to make projections of the balance between availability and consumption of various raw materials in relation to distribution of population, in order to gain a better understanding of the changes in income, political power in terms of trade now and in the future. One study on this subject was done by Resources for the Future for the Population Council. Mr. Chenery said that a great deal of base data was available with his commodities people and that he would plan to address the problem.

Mr. Adler said that Mr. Aldewereld had cabled from Japan that the outlook for borrowing in Japan seems considerably better than assumed in the Bank Lending/Borrowing paper. Mr. McNamara wondered if it would be realistic to assume that the Bank would borrow more in the long run from Japan than from Germany.

Mr. Adler mentioned that commitments for various contributions to IDA had been received from Spain, Sweden and Norway. Mr. Adler also mentioned that the German Government had expressed an interest in coordinating technical assistance and project implementation in agriculture.

Mr. Knapp said that the Swiss, upon closer examination of their laws, had concluded that the recent Swiss loan would be contingent upon the effectiveness of 3IDA. This was surprising since independence of 3IDA had been one of the main objectives in seeking that loan.

President has seen

Mr. Clark said that the demand for the Bank's sector papers was still increasing. Mr. McNamara said he felt these papers are an important means of stimulating interest in the Bank Group through distribution of a product which meets intellectual standards. Mr. Chenery felt that it would be logical to publish economic reports in the same way as is being done with the Economic Report for Colombia, and suggested that all basic reports (10-12 per year) could be published, especially since the reports would be less likely to be controversial in the views of the respective governments if they are made to focus mainly on long-term issues. It was agreed that Messrs. Chenery, Demuth and Clark (Chairman) would work as a group to find a better organization of document editing and publication.

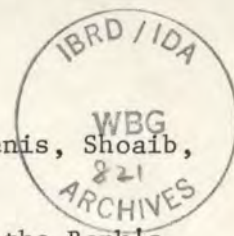
Sir Denis told of his recent trip to Japan where he had spoken to businessmen in Tokyo and Osaka, and the press had reported reasonably accurately on at least one speech. He said that the Deputy Governor of the central bank had expressed concern with the current recession in Japan. He also mentioned the possibility of obtaining funds from France to help IDA through a possible liquidity crisis as offered by Mr. Giscard d'Estaing at the Annual Meeting. Mr. McNamara said the prime importance must be attached to the funding from the U.S. and it may be strategic to let IDA's liquidity run low. Funds for India would be exhausted in January and other funds in February if 3IDA does not become effective.

AL

December 13, 1971

821/8/18
President's Council Meeting, December 20, 1971

Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Demuth, Sir Denis, Shoaib, Gaud, Adler, Clark, Gabriel, Henderson, Rotberg



Mr. Gabriel told of the main effects of the new parities on the Bank's finances. It was agreed that for the time being all accounts would be kept in current dollars and that Mr. Gabriel would collect all comments and opinions on the use of gold dollars versus current dollars. Mr. Gabriel's projections showed devaluation of all other currencies in relation to the dollar of 3.43% for a total effective devaluation of the dollar of 12% which will be on the high side.

The total absolute effect on the Bank's assets will be substantial but the effect on the debt/equity ratio will only be a marginal improvement. The net effect on operating profit was expected to be slightly positive. The exact effect on disbursement will depend on the procurement mix. The U.S. will have to make a payment of \$45 million to maintain the value of its subscriptions. The exact form and timing of that maintenance-of-value payments from and to various countries will be negotiated.

Mr. McNamara said that he hoped that all U.S. payments as a result of the devaluation would be included in the devaluation law and asked Mr. Clark that Mr. Merriam watch this closely.

There will be a separate statement of the effects of the devaluation on IDA.

Sir Denis said that, as a result of devaluation, the U.S. will have to make a larger contribution to IDA. Other countries which paid in their subscriptions in their own currencies at a higher parity than the present one would also have to pay additional amounts.

Mr. Clark asked what the effect would be on pensions to former staff members living abroad. Mr. Knapp maintained that past cost-of-living decreases have already compensated for the dollar devaluation. Mr. Shoaib mentioned that the pension policies of the Bank and the Fund will be investigated by a group of consultants to be selected that same day. Mr. McNamara felt in general that the pension plan provided a contract which should be adhered to.

Mr. Rotberg mentioned that there was now a demand in Europe for eurodollar bonds and that interest rates were decreasing.

Mr. Knapp said that the near future will show the consequences of an independent Bangla Desh. Disbursement had dropped to zero in both East and West Pakistan. One test will come on January 15 when a \$7 million debt repayment is due.

Mr. McNamara mentioned that his trip to India is still undecided and that no decision can be taken until the beginning of the new year. He felt that the credits for India on the following day's Board Meeting should still be presented.

Mr. Shoaib, telling of his recent trip, said that there are substantial amounts of money available in the Gulf States. Mr. McNamara felt that the Bank should be willing to tailor bond issues for these markets and try to develop secondary markets for those debt instruments, and asked Messrs. Aldewereld, Shoaib and Rotberg to make a financial market analysis for the Gulf States, projecting the amounts of investment funds available and what the Bank can do to attract them.

President has seen

Mr. Aldewereld told of his visit to Japan and said that the Japanese were optimistic about the country's future growth. Since savings are expected to continue to be high and the balance of payments outlook is good, the Bank could probably borrow substantially larger amounts than projected in the FY74-78 financial paper. Mr. McNamara asked Mr. Aldewereld to take a fresh look at the paper's assumptions about gross and net borrowing by markets and stressed that governments must be alerted to the fact that the paper only explicitly discusses public borrowing.

Mr. Broches mentioned the problem of the number of Directors and it was agreed that Messrs. McNamara, Demuth and Mendels would meet to discuss the subject.

Mr. McNamara mentioned that Mr. Shoaib is responsible for outlining an approach to an organization study for the Bank and expected that the Bank would draw on the services of outside firms (probably McKinsey), Bank staff and outside individuals, such as Mr. Davidson Sommers.

Mr. McNamara mentioned that those Directors who had been to Latin America recently would like to call upon Department Heads to discuss their experiences and asked that Messrs. Knapp and Aldewereld inform the Department Heads and provide feedback of the discussions to the Council in early January.

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December 22, 1971

829/8/19
President's Council Meeting, December 22, 1971

Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Demuth, Shoaib, Gaud, ~~WBC~~ Clark, Henderson

Mr. McNamara opened by announcing that Mr. Shoaib had been appointed head of the ^{RE}organization study. The study would be conducted using both Bank staff and outside manpower, including a consulting firm, possibly McKinsey & Company, and individuals such as Mr. Davidson Sommers. The study would probably take a year to complete.

The purpose of the meeting was to hear the views of the PC as to whether the study should be undertaken and, if so, how to go about it.

Mr. Knapp agreed that the study should be made and that the approach outlined in Mr. Shoaib's memo was acceptable. He said that the procedure for involving the various parties in the study was not clear and expressed some reservation against early introduction of outside consultants. He felt that, if possible, the study should be completed in less than one year, to which Mr. Aldewereld agreed.

Mr. McNamara said he did not think that the reorganization could be completed in less than a year. Bank staff would be involved on several levels of intensity. They would be one group working continuously on the reorganization project. In addition there would be a number of advisors spending some 5%-10% of their time on the study, and finally the PC would review progress at certain intervals. He named Mr. Demuth as one advisor to work with Mr. Shoaib. He also felt that at least one middle-level staff member should be involved on a full-time basis but was not yet sure as to the choice of an individual.

Mr. McNamara recalled that he had used consulting firms on many occasions in the past. On technical matters this usually worked quite well, while it was very difficult to achieve good results on administrative and organizational problems. He had spoken to Mr. John Loudon of McKinsey and Company and he felt that McKinsey was one of the few firms which had manifested its capability in similar tasks, citing the major organization study for Royal Dutch Shell.

Mr. Knapp felt that the division of labor between Bank staff and the consulting firm is not yet clear. Mr. McNamara agreed and said that Mr. Shoaib will discuss at length with McKinsey in the near future.

Mr. Demuth agreed with Mr. Knapp that outside consultants should be employed only at a stage when the objectives of the reorganization are better defined within the Bank and that the work of McKinsey must be closely controlled. Mr. McNamara agreed that, if the consulting firm came up with an independent report to which the Bank management could not agree, this could cause serious problems.

Mr. Demuth suggested Mr. John Macy as a possible outside individual and said that the Jackson Report on the UNDP had been produced partly by consulting firm employees acting as individuals. Mr. McNamara said he knew of this but did not think that it had led to good results. Mr. Knapp felt that only a small number of outside individuals could be considered.

Mr. Aldewereld said that he would agree with the idea of a consulting firm only if it were supplemented by an outside individual, such as Mr. Davidson Sommers, who could act as a counter-balance, or check on the work of the firm.

Mr. Gaud felt that it would be wiser to take decisions on certain basic policy issues before approaching McKinsey, citing the example of the allocation of responsibility between the Washington Headquarters and regional offices. Mr. McNamara

President has seen

agreed, except that he would like a different approach, namely that the objectives and problems of the Bank would be outlined to McKinsey who would then come up with proposed solutions. Mr. Gaud felt that, regarding the perhaps most important problem mentioned in Mr. Shoaib's memo, the Area-Projects division of responsibility, the Bank could clearly benefit from the experience of AID over the years, and that a number of basic solutions existed to this problem. Mr. McNamara agreed that it would be useful to take policy decisions before McKinsey continues to work on each phase.

Mr. Adler felt that it would be useful to talk to some of the Bank's customers, its management and possibly even to its Part I member governments. Mr. McNamara agreed and said it would be necessary to hear the views of the African and Indonesian offices and of the various countries borrowing from the Bank, but he doubted whether Part I governments could contribute very much.

Mr. Clark agreed with Mr. Adler and also suggested consulting the foreign aid agencies, such as CIDA and SIDA, those of the "ex-colonial powers," and of Germany and Japan. He also felt that it was important that the Bank's management not discourage McKinsey from presenting radical solutions. He said he assumed that the reports to be produced were not for widespread distribution. Mr. McNamara agreed that the documents should be confidential, since they could easily be misused.

Mr. Gaud asked what part the Board would play in the organization work. Mr. McNamara said he had just answered a Director that the study would be undertaken by the Bank's management since he felt that much of the strength of the Bank lies in the balance between the policy-making role of the Board and the operational responsibility of its management. However, in view of the unfortunate experience of Mr. Woods in attempting to reorganize the Bank's top management, any change in the top of the structure must be discussed with the Board. Mr. Clark suggested that preliminary results not be conveyed to the Board. Mr. McNamara agreed but said that of course the final results must be discussed. Mr. Gaud suggested that it would be useful to hear the views of certain Directors as the work proceeds.

Mr. Henderson endorsed the idea of the study but felt that the outside consultants should not come in until the issues are more clearly defined. He maintained that there are a number of competent people inside the Bank and volunteered to nominate a number to Mr. Shoaib.

Mr. Broches said he was convinced of the need for outside consultants, partly as a check on the objectivity of Bank staff and that he was not afraid of the risk of a conflict between Bank staff and the consultants.

Mr. Aldewereld said he had no apprehensions about bringing in consultants from the start. He also suggested that the views of financiers, such as Messrs. Guth and Patberg, be heard.

Mr. McNamara said that the next step of the work would be for the Council to consider Mr. Shoaib's memo and the specific points to be included in the study. Suggestions should be conveyed to Mr. Shoaib in two to four weeks. The intention would be to send out an administrative circular in the new year. The Council members were asked to keep this subject in complete confidence and not discuss it with any of their staff.

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December 23, 1971