

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

Folder Title: Role of the Bank – Correspondence 03

Folder ID: 1771457

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4539S

Series: Subject files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: February 13, 2013

To cite materials from this archival folder, please follow the following format:

[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

*The Namoa papers*

*Role of the Bank  
1977 (Aug. - Oct.)*

**DECLASSIFIED**  
WBG Archives

The World Bank Group  
**Archives**



**1771457**

A1995-256 Other #: 5

309661B

Role of the Bank - Correspondence 03

THE WORLD BANK

Office of the President

Fried 15/10/77

Start the discussions any time

slow down the timing: aim at

March or April [I said not later than 4.1]  
must bring in rate of growth; people  
[admin bond] etc

May have to bring in human rights -  
FRG, Spain, FRG's are troubled  
by what they should be doing -

I suggested they:

- a. Set criteria [re: the tracks]
- b. Establish the party to judge [interim body]
- c. Apply uniformly
- d. Take a position on the interpretation of articles
- e. Establish a task force in US govt to work out position
- f. Raise the problem in informal way of ECAC committee now to approach after they support with above countries

I 11/4/27 ①

10/25/77

Office of the President

Fried - Support of Adam for this Bk & other Dev Bks  
is very strong -

Prepared to enter into dip. or sched.  
as suggested (start 3<sup>rd</sup> wk of  
Nov & complete by 4/1) -  
Hopes this will discuss:

1. Degree of Bk's support of BIAW
2. Mkt. of fin. resources
3. Size of Bk & Admin matters
4. Human Rights

how to use influence of Bk to  
address human needs in  
the broadest sense.

Sen - agrees with M's approach re  
Human Rights - don't link  
with Cap Dev but carry on  
simultaneously -  
pol. structural issues in informal entry

Byrd - agrees with Fried

Oppen - opposed

Therese - will not be prepared in a no. of  
to discuss HR -  
ques of Cap Dev will be clouded by HR

Office of the President

Magnesson - agrees with Sen - deal in parallel -  
 impossible to avoid dis. of H.R.  
 must see: Is it appropriate  
 to take H.R. into a/c of  
 school -  
 docks, so far say it is  
 inappropriate to take a/c of it.

Francis - agrees with Magnesson -  
 any country can take whatever  
 pos it wishes, but that is  
 different from making it a  
 cond. for a cap. acc.  
 if forced into a dis. of H.R. will  
 so divide the world that it will  
 lead to stalemate on every issue -  
 As to Magnesson: "It is not  
 appropriate for Fed to dis. per  
 the articles"

Roth - agrees with Francis & Magnesson  
 Show the UN as a pl. forum  
 to discuss it -

Office of the President

would quickly estab. an atmos.  
of confrontation in the Bd if  
disc HR.

deBorja - supports as an proposal (as work  
of Aguirre + Gen) to consider  
informally whether the <sup>HR</sup> issue  
should be referred by the Bd -  
US has other ways to express  
on their part the need for the  
Bd to discuss HR.

Ragupathi - Bd can't avoid a disc of HR -  
prefer to do it in an informal  
mty.

Al Hagen - agrees with Frances & Jansen -  
Separate link due from HR - even if  
disc in parallel will lead to delays.

Pesquera - We are already talking about HR -  
can't avoid talking about it -  
would have to address 10 diff.  
issues.

Dinkel - Any direct link between link due &  
HR is indirect -  
will be faced with negs to consider

THE WORLD BANK

Office of the President

H.R. - in "Med Study Club" -  
Marayama - If 13 knew Bd would not  
dis. H.R., it would cause great  
difficulty -

Fried has a chance to raise a  
question on H.R. on any occasion  
K. Kelly - Cap 2nd should be discussed on its  
merits -

Supports El Vazgar -  
Has not wanted to talk about H.R.  
because, whatever his own opinion  
he is not here on his own behalf.

Guthrie - opposed to dis. H.R.

Thorsell - no instructions  
whether for or afor. dis. would  
be reported to US govt

Francis - What is the desired outcome of the dis.  
and is ans: to avoid tearing this caste  
apart -

Fried is saying unless there is a collective  
agreement on the Bd on H.R. he will  
be faced with lack of support of Cap 2nd.

Johnston - perhaps should put our head in  
the sand

THE WORLD BANK

Office of the President

beyond wit of Bd to develop a  
H R prob.

Jensen - Fin support of US for the FRK  
depends on Bd's action on HR  
& BFA -

If we can avoid it, do so -  
Must the Amer public know what  
we decide -

What is the consequence (e.g. w  
US support) of what we decide.

Pesquera - Who has to decide whether to discuss FRK  
is it logical for ED's to do so -  
highest auth for the FRK is the  
Bd of Gov? push the  
to them -

Magnuson - Would prefer that HR goes  
not come to Bd - but agrees  
that it can't be avoided -  
HR just below the surface in  
contracts he represents -  
Main purpose of his vis. to  
consider how to avoid a  
disaster

Cyrie - agrees with Magnuson -



Office of the President

The ques: Is there a problem & is there  
any action the Bk can take?

Looze - We shouldn't avoid the problem, but  
what would we discuss & where  
will it lead us -

Could Fried present a paper,  
talking a/c of desirability of  
avoiding destructive controls

Se - Start with Mod's suggestion:

What is act of fiscal privity

Francis - Has not thinking in US adm &  
long changed! dis of HF would  
be damaging to the Bk -

Drake - The issue won't end with the legal  
issue regardless of the ans -

If we discuss the subj, we need  
leadership from Fried & Koch  
He would like to see a 40 instrum

Rogers - Does Fried wish to amend the  
articles -

Ashwood - Start with what are the implications  
of the debate over this year IDA II  
legis -

THE WORLD BANK

(9)

Office of the President

Janssen - What price is US willing to pay  
for intro 7 HR: 402, 453, etc.

Drake - discuss all issues which are  
directly related -

U N - limit the records: submit the records  
for Nov 17 -

THE WORLD BANK

Office of the President

- ~~May~~
- ~~Francis~~
- ~~Robert~~
- ~~de Witte~~
- ~~Loga~~
- ~~St. Vagan~~
- ~~Perceval~~
- ~~Duke~~
- ~~Murray~~
- ~~Thurs~~
- ~~Flora~~
- ~~Johnston~~
- ~~Janssen~~
- ~~Prender~~
- ~~W. Johnson~~
- ~~Chai~~
- ~~Loggia~~
- ~~St.~~

- ~~Francis (writing)~~
- ~~Duke~~
- ~~Loggia~~
- ~~St. Vagan~~
- ~~Prender~~
- ~~Janssen~~

Continuing to stay  
 No part could put  
 for a start of R  
 between  
 to be effectively  
 to all countries  
 + in all interests  
 i. each part will  
 with its orders  
 in a line  
 + as a result there  
 is likely to be  
~~words of~~  
~~various~~  
 Does -  
 not a proper form to  
 address a judgement  
 in R -

I 11/4/28

THE WORLD BANK

①

Office of the President

January 18/27/77

Cap Inc: want to start discussions - essential that each ED know what the others think

We all know we have a pol. mandate for a cap inc:

must discuss other issues:

a) what kind of a BR after 11/77

b) what kind of lending for 1979

FRG can't agree to a high inflation rate: could accept 4% but not 7% -

(I said 4% would, e.g., go with a national of x per cent with 7% for

They support real growth for BR - OECD growth

Re range of Cap Inc:

some talked of doubling (did they mean 30 or 40 billion)

UK would go along with 406 (plus Dutch also)

Japan will want for 45

FRG seem reluctant for other reasons

FRG, for instance - want a solid reserve inc. (some improvements on reserves) - would say 306 as a

Office of the President

conferences + would try to push it thru -  
US: no definite pattern evolving - appear  
to want the couple of smaller esp. in  
rather than 1 large one - say 4 or 5

Compensation -

"Get out of your hands"

Air travel -

look around at how various govt's don't  
abandon 1st class travel <sup>(keep the money)</sup> & permit  
stop over -  
no one will quit the WB because he  
can't travel 1st class -

Human Rights -

Here I am at a loss -

We must make it clear that we try to  
satisfy BRN in the countries concerned -  
if make loan to the UN, try to make  
loans that clearly benefit the poor -  
Come back to us in informed FB entries  
in a month or so -

US seems to plan an international understanding  
re HR - if start with friendly countries  
could say so to Congress - <sup>US of course</sup>  
could start friendly country with <sup>with</sup>  
ED's perhaps <sup>help</sup> <sup>next</sup> <sup>or</sup>  
FRG funds delicate: still getting people out of seat -

THE WORLD BANK

③

Office of the President

If we can make a concession of  
saying we will hold to a 1.40 int.  
change when we get the cap 2.  
we will be OK with the Board  
& Fair View -  
if we can show this, he can't get  
anything

## OFFICE MEMORANDUM

7/11/26

TO: Mr. McNamara

CONFIDENTIAL

DATE: October 17, 1977

FROM: P.N. Damry *P.N. Damry*  
10/17

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

SUBJECT: Capital Increase Discussions

The Executive Directors generally accepted without question the need to postpone the informal meeting of 10/18. I mention, however, the reaction of Mr. Janssen:

10/17  
On the likely course of future discussions, leading to a decision, Mr. Janssen seriously questioned the wisdom, and even the realism of a target, for a decision, of April 1978, let alone January; even June might be too early; the Management, he alleged, was getting too euphoric and was taking the acquiescence of the Executive Directors to the interim plan and, particularly, its underlying assumptions, too much for granted. Mr. Janssen then went on to question the feasibility of a \$6.8 billion program - unmanageable physically in terms of project availability, and administratively in terms of manpower available for preparation. He left no room for doubt that he had been expecting the relevant staff to keep consulting him as to the timing of the initial discussions and in this connection spoke of a failure of communication. (I find this grievance surprising, since VP(F) and Dir. P&B have been in frequent touch with him.)

As against the relatively small number of rounds of discussions contemplated tentatively in your memorandum of Sept. 21, he thought that we might easily be compelled to have 20 or more weekly discussions - first, to clear up such basic questions as the consequential frequency of future increases and the capacity of the capital market to sustain our borrowing programs corresponding to the increase in authorized capital. He then went on to a purely political point, namely, that some countries (including Japan and France, perhaps also Germany) would have serious concern that the Bank might grow to such proportions that it became a force in World politics, which he said could come about because, with the growth of operations, politicians in various countries (he cited developments in the United States Congress, particularly) would see the Bank as a means of wielding political influence.

Among the "tangential issues" he thought the size of the staff and problems of Management would have to be discussed before a decision on the next increase. He also thinks that assumptions of inflation will need very much more detailed examination than he sees budgeted for in your memorandum of August 10.

2. Of all the above points, the one that gives rise to real anxiety is the question how far Mr. Janssen will go in resisting a \$6.8 billion program. This is not the first time he has raised this point, though in different contexts: thus, immediately after the informal meeting of Tuesday, October 4, he had said to Mr. Rota that with a postponed start with the discussions he

doubted the Management's ability to get a budget based on \$6.8 billion through the Board. At that time he seemed somewhat agrieved at the United States' delaying the commencing of discussions. At present, by contrast, when telling me he would not be too willing to go along with us on that program, he urges that we should not push Mr. Fried too hard in commencing the capital increase discussions. From the way the \$6.8 billion figure seems to be rankling with Mr. Janssen, I conjecture that, the more the discussions on the capital increase are postponed, the more will he try to convert other Directors to a lower figure. I cannot, in fact, help feeling that, underlying his scathing comments on a possible date of January or April 1978 for a decision on the capital increase, is a Freudian wish that we should not have reached too definitive a stage in these discussions before the FY'79 budget is taken up.

I have apprised Mr. Cargill (and ~~will~~ Mr. Gabriel also) of the above, with suggestions that they might consider maintaining - even if somewhat forced - dialogue with Mr. Janssen on the various crucial aspects of the proposed capital increase. In a recent conversation with Mr. Cargill he seems to have mentioned a \$30 billion figure: just after that he told me he thought it would finish up at \$20 billion. Mr. Janssen responds well to being taken into confidence, individually, and perhaps some early, private discussions would forestall his feeding with ammunition others who might be pre-disposed against a program of \$6.8 billion.

P.N. Damry/bm



F 11/4/25 ①

THE WORLD BANK

Cap 200/4/77

Office of the President

Fried - <sup>winer</sup> offer  
offer - pass at present to his  
cap are because of probos with  
legis at 100 + cap inc -  
not pass to do any consult.  
with the Congress

Thabani - what time table  
diff to get to 200 w/o sched.  
accepts as a whole  
decisions & acts in parallel with  
time table

Raza - Gen Puffer: "operated for 5 mos" ←  
Fares - same suggestion as Raza ←  
concentrate on Cap 200 + other roads  
in parallel -

Dinkel - accepts Med's ac  
but wants parallel des undertaken -  
wondering to proceed w/o 45  
worried about losing impetus with  
other govt's -

Janssen - we are drawing on the assumption  
that the Cap 200 will be approved -  
what happens if long disagreements  
CP 78.3 (477 1.0) = 1.13

THE WORLD BANK

Office of the President

∴ what Raza suggests is a poss. ↓

perhaps 075 to Fed -

Responsible - LA accepts as does  
defend his concerns then -  
supports Raza -  
is not only US asking for dollar

Rozin - little hope will ever get a true table  
out of US -

Mag - would be willing to dis. up due 1st -  
if different, start work  
related pts -

Sen - if Lizer dis, risk losing  
information -  
will probs with Congress anyway -

→ ∴ proceed with informal entry  
+ follow usual treaty table

Ryrie - accepts as does  
if can't get ahead now on C.P.  
get ahead with other issues  
can't wait forever for US Cong.  
is it? 9 Pong in danger  
against today doing

Office of the President

Casson - accepts what calendar -  
don't wish to anticipate the  
result of the dis -  
love to draw the lessons of the  
Congress -

de Groot - supports Ryzin's proposal to  
postpone Raza approach,  
but not for too long -  
end of Jan. for another meeting of  
this type -  
avoid pushing "our own goals"  
from 1 direction to another -  
avoid fueling anti-US feeling  
in Congress

Raza approach dangerous -  
Safety Net dis. No safety net -  
do you build up SAs for last  
compromising system of lending -

Jensen - disagrees with dis: "Fail in  
asking for a postment can't  
hide it -  
Is the A79 Program dangerous: Yes -  
Wish to see other Pads & copies  
wish to look at Borrowing Prog & Director

Office of the President

- + can Board handle all that -
- Al Hrylan - are ready to start dis -
- Rafiq's approach acceptable
- Rafiq - would accept starting around -
- but you start it will come out
- i.e. follow de Groot's approach
- Khalif - within 1 or 2 years should decide whether 6.8% for '79 is possible -
- Jenkinson - prepared to accept what's necessary a price which won't go away but not as much as 70% (concerned)
- Longest
- would like to go away & report -
- F479 Tony is in jeopardy -
- de G - would ~~to~~ postpone help or meet US 1000 dollar -
- Zooijen - better report or start or start
- Siberians
- Jensen - start enfor dis 15/18 -
- Cyrie - agrees with Zooijen - meet 15/18 & discuss non-cap rate items - & meet again at end 7 ms.

8/4/77

7/11/4/22

Jim - agreed

do more sector lending  
not a Proj loan

Magnussen - Proj lend - too much  
atten on words -

Consider how large projects  
should be -

→ Effort projects to include  
wider areas -

Local Dev: small sector loans

Rita - what is future role of WB -  
either we give most respons to  
countries or not -

Should be a natural tendency  
to go toward more Proj lending

Fried - Move toward more Proj or sector lending  
less a test of cause & effect of impact  
+ more the test becomes what the  
impact on macro policy -  
question will we be able to show impact  
& will we change our image

Thakore - What is the Bk trying to do  
 How best to do it -  
 As movements we see & would like  
 are trying to change wage &  
 life of people  
 ∴ focus on more aspects to  
 people over time -  
 prepared, supervisors, etc -

Mogensen - Bk will be more involved  
 → in macro aspects &  
 less in the micro -

Rajendrak - Supports a pragmatic  
 approach - Bk already  
 interested in that  
 direction -

El Wazir - Agrees with used - i.e. choose  
 not on cost per  
 sectoral approach may be more  
 affecting than proj. approach  
 an element generation of proj. -  
 sector approach not sufficiently  
 affected -  
 sector lending has nothing to do  
 with Proj. lend.  
 can't be very dominant on this -  
 must have a pragmatic

Approach - 3 dimensions

- 1. Changing emphasis not nature of Bk
- 2. countries are at different stages (India vs China) + sector lending can be afforded with more advanced nations

Wahl - must pay attention to role of Bk -

a provider of tech. assist - it is a Bank - must maintain money + creditworthiness

LDC's are at diff. stages of level - absorption capability for sector lending is restricted -

Rather than sector lending stress integrated proj. - e.g. Rural Dev. - not risking overall. It changed re appraisal, supervision, etc

Cheliff - Cost of processing proj. should not be primary obj. -

A sector loan is a different one - ∴ re didn't see + Algeria 2 yrs past had sector lending -

Janssen - important to take a/c of LDC creditworthiness of lending - 2 LDC wanted outright transfer of res. but tech assist.

The World Bank

(4)

Johnston - must be pragmatic -  
with balance between head & heart -  
Bk needs to be more staff than  
it is at times: "changing life  
styles" etc. kills his blood -

Budget - concerned about shifting to macro -  
view, ~~but~~ demand can last  
Bk's money in 20 C's -  
"we may be wrong all the policies  
of the Bk" -



711/4/24

## OFFICE MEMORANDUM

TO: Files

FROM: D. Joseph Wood <sup>copy.</sup>

SUBJECT: U. S. Treasury Analysis of IBRD Capital Requirements

DATE: September 29, 1977

1. According to a source in OMB, a staff level memorandum prepared in the Treasury a few weeks ago concludes that the key issue to be faced by the U.S. in deciding the size of the General Capital Increase is whether the Increase should last for only 3 or 4 years (as was the case with the IDB ordinary capital increase) or for a much longer period. Not surprisingly, the shorter period was preferred. An illustrative figure of \$10 billion was presented as indicating the rough scale of Capital Increase required. OMB staff challenged the \$10 billion figure as being much too small even for a 3 or 4 year capital replenishment exercise.

10/3  
2. This information is consistent with a request we received from the Treasury on September 1st. That request was in two parts: (a) to show when the statutory limit would be reached with General Capital Increases of 0, \$10, \$20 and \$30 billion; and (b) to calculate the IBRD capital requirements corresponding to a 2, 3 and 4 year planning period. A copy of our response is attached.

3. On the expectation that the U.S. will propose a 3 or 4 year planning period for the General Capital Increase, we shall prepare a back-up note on the problems which the IDB has had in trying to operate under such a system.

## Attachment

cc: Messrs. McNamara ✓  
Knapp  
Cargill  
Damry  
Gabriel

DJW:bc

## OFFICE MEMORANDUM

TO: Mr. Hal F. Reynolds

DATE: September 7, 1977

FROM: Joe Wood, <sup>8/27</sup> Assistant Director, P & BSUBJECT: IBRD Capital Increase

1. On September 1 we received a telephoned request for information from Mr. Thomson in the Office of IFIs in the Treasury. He asked when the statutory limit would be reached under various assumptions about the size of the IBRD capital increase. This note has been prepared in response to that request.

2. The table below shows when the statutory limit would be reached under various capital increases, assuming that IBRD commitments to countries grow at 12% annually (in nominal terms) over the period FY79-83 and 7% thereafter.

<u>Size of IBRD Capital Increase</u> <sup>a/</sup>	<u>Year in which Statutory Limit is Reached</u>
\$ 0	mid-FY84
\$10 billion	mid-FY86
\$20 billion	late-FY87
\$30 billion	mid-FY89

a/ Assumes that the recently approved selective increase of \$8.4 billion is subscribed in full.

3. In each case, the Bank would need to stop all new lending about 2 years prior to these dates in order to avoid committing itself to making disbursements in excess of the statutory limit.<sup>1/</sup> In order to avoid such a hiatus in lending, new loan commitments could be reduced gradually, starting several years prior to the actual date at which disbursed loans exceed subscribed capital plus reserves. One type of such adjustment, which is described in the "Role of the Bank" paper would be a 25% reduction (in nominal terms) over the 4-year period FY84-87 with commitments continuing at a constant nominal level thereafter. Such a reduction would limit disbursed loans to a peak value (in FY92) of \$81 billion. A \$30 billion capital increase would therefore cover the Bank's need for capital indefinitely on the assumption that commitments would be reduced in the manner described above.

<sup>1/</sup> This is because annual disbursements always exceed repayments with a growing commitment program, and would continue to do so for about 2 years even if all new lending were to cease.

Mr. Hal F. Reynolds

- 2 -

September 7, 1977

4. An earlier start to the reduction of commitments would, of course, reduce the capital requirements still further. This alternative was not explored in the Role of the Bank paper because it was felt that a five year planning period was the minimum interval which governments would wish to adopt. A four year planning period, with the 25% reduction beginning in FY83 instead of FY84, would reduce capital requirements to \$23 billion. A two year planning period would further reduce the requirements to \$11 billion. The attached table gives the detailed figures used in deriving these estimates of capital requirements.

Attachment

cc: Messrs. Cargill, Gabriel, Wood ✓

LOANS DISBURSED AND OUTSTANDING AND STATUTORY LIMIT  
 AT 12% NOMINAL GROWTH  
 (\$ billion)

	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>
<u>Statutory Limit a/</u>												
Present	42.5	42.9	43.3	43.7	44.2	44.8	45.5	46.1	46.9	47.7	48.7	49.7
With \$10 billion increase	42.5	42.9	46.7	50.4	54.3	55.0	55.7	56.5	57.3	58.2	59.2	60.2
With \$20 billion increase	42.5	42.9	50.0	57.1	64.4	65.1	65.9	66.8	67.7	68.7	69.7	70.8
With \$30 billion increase	42.5	42.9	53.3	63.9	74.5	75.3	76.2	77.1	78.1	79.1	80.2	81.4
<u>Loans Disbursed &amp; Outstanding</u>												
Basic projection b/	30.7	35.5	40.6	46.6	53.1	58.9	66.2	73.3	80.7	88.3	96.3	104.7
Reduction in FY84 c/	30.7	35.5	40.6	46.6	52.9	58.1	64.1	69.0	73.1	76.2	78.7	80.8
Reduction in FY83 c/	30.7	35.4	40.6	46.4	52.2	56.7	61.5	65.3	68.3	70.5	72.2	73.7
Reduction in FY82 c/	30.7	35.4	40.4	45.8	50.9	54.3	58.2	61.0	63.0	64.5	65.9	66.8
Reduction in FY81 c/	30.7	35.3	39.8	44.6	48.8	51.4	54.4	56.5	58.1	59.1	59.6	60.3

- a/ Assumes that the recently approved Selective Capital Increase is subscribed in fall and that 10% of any General Capital Increase is paid in.
- b/ 12% nominal growth FY79-83 (from a base of \$6.1 billion in FY78) followed by 7% nominal growth thereafter.
- c/ Commitments are cut back 25% over 4 years starting in the year indicated and held constant thereafter.

P & B  
9/2/77

*8/11 To Mr. Lamm*  
*Please let me*  
*have your views*  
*on how we should*  
*proceed to discuss*  
*the capital increase.*  
*L. M. W.*

OFFICE MEMORANDUM

*7/11/4/23*

TO: Mr. McNamara  
 FROM: P. N. Damry *P. N. Damry Sr.*  
 SUBJECT: Board Discussions in October

DATE: August 10, 1977

1. The following observations may be found germane to the questions (a) how should we proceed with the proposal for a further capital increase? (b) how should we discuss the wider aspects of "Future Role" paper and consequently, (c) how will Board Agenda for October/November look?

2. Since the "Future Role" paper issued, we have had the important developments of the Summit's endorsement and, to some extent, that by the CIEC, and your "Interim Financial and Operating Plan" paper of June 1, 1977, which states your assumptions through 1983. We can with reasonable confidence assume that many Directors have, generally speaking, mentally accepted (i) the necessity and inevitability of a capital increase of, say, \$35 billion and, to some extent, (ii) a lessening of the necessity to justify to their own Governments the Bank's plans for growth in operations. But here, I venture to caution that one should not take for granted that the endorsement by the Summit necessarily reflects a greater understanding on the part of some officials of certain Treasuries of the fact that, when the Bank talks of solving the problems of abject poverty, it nonetheless remains determined to achieve the required solutions without sacrificing due financial and economic prudence.

3. While therefore the five sets of discussions, into which you tentatively broke down the proposed scheduling of the "Future Role" paper (see appended) will not all be necessary now, we could not go straight to the Board with a proposal for a capital increase without arranging for a simultaneous ~~prior~~ discussion of some of the topics listed by you.

4. I suggest, therefore, that Joe Wood should prepare a short paper dealing with the core of the items set down by you in the "Proposed Schedule": such a paper would of course culminate in a proposal that the Board recommend a capital increase of \$35 billion, for subscription actually between FY83 and 85.

5. Starting at the lower end of your "Proposed Schedule", I recommend that on the item under Discussion #5 - "Voting Power and Board Representation" - we take the line that a conclusion on this is now not a pre-requisite to the process of arriving at a conclusion on the \$35 billion capital increase because - (a) we would do well to see what the Fund is going to do in the same two matters; (b) we should not risk preempting anything the Fund may do in favor of LDCs because this might prejudice Fund action; and (c) it is a divisive issue both between Part I and Part II countries and within the Part II countries and a premature discussion may cloud the main issue, the size of the capital increase. All the Bank's aims can be achieved without affecting the Executive Directors' voting power. The proposed

general increase could not in any case affect the 1978 elections and, to exercise oneself over constituencies as they might be in the 1984 elections as a result of shifts in voting power on account of the proposed general increase, is to deal with too hypothetical a situation. The paper, I submit, should therefore touch very lightly on voting power and Board representation, leaving it to Executive Directors to raise what they think relevant to the main decision.

6. By contrast, the issues set down by you under Discussion #4 are of the highest importance to a determination on the capital increase and have to be considered a pre-requisite to a decision on that. This is particularly true of "Inflation Assumptions" and, to a considerable extent, of "Frequency of Future Increases" and their possible relationship with the triennial Quota Reviews of the Fund. Also, the Directors - though for differing reasons - are keen to discuss repayment terms soon. I suggest also that "Proportion of Increase to be Paid In" be discussed only for the purposes of reaffirming the soundness of the present 10 percent proportion; but I feel there is no longer need to define "non-disruptive" adjustment because we should proceed on the assumption that, while your paper of June 1 "Interim Financial and Operating Plan", did not seek to commit the Directors, enough of them are mentally prepared to go along with it.

7. Of the items set down by you under Discussion #3, "IBRD Borrowing Prospects" remains an important pre-requisite for discussion although to a considerable extent, we go over the same ground in Rotberg's six-monthly reviews; but "Administrative Implications of Growth" which is definitely a pre-requisite will probably be both troublesome and controversial and will probably also call from us for more evidence that we are making optimum use of manpower, on missions, research, etc.: there are still doubters amongst the Directors and quite clearly, the 7,000 figure mentioned and re-emphasized by Ryrie - notwithstanding his oral explanation at the informal meeting - has created some more wide-spread apprehension of possible unmanageability through sheer size.

8. On the third item put down by you under Discussion #3 - "Growth Rate for Future IBRD Lending", I feel, we could simply develop the material in your "Interim Financial and Operating Plan" for the purposes of this item without entering into much more detailed explanation.

9. Of the material put down under Discussion #2, I think much will be covered by the "Prospects" paper as well as in the interim report on "Study on Development Issues" (expected in January '78) but perhaps it may be necessary to develop the topic of "Sectoral Pattern of Lending". There are still Directors who are capable of displaying the same sort of uneasiness as, for instance, Browning did when faced with the Nutrition - sector paper, ~~partly~~; a new Director, Johnston, explained that the Executive Directors have to take an active role in order to convince their Treasury officials that the solution of the problems of poverty in the world have to be innovative and dynamic and the World Bank cannot afford to be static.

10. Thus in effect, the proposed P&B paper recommending the \$35 billion capital increase would really be highlighting the principal topics in pages 40-50 of the "Future Role" paper and could therefore be quite short.

11. I suggest the first meeting on that paper be on either October 4, when there are no operational items, or October 18 (omitting October 11 which has "Analysis of Disbursement Experience" and "Proposed Liquidity Levels and Borrowing Programs, FY78"). We would probably have a second and third meeting to complete the original issues raised by us in our paper and deal with new ones raised by the Directors at the first meeting. This ought to ensure a decision on the capital increase itself before the end of the calendar year. Some reference in the proposed paper to subsequent steps and key dates would seem to be necessary.

12. Of the items under Discussion #2 of your "Proposed Schedule", perhaps a separate paper on "IBRD and the Regional Banks" could be scheduled for late October. We could also advance "Use of Transfers to IDA Funds" from its traditionally later date to October 18.

13. On "Country Discussions at Board Meetings", I am inclined to advise that we leave it to Thahane to tell us when the Executive Directors are ready to discuss the matter - of all the LDC Executive Directors, he is the keenest and will stay in touch with Messrs. Looijen, Magnussen, Janssen and Drake. I think this is a paper on which we should let the Executive Directors choose their own discussion date: maybe they will have some talks amongst themselves at their private Executive Directors' gatherings, which might even serve to defuse opposition, or else convince finally people like Magnussen that, for all its good intentions, the paper could prove divisive. My suspicion is that we may have to compromise on a seminar rather than a Board discussion on country economies and this will probably serve the same purpose. In this connection, we have to remove the unfortunate impression created that there was something sinister in the selection and listing of countries for "expanded discussion".

Attachment

PNDamry:ets

Proposed Schedule for "Future Role of the Bank" Discussions

	<u>Topics</u>	<u>Relevant Sections in Board Memorandum</u>	<u>Tentative Timing</u>
	<u>Discussion #1</u>		March 8
Done - {	Planning Assumptions for IBRD Commitments in FY78/79	8	
	Timetable for Discussions of "Role of the Bank" <i>state for decision</i> <i>on Cap. increase</i>	8	
	<u>Discussion #2</u>		April 12
	Growth Prospects of LDCs and External Capital Requirements	2	
	Prospective Pattern of External Finance	2	
	IBRD Role in the Poorest Countries	3	
	IBRD and Private Finance	3	
	IBRD and the Regional Banks	3	
	"Graduation"	4	
	Sectoral Pattern of Lending	4	
	<u>Discussion #3</u>		May 17
	Growth Rate for Future IBRD Lending	4	
	IBRD Borrowing Prospects	5	
	Administrative Implications of Growth	5	
	<u>Discussion #4</u>		July 7
	Size of Capital Increase, including	6	
	- Frequency and relation to IMF Quota Reviews		
	- Inflation assumptions		
	- Repayment terms		
	- Definition of "non-disruptive" adjustment		
	Proportion of Increase to be Paid In	7	
	<u>Discussion #5</u>		July 19
	Voting Power and Board Representation	7	