Folder Title: Role of the Bank - Correspondence 01

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Series: Subject files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

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McNamara papers

Role of the Bank
1977 (Febr. – Apr.)

Box 5

AR/92:711/4

JOINT BANK-FUND LIBRARY

Office Memorandum

INTERNATIONAL MONETARY FUND

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO: Mr. Bogomir Chokel - IBRD Archives

DATE: July 13, 1983

FROM: Blanche Moore - Joint Library B. Moore

SUBJECT: Files from Mr. McNamara's Office

I am forwarding the attached file, "Role of the Bank," to you for safekeeping. As it contains notes of conversations with Executive Directors in Mr. McNamara's own hand, any access to this file would have to be cleared with Mr. McNamara himself.

Folder 4 box 711

Contents of the file

Memo: Rotberg to McNamara/Cargill, 1/10/79: Capital Increase
Cy of memo: Wood to Files, 1/8/79: Size of Cap Inc, with notes by RMcN
Memo: Gabriel to RMcN, 11/21;78: IBRD Cap Inc Proposal, with RMcN notes
Memo: Gabriel to GCI Steering Group: GCI Proposal, 11/2/78, with RMcN notes
Memo: Damry to RMcN, 11/2/78, Views of Johnston, etc.
RMcN notes: Fried 11/6/78
Memo for the Record (CKW), 1/31/78: Meeting w/ Solomon, etc, w/RMcN notes
Memo for the Record (CKW): Meeting on Concluding Remarks, etc. 11/17/77, with RMcN notes attached (13 pp. + outline).
Memo: Karaosmanoglu to RMcN, Briefing Note on Inflation, 11/16:77
Memo: Cargill to RMcN: Future Role of the Bank, 11/15/77
Memo: Damry to RMcN: Cap Inc Discussions, 11/15/77
Xerox cy of RMcN notes, 10/27/77, 3 pp.
RMcN Notes, 10/25/77, 8 pp.
RMcN Notes, 10/21/77, 1 page.
Memo: Damry to RMcN: Cap Inc Discussion, 10/17/77
RMcNNotes, 10/4/77, 4 pp.
Xerox cy of Wood Memo to Files: US Treasury Analysis, etc.
Xerox cy of memo from Damry to RMcN: Bd discussion in Oct
RMcN Notes, 8/4/77, 4 pp.
Memo: Baum to RMcN, 7/25/77: Sector Lending in 1977
Wood Memo to Files: Discussions with Kuhn Loeb, 7/18/77
Memo: Ryrie to Pres and EDs: Pattern of world Bank Lending, 7/1/77, with RMcN notes
Table "Interim Fin and Op Plan thru 83" with RMcN notes
Cable, Koelle to Clark "CIEC Final Session"
RMcN draft for EDs, 5/13/77 - untitled
RMcN draft for EDs, 5/10/77. with RMcN notes.
Memo: Damry to RMcN: Informal Mtgs of EDs, 4/13/ 77, w/att.
Memo: Wood to files, Comments of Deare and Magnussen, 3/7/77
Xerox cy of Adler Memo to files: Discussions w/ Franco, Rota, etc., 3/4/77
Xerox cy of Wood Memo to Files: Comments of Thahane, etc.
Xerox cy of Doescher ltr to Cargill, with att, 2/17/77
Minutes of informal met w/EDs, 2/15/77
RMcN notes, 2/77(?), 8 pp.
In addition: Talking Points for 3/21 discussion with Fr. Arrupe, dated ~~3/15/80, 14 pp.~~

for this see folder 3 box ____

F11/4/1 (1)

7/77?

The World Bank

El Naggar - Agrees Prog. is feasible
Supports need for diversification
But have we done enough

I By Institution
Most important investors US mkts
comm bks [nd] 38% wants more analysis
insur cos 10% use intermed. go more
pen funds 13% and pen funds

II By country & currency
90% from US, FRG, Japan, & Swiss
By currency, concen. even more striking
\$ 75% '70 & '77 -

There is a strong case for diversificatn & new mkts: OPEC mkts -
35 b p a available for investing
180 b accum. ?as

Willingness:
put it on basis of self-int &
?mut. prosp. -
don't approach only inter-mittently -

Gene &
Germany to
consider
how to
use El N. + effectively
[use Lewis:
use Gene in
SA + K =]

Direct
not great because of term. bks

Currency -
Kuwait - unwilling to accept
participation of underwriting with
in Kuwait
Cost of borrowing - "in many ? needless expensive"

The World Bank

Jonsson – "Conservative with regard to Bks
fin pos + liberal on lending"
∴ support Cap Inc.
Believes an improvement in Bk's
fin. ratios is a ~~...~~ nec. cond.
1. Liquidity – OK
But others need improvement
2. Inc. policy –
Has had a falling tendency
not satis re Int Coverage + Res Position –
Inc. should be increased by:
raising int rate
reducing IDA trans
inc. return on liq. assets
reducing admin costs
inc. in cap with 10% pd in –
3. Int. Coverage 1.20 a min std
4. Debt/equity 5/1 max std
Targets are achievable with Cap Inc
of not less than $30b –
Rec. Cap Inc take effect in 84 instead
of 83 to improve ratios
5. Res/ Disbursements – should not fall below 10%
Bk must avoid resort to paid in
capital in event of ne. loss

Borrowing Prospects
Not amenable to quantification
Fin mkts will grow at 10% pa
Re FRG
highest % by non-res
length of maturities ltd
Re Central Bks -
roll-over prospects good
Re Opec
prospects haven't waterlogged
Euromkt
ltd potential
Gross borrowing '82 7+% - 15% pa
Bk will face increasing competition
from other borrowers of long
term funds -

France - Can't estab. rigid fin'ratios -
but should work to estab. fav trends -

Wahl - Can accept the "borrowing forecast" -
Bk should participate more heavily in
the recycling of capital - i.e. borrow from OPEC
Re fin indicators -
supports fin. conservative mgt -
supports ratios to maintain mkt
acceptance + internal discipline
1. Unallo. equity to Dis Loans 40%
2. must maintain spread of .50% -
3. Int Coverage 1.15 to 1.20

4. Statutory limit should not be changed -
5. Terms to stick to paid-in at 10% but perhaps could be flexible -

Thalwitz - Bk can achieve the borrowing program:
Funds will be there -
Bk can tap them if it continues to diversify -
needs to share the public -
& Bk not well understood or appreciated -
Re fin ratios - creditworthiness depends on callable cap & support of govt -
but re fin ratios: should be interpreted flexibly & in totality -
gradually growing income will be helpful -

Ryrie - re Borrowing -
there is a reasonable prospect of achieving the program - may involve a slightly higher cost -
but remain flexible -
re Ratios -
need to manage Bk in a conservative way -
Bk's ability to borrow depends more on support of govt - can't rely on particular ratios - judge on the totality of the ratios -

(5)

Deints: Int Cov 1.16
Debt/Equity 61.
would not be wise to reduce [illegible] below 10% -
what effects of phasing 10% payt over 5 yrs starting in '84 -

Iwasaki - Supports Krishna on #97-
Bk can borrow isn't rigid -
but can Bk maintain the terms of borrowing -
i.e. strengthen educ. of public -
Re ratios -
particularly interested in income levels - feels it should be higher than current levels:
Pd in portion should be considered flexible -
Things which should not cause constraints -
don't depend too much on Central Bks:
Secondary what very important -

Looijen - Agrees with mgt "perspective" -
Psychological factor important -
must retain image of support of govts - current + poor projects -
[wants someone in house to change image]

de Grootte – re Borrowing
depressed levels of OECD inc.
could adversely affect Bk's
cont'd –
need to continue to diversify
pay more –
place in OPEC countries
re Ratios –
not substitute for good mgt, but
sig. changes can effect
~~investors~~ –
are the unique features fully
perceived by the mkt –
ratios can't be taken alone –
Bkg community could counteract
harmful rumors –
Re debt of LDC's – impact on
IBRD depends on their mgt –
Strong support of gvts of Bk
very important – Cap Inc an
indication –
Agostini – re Borrowing
Bk should diversify
cm Bks have been major source
should fully exploit OPEC –
re Pd-in Capital –
Canada doesn't wish it to fall
below 10% unless contributions ...

 ⑨

re Ratios -
Int coverage - not comparable to private
Liquidity - very important - supports 40%
Agreed for fin'l considerations
in light of ratios but look at
in their totality -

Zammer - re Cost of Borrowing
Cen Bks largest source
of long term borrowing -
T&P OPEC more directly -
Do we have a sys of evaluation re
cost of credit -
re Ratios -

Fried - Borrowing prospects in US
discussion in memo: plausible
But expan. of borrowing is a potential
problem because of overhang
& this is why image (active support
of gov'ts) is important -
Re "Jansen's ratios" -
some decline in ratios was to
be expected -
backing of gov'ts is more im-
portant -
Re Pd-in capital: same comment -
will only modestly improve ratios -
→ [will ...]

The World Bank

Consider options: Pd-in + now with
a larger cap inc.

Johnston - How to translate conservatism
into operating guidance -
Considers borrowing program plausible -
Strikingly rise in absolute amts
(e.g. Funded Debt) + decline in
ratios -
room for moderate vol grist -

Pesquiera - Agrees with document -

Razafimdrabe -

Khelif - Borrowing Program attainable -

Pradhan - Shares view of mgt -
Counteract adverse publicity -
slimmer -

7111/4/10

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: April 27, 1977

FROM: D. Joseph Wood

SUBJECT: U. S. Treasury Requests for Financial Projections

1. On April 6th a request was received from the U.S. Treasury (via Hal Reynolds) for a massive amount of financial data related to the IBRD General Capital Increase. A copy of this request is attached (Attachment I).

2. After consulting with Messrs. Reynolds and Cargill, it was agreed that our first response to this request should be a memorandum dealing with only one facet of the original request; namely, projections of disbursed loans and the statutory limit under various assumptions. This limited response would provide a basis for an informal meeting with Treasury staff at which a program of further work could be discussed. Such a "memorandum" was sent to Hal Reynolds on April 12th (Attachment II).

4/27

3. On April 25th, Hal Reynolds called to set up a meeting for April 28th. He also forwarded a second request from the Treasury which was much more focussed than the first request (Attachment III). We expect to be able to meet this second request at the April 28th meeting.

Attachments

cc: Messrs. McNamara
Knapp
Cargill/Goodman
Stern
Adler
Gabriel
Bock

DJW:bc

Attachment I

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

OFFICE OF
ASSISTANT SECRETARY
FOR INTERNATIONAL AFFAIRS

1 - Alt. Executive Director
2 - Permanent ...

cc MEC
4/4/77

APR 4 1977

TO : Hal Reynolds
THRU : Richard Frederick
FROM : William Thomson WLT

SUBJECT: Financial Data needed for Analysis of the General Capital Increase

We have discussed Treasury's need to analyze the financial implications of several policy options with regard to the proposed IBRD General Capital Increase. Specifically, we would like simulations of the Annex Table I to the Future Role paper, Financial Projections, and the February 13, 1976 tables prepared for Mr. Cooper - both through 1995 at five year intervals. Holding other variables constant, the simulations should make the following range of assumptions:

1. Percent of paid-in capital in General Capital Increase 0%, 5%, 7.5%, 10%.

2. Size of capital increase ($ billions) 10, 20, 30.

3. Lending program (annual real growth rate) 0%, 3%, 5%, 7%.

   At each real growth rate for lending, we would appreciate:

   a) when the Article III ceiling is reached;
   b) the total number of projects under supervision;
   c) the total projects each year;
   d) the annual administrative budget.

Without any simulations, we would appreciate further information on the Bank's Financial Projections, presented in the Future Role paper, as follows:

A) The breakdown of annual lending activity between middle income and the poorest countries. What would be the impact on Bank cash flow of shortening the maturities on the middle income countries by 25%.

B) The maturity structure of the loan portfolio and Bank borrowings by major currency (U.S. dollar, Swiss, Deutsch marks, Yen) at five year intervals from 1980-1995.

C) The average and annual incremental returns on the loan portfolio, liquid assets and equity. The cumulative cost of borrowings.

D) Estimates of the volume of new commercial Bank capital that can be brought into projects and its impact on possible Bank lending.

E) Share of IBRD Financing in: Mineral Development
Energy Production

OFFICE MEMORANDUM

TO: Mr. Hal F. Reynolds, Executive Director DATE: April 12, 1977

FROM: D. Joseph Wood, Assistant Director, P&B

SUBJECT: Information Requested by the U.S. Treasury

1. As we discussed, I am sending you a first installment of the information requested in Mr. Thomson's memorandum of April 4th.

2. The attached table provides an answer to question 3(a) (time when the statutory limit is reached) by setting out three series of financial projections for the Bank for the period FY78-95:

(i) IBRD disbursed loans (including loans to IFC) assuming nominal lending program growth rates of 7%, 10%, 12% and 14% (0%, 3%, 5%, and 7% real growth respectively);

(ii) IBRD subscribed capital over the same period assuming general capital increases of $10, $20, and $30 billion; and

(iii) IBRD retained earnings on various assumptions about growth of commitments and volume of paid-in capital.

The first two elements are straightforward. The projection for retained earnings is slightly more complicated in that it requires two adjustments to be made to the "base case" projection. One adjustment takes care of variation in the assumed rate of commitment growth. Thus, for example, if real growth is assumed to be 3% rather than 5% (as in the "base case"), then retained earnings in FY90 would be adjusted downward by $.3 billion (i.e., from $9.4 to $9.1 billion). The second adjustment takes care of variation in the assumed amount of usable paid-in capital. For example, a $30 billion capital increase with 10% paid in would result in an increase in usable paid-in capital of about $2 billion.1/ This would generate an increase in retained earnings compared to the "base case" (which assumes no paid-in capital) of about $1.4 billion in FY90 (i.e., $0.7 billion x 2.0).

3. By combining the information in the table in this manner, the full range of possible commitment growth rates, capital increases and paid-in proportions can be analysed. Suppose, for instance, we want to know when

1/ Increases in usable paid-in capital are assumed to be 60%-70% of total increases in paid-in capital.

the statutory limit will be exceeded assuming a commitment growth rate of 3% per annum in real terms, a general capital increase of $30 billion with 10% paid in. Then, the following combination of data from the table would be relevant (in $ billion):

	FY88	FY89	FY90	FY91
Disbursed Loans	70.4	77.0	83.7	89.1
Statutory Limit				
Subscribed Capital	69.2	69.2	69.2	69.2
Retained Earnings				
Base Case	7.3	8.3	9.4	10.7
Adj. for 3% Growth	(0.2)	(0.2)	(0.3)	(0.4)
Adj. for Paid-In	1.0	1.2	1.4	1.8
Total	77.3	78.5	79.7	81.3

This shows that the statutory limit would be exceeded on a disbursement basis sometime early in FY90.

4. As the table shows, the effects of changes in the growth rate of commitments on the amount of retained earnings is quite small, exceeding $1 billion only in FY95 for a 2% greater/lesser real growth rate over the entire FY78-95 period.

5. As I mentioned to you, these figures should be viewed as "first cut" approximations which can be refined for those cases which the Treasury wishes to pursue in detail. We would be happy to meet with the Treasury Staff at their convenience to discuss this table as well as the remainder of the information requested in Mr. Thomson's memorandum.

6. The answers to question 3(b) and 3(c) are also attached.

Attachment

cc: Mr. Cargill
Mr. Gabriel
Mr. Goodman
Mr. Bock

DJW:bc

Response to
Question 3(a)

IBRD FINANCIAL PROJECTIONS: FY78-95
DISBURSED LOANS, SUBSCRIBED CAPITAL AND RETAINED EARNINGS

IBRD Loans Disbursed and Outstanding ($b)[a/]		End FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95
Real Growth	Nominal Growth																		
0%	7%	19.0	22.4	26.2	30.4	34.9	39.3	44.6	50.0	55.1	60.3	65.6	71.2	77.0	81.4	85.8	90.3	94.9	100.0
3%	10%	19.0	22.4	26.2	30.6	35.2	40.1	45.9	52.1	58.0	64.1	70.4	77.0	83.7	89.1	94.5	100.0	105.6	111.7
5%	12%	19.0	22.4	26.3	30.7	35.5	40.6	46.8	53.4	60.0	66.8	73.8	81.1	88.7	94.9	101.1	107.3	113.8	120.6
7%	14%	19.0	22.4	26.3	30.8	35.8	41.2	47.9	55.2	62.4	70.0	77.7	85.9	94.3	101.4	108.4	115.5	122.7	130.4
IBRD Subscribed Capital ($b)																			
$10 billion increase		33.7	36.5	39.2	39.2	39.2	42.5	45.9	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2
$20 billion increase		33.7	36.5	39.2	39.2	39.2	45.9	52.6	59.2	59.2	59.2	59.2	59.2	59.2	59.2	59.2	59.2	59.2	59.2
$30 billion increase		33.7	36.5	39.2	39.2	39.2	49.2	59.2	69.2	69.2	69.2	69.2	69.2	69.2	69.2	69.2	69.2	69.2	69.2
IBRD Retained Earnings																			
Base Case: 5% Real Growth 0% Paid-In		2.4	2.6	2.8	3.1	3.4	3.9	4.3	5.0	5.7	6.4	7.3	8.3	9.4	10.7	12.1	13.7	15.5	17.4
Effect of Increasing/Decreasing Real Growth Rate by 2%		-	-	-	-	-	-	-	-	.1	.1	.2	.2	.3	.4	.6	.7	.9	1.1
Effect of Increase in Usable Paid-in Capital of $1.0 billion[b/]		-	-	-	-	-	-	0.1	0.1	.2	.3	.5	.6	.7	.9	1.0	1.2	1.4	1.6

a/ Includes loans to IFC.
b/ Paid in three equal tranches FY83-85.

P&B
4/11/77

Response to
Question 3(b)

Total Number of IBRD Projects Under Supervision[a/]

Real Growth of:	0%	3%	5%	7%
FY78	790	790	790	790
FY79	870	870	870	870
FY80	950	950	960	960
FY81	990	1,010	1,020	1,030
FY82	1,020	1,050	1,070	1,090
FY83	1,030	1,080	1,110	1,150
FY84	1,030	1,110	1,150	1,210
FY85	1,030	1,140	1,210	1,280
FY90	1,030	1,300	1,500	1,750
FY95	1,030	1,480	1,890	2,400

a/ Assumes a constant average size of project in real terms. Projects remain under supervision for six years. Project numbers have been rounded to the nearest 10.

Response to
Question 3(c)

Total Number of IBRD Projects Approved Annually[a/]

Real Growth of:	0%	3%	5%	7%
FY78	151	151	151	151
FY79	151	156	159	162
FY80	151	161	167	173
FY81	151	166	175	185
FY82	151	171	184	198
FY83	151	176	193	212
FY84	151	181	203	227
FY85	151	186	213	243
FY90	151	216	272	340
FY95	151	250	348	476

a/ Assumes a constant average size of project in real terms.

Attachment III

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

Department of the Treasury
Washington, D.C. 20220

Memorandum

1 - Alt. Executive Director
2 - Permanent Office Copy

TO : Mr. Hal Reynolds
Richard Frederick

DATE: April 20, 1977

FROM : William Thomson /WET

SUBJECT: Information Required from World Bank for Capital Increase Study

In order to follow-up the previous request to the World Bank it is now appropriate to consider some individual cases in more depth. However, before pursuing these requests we would like results similar to those contained in Mr. Wood's memorandum of April 12, 1977 for a $40 billion capital increase.

This information will allow us to define the outer-boundaries of how long the capital increase will last, until the Article III constraint is met.

Financial indicator projections

The Bank's financial indicators over time are now sought including:

1. IBRD: Net Income, Reserves, Reserves/Disbursed Loans, Usable Equity, Usable Equity/Disbursed Loans, Interest-Coverage Ratio.

2. IBRD: Lending rate, Average interest rate on disbursed loans, average total cost of funded debt, average cost of new borrowings, average return on investment.

The information is required for the following representative capital increases, using the basic 5% real growth in lending.

1. $10 billion with 10% paid-in capital
2. $30 billion with 10% paid-in capital
3. $30 billion with 0% paid-in capital
4. $40 billion with 0% paid-in capital

711/4/9

105

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. McNamara

DATE: April 13, 1977

FROM: P. N. Damry

SUBJECT: Informal Meetings of Executive Directors

Herewith is a memorandum sent by Mr. Rota to the Executive Directors. The group of five Executive Directors - de Groote, Drake, El-Naggar, Franco and Gutierrez has been selected in alphabetical order. The agenda for tomorrow's meeting settled by the group is understood to include:

(1) questions relating to the Development Committee (as far as I know, this has not been spelt out); and

(2) a timetable for discussion of the issues arising out of the "Future Role of the Bank" paper.

In connection with the latter, an idea they are to discuss is a possible commencement late in May with discussions on topics which are considered non-controversial but which have to be decided before a decision on a further capital increase is made. This could include voting power and Board representation, though it is realized that changes, if any, could be evolved only after a decision is made on a recommendation as to the next capital increase. "Graduation" and sectoral pattern of lending might also be included as well as Mr. Drake's points regarding the future relationship between the Bank and the Fund and whether the Bank's role would be affected by the major expansion of Fund activities; as well as his second point regarding the debt problems of developing countries which Mr. Drake considers has been too briefly touched upon in our "Future Role" paper.

One of the questions the group is asking in the meeting is whether it is in fact necessary/desirable to complete one round of discussion before the recess (August 15 through 26). So far, the general opinion seems to be that an early start should be made on what they consider non-controversial, meaning presumably those items which are not likely to be affected by the North-South dialogue and the Summit talks. The Directors are aware that the May/June schedule do not allow attention to be given to matters other than the projects and the budget and are expecting to suggest that the first half of July be devoted largely to a discussion of the paper.

4/13

Attachment

W[illegible]D BANK / INTERNATIONAL FINANCE CORPORA[illegible]N

1 - Alt. Executive Director
2 - Permanent Office Copy

OFFICE MEMORANDUM

TO: All Executive Directors

DATE: March 16, 1977

FROM: Giorgio Rota Giorgio Rota

PERSONAL AND CONFIDENTIAL

SUBJECT: Informal Meetings of Executive Directors

Attached for your consideration is a proposal developed by the Informal Committee established at our last meeting. I would propose that we discuss it at our next meeting on Wednesday, March 23.* In the meantime, I intend to discuss the proposal informally with Mr. McNamara to ascertain his views.

* At Mr. El-Naggar's home.

Attachment

De Groote
Drake
El-Naggar
Franco
Gutierrez

DRAFT

A PROPOSAL FOR INFORMAL MEETINGS OF EXECUTIVE DIRECTORS

The Executive Directors have decided that it would be desirable periodically to hold informal meetings for the purpose of discussing matters affecting their responsibilities. The meetings will be held on the ~~[first]~~ [last] Thursday of every month. If necessary, additional meetings can be scheduled on an ad hoc basis. Alternate Directors may attend in the absence of their principals.

The principal purpose of the meetings would be to discuss on a free and informal basis major issues of World Bank policy. Procedural matters bearing on the workload of the Board could also be taken up (e.g., bunching, documentation, and special procedure criteria). Each meeting could also include a brief review of the monthly, tentative Board schedule with a view to anticipating possible scheduling problems.

The President of the Bank will be invited to attend the meetings when that seems appropriate. Depending upon the subject under discussion, other members of the Management and staff may also be invited from time to time, with the concurrence of the President.

A small Group, consisting of 5 Executive Directors, will be selected to propose the agenda for these meetings and to undertake (or have undertaken) such work as may be needed to prepare for the discussion. The Group will be selected by the Executive Directors ~~with a view to appropriate balance between developed and developing countries~~. The Group will be re-constituted every 6 months. It will select its own Chairman and meet as necessary on an ad hoc basis. In addition to preparing for the informal meetings of the full Board, the Group will have responsibility for taking appropriate follow-up action in accordance with conclusions reached at the informal meetings. The Group can also consider, and as necessary discuss with Management, particular problems which may arise from time to time concerning the scheduling of items for Board discussion.

All Executive Directors are invited to suggest to the Chairman of the Group subjects for discussion at the monthly meetings.

F11/4/8

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: March 7, 1977

FROM: D. J. Wood

SUBJECT: "Role of the Bank" Paper: Comments of Messrs. Deare and Magnussen

1. John Adler and I met with Mr. Deare on March 4th. He said that his instructions were to accept the recommendations in the Board memorandum, but to stress that IBRD lending in FY79 would have to be lower than $6.8 billion if a capital increase were not approved by June 1978. In fact, they would go further and suggest that IBRD lending be kept at $6.1 billion in FY79 if no agreement is reached before next June.

2. I met with Mr. Magnussen on March 7th. His instructions are to accept the management's recommendations. In fact, he has been authorized to go beyond those recommendations and to approve an IBRD lending program of $6.8 billion for FY79. He commented that a number of Directors had been upset at the timetable for the "role of the Bank" discussions given to them on Friday. The long list of issues put down for April 12th, for example, seemed to suggest that serious debate was not intended and that management wished to dispose of the issues with a minimum of discussion. I assured Mr. Magnussen that this was not the case and described the proposed approach in more detail. He seemed satisfied with the explanation. I subsequently called Mr. Damry to alert him to this potential misunderstanding.

cc: Messrs. McNamara
Knapp
Cargill
Damry
Adler
Gabriel

JW:bc

March 7, 1977

7 11/4/7

Mr. McNamara:

The attached Table was prepared at Mr. Green's request. He thought the difference between IMF quotas and IBRD subscriptions might be a good "talking point" for getting his authorities to agree to a large capital increase. I am sending you a copy because other EDs (and Governors) may react the same way to the proposition that "the Bank has fallen behind."

JHA/mwm

cc: Mr. Cargill o/r
Mr. Wood
Mr. Bock

John H. Adler

March 7, 1977

Mr. Cheek:

As requested by Mr. Green.

MB

John H. Adler

COMPARISON OF FUND QUOTAS AND BANK
CAPITAL SUBSCRIPTIONS 1946-77/1

As of June 30:	IMF Quotas	Bank Subscriptions	Quota as % of Subscriptions
1946	7.600.0/2	7,670.0	99.09
1950	8,021.5	8,323.5	96.37
1955	8,728.0	9,028.0	96.68
1960	14,379.2	19,307.9	74.47
1965	16,046.1	21,669.4	74.05
1970	21,358.5	23,158.8	92.23
1971	28,490.8	23,871.0	119.35
1975	29,198.4	25,566.0	114.21
1976	29,211.4	25,581.3	114.19
1977/3	39,033.0	32,651.4	119.54

/1 For IMF in 1944$ until 1974, in SDRs for 1975 to 1977; for IBRD in 1944$ throughout.

/2 Refers to original quota subscriptions.

/3 Including 1976 quota increases and selective capital subscriptions.

Source: IMF International Financial Statistics, August issues of respective years.

World Bank Annual Reports of respective years.

P & B
3/7/77

7 11/4/6

March 7, 1977

Back-Up Note #2

Was $5.8 Billion Agreed as a "Ceiling" for IBRD Lending?

1. Several of the Executive Directors (e.g., Thahane, Razafindrabe, Thavil) have expressed unease at the recommended increases in planned IBRD lending for FY78 and FY79. They all recognize that the recommended increases are in the interest of the countries they represent, and there is no doubt that they will support the recommendations. But they are nevertheless uncomfortable. The source of their concern is the belief that the "deal" made last year in connection with the Selective Increase involved a $5.8 billion "ceiling" on IBRD lending -- that "ceiling" to remain in effect until a further capital increase is approved.

2. In our discussions with individual Executive Directors over the last few days, we have tried to get across the following message:

(a) The "deal" on the Selective Increase did involve acceptance by the Board of certain "principles". These "principles" were explicitly stated in a number of Board documents and were formally approved by the Board in the May 10th Summary of Understandings (SecM76-335);

(b) the "principles" refer to no numbers whatever. The Executive Directors agreed to discuss the application of the "principles" (i.e., the numbers) in the June budget discussion;

(c) the June budget discussion considered two different applications for FY77; namely, $5.0 billion with the old terms and $5.8 billion with harder terms.

(d) there was no discussion of alternatives for the years after FY77. No decision on these subsequent years was requested, nor was one taken.

3. While these points are generally accepted, the Executive Directors in question have noted that the budget document did use a figure of $5.8 billion as the planning assumption for IBRD lending in FY78-FY81. The issue is whether use of this figure as a planning assumption in the budget was tantamount to accepting it as a "ceiling" on IBRD lending in future years. We have emphasized to the Directors that it was not intended in this way, but we have been unable to find any statement in the budget document or in the transcript of the June 29th budget discussion which is unambiguous on this subject.

4. The clearest evidence that a temporary increase in IBRD lending beyond $5.8 billion was considered by management to be consistent with the "principles" is the statement of those "principles" given to Secretary Simon on January 30, 1976. That statement had attached to it a table showing Alternative Lending Programs Derived from Application of the "Principles" (copy attached). Alternative C in that table showed a temporary increase in IBRD lending from $5.8 billion in FY77 to $6.1 billion in FY78 followed by a drop to $4.8 billion in FY79 and subsequent years. Unfortunately, that table was never circulated to the Board. Hopefully, the willingness of the United States to accept an increase to $6.1 billion in FY78 will dispose of this issue. If, however, some of the Directors challenge the view that the agreed "principles" were ever intended to have more than one interpretation beyond FY77, the table could be adduced as evidence to the contrary.

Attachment
JW:bc

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

January 30, 1976

I. Principles to Apply in Relating the Level of Future Lending Programs to Subscribed Capital

A. The November 4, 1975 report to the Board, which recommends a Selective Increase in the subscribed capital of the Bank, also indicates that a further increase in subscribed capital appears desirable effective about December 1981 (if such an increase were to be approved in principle, negotiations as to its terms should start approximately December 1978).

B. However, no commitments from governments for such a further capital increase have been sought or received.

C. Therefore, neither the Lending Program of the Bank, nor any other of its operating or financial plans, should be based on the assumption that a second capital increase will be approved. Nor should the Bank's operations be planned in such a way that, in the absence of such a further increase, future adjustments of plans so large as to substantially distort or disrupt operations would be required to live within the statutory ceiling applying to disbursed loans.

II. Alternative Lending Programs Derived from Application of the "Principles"
($ billions by fiscal year)

	FY77	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90
Lending Programs														
A. As proposed May 1975/a														
- FY76 $	5.5	5.4	5.7	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
- current $	5.8 /b	6.1	6.8	7.7	8.1	8.5	8.9	9.4	9.8	10.3	10.8	11.4	11.9	12.5
B. The May 1975 program reduced 7/1/76 to a level which keeps disbursed loans below the Statutory Limit through FY90	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
C. The May 1975 program /c maintained to 7/1/78 and then adjusted to keep disbursed loans below the Statutory Limit through FY90 by reducing future commitments but not changing lending terms	5.8 /b	6.1	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
D. The May 1975 program maintained to 7/1/78 and then held at the FY78 level in subsequent years. Repayment schedules on new commitments after 7/1/78 are adjusted to keep disbursed loans below the Statutory Limit through FY70 /d	5.8 /b		6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Disbursed Loans Under Alternative Lending Programs														
A. May '75 proposed program	16.2	19.4	23.1	27.2	31.6	36.4	41.4	48.6	52.2	57.5	62.7	68.0	73.3	78.6
B. Reduce proposed program to $5.0 billion on 7/1/76	16.2	19.3	22.6	26.1	29.3	32.4	35.3	38.2	40.8	42.9	44.7	46.3	47.6	48.7
C. Reduce proposed program to $4.8 billion on 7/1/78	16.2	19.4	23.0	27.0	30.4	33.7	36.5	39.3	41.6	43.6	45.2	46.5	47.6	48.4
D. Reduce proposed programs to $6.1 billion on 7/1/78 and accellerate repayment of loans	16.2	19.4	23.1	27.2	31.2	34.7	37.9	40.9	43.3	45.1	46.4	47.3 /e	47.7	47.8
Statutory Limit on Disbursed Loans /f	33.2	36.6	40.2	43.7	44.0	44.3	44.6	45.0	45.4	45.9	46.4	47.0	47.7	48.4

/a No increase in real terms after FY80.
/b Including $300 million of Third Window "additionality".
/c A decision in principle on a "second step" capital increase may be made by 7/1/78.
/d As of 7/1/78 repayment schedules on new loans would provide for repayment of principal in equal installments rather than via an annuity type schedule as applied at present. Also the average maturity would be reduced from 20 years to 18 years and the grace period from 4 to 3 years.
/e The projected "temporary" excess of less than $0.3 billion in this year would be avoided through further "fine tuning" of repayment schedules.
/f Based upon a Selective Increase of $10 billion (Case A).

P & B
1/30/76

March 4, 1977 F11/4/4

Back-Up Note #1

Assumptions Underlying the $6.1 Billion Figure for FY78

1. A number of Executive Directors have asked where the figure of $6.1 billion proposed for IBRD lending in FY78 comes from. Our response has been to draw their attention to para. 143 of the Board memorandum in which it is stated that "the maximum number of IBRD projects which could realistically be expected to be ready for submission to the Board in FY78 is likely to be about 155--the same number as in FY77......". While this assumption is explicitly stated, two other assumptions were not spelled out; namely, that the average size of IBRD loan would remain constant in real terms (at $37.4 million in FY77 dollars) and that the commitment deflator would increase by 5% between FY77 and FY78. (155 projects x $37.4 million x 1.05 = $6087 million or $6.1 billion when rounded.)

2. The assumed 5% increase in the commitment deflator is not easily reconcilable with the inflation assumptions used elsewhere in the Board memorandum. A rate of inflation of 7% is referred to as the "base case" (para. 116) and the change in IBRD lending from FY77 to FY78 is said to represent "zero real growth" (para. 144). It is also the rate now in use throughout the Bank for economic work and for calculating project contingency allowances.

3. If a question is raised on this matter, there would appear to be two possibilities for dealing with it. One would be to acknowledge a discrepancy and to acknowledge that use of a commitment deflator of 7% could well be preferable, since it would be consistent with the assumptions used in all other Bank projection work. Its application would lead to an FY78 commitment level of $6.2 billion. The difference between $6.1 and $6.2 billion could then be dismissed as de minimis, and the emphasis placed on the recommendation that the budget should be prepared on the basis of approximately the same number of IBRD projects in FY78 as in FY77 (i.e., about 155, although our most recent estimate is that the FY77 total will probably be closer to 150), and a 5% growth in FY78 (i.e., to between 160 and 165).1/ The current dollar volume corresponding to those numbers of projects would in any event be reviewed in June 1977 and June 1978.2/

1/ The December 30 planning assumptions showed 164 IBRD operations in FY79; the Regional budget requests would provide for 171 and P & B's recommendations for 167.

2/ Very minor reductions in the number of projects (e.g., from 155 to 153) and in the average real size of project (e.g., from $37.4 million to $36.7 million) would suffice to restore projected IBRD lending in FY78 to $6.1 billion even if the commitment deflator were to increase by 7%.

The alternative approach would be to explain that although we use higher inflation rate assumptions in our internal projection work, we propose to retain the commitment deflator series corresponding to 5% inflation per annum. This has in fact been the assumption in all IBRD financial projections for the past 2-1/2 years and its retention could be defended as being intentionally on the high side for the reasons which are stated in the paper (para. 119).

4. The first approach would seem on balance to be preferable. It is straightforward and avoids the appearance of false precision. In any event, the substance of the recommendation for FY78 and FY79 is clear: the budget for FY78 would be prepared on the assumption that 155 projects are to be presented to the Board in FY78 and 164 projects in FY79. The precise dollar volume corresponding to these numbers of operations cannot be projected with sufficient accuracy to make the distinction between $6.1 and $6.2 billion a meaningful or important one.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION Mr. McNamara

OFFICE MEMORANDUM

711/4/5

TO: Files

DATE: March 4, 1977

FROM: John H. Adler, Assistant to VP, Finance JHA

SUBJECT: "Future Role of Bank"--Discussions with Messrs. Franco, Rota, Bilget, Looijens, Green, Matsunaga and Rigaud

On March 2 and 3 I talked to the Board members listed above. My over-all impression is that the Part II EDs will strongly support your recommendation and that the Part I EDs whom I saw will accept the lending program figures for FY78 and FY79 as planning assumptions if the U.S. does so. The only exception may be Mr. Matsunaga who would not budge from his position that there was no need to have a figure for FY79 at this time. On the schedule of further discussions you may get some flak from Mr. Green; otherwise there was no reaction. I suspect, however, that the EDs expect a more detailed and articulated schedule than the one P & B prepared; but I am not sure.

Mr. Franco, who was joined by Mr. Martinez-Aponte, his Alternate, and Mr. Palmiery, his Assistant, first asked about the schedule of discussions which had been promised to the EDs. He said that the schedule was very important, otherwise all Board members would feel free to talk about everything--he specifically mentioned Mr. Conesa's eagerness to talk about voting rights"at the drop of a hat." Regarding the lending programs for FY78 and FY79, he inquired why the program for FY78 was so low. I explained the problems we had with the number of projects in the pipeline. After some discussion he said he would want to push for a higher figure, but did not want to cause any difficulties; he would urge that the \$6.1 billion be considered a minimum and a real increase of 2% as a target. (Incidentally, he inquired about the \$100 million which would result from the increase in Third Window contributions. I avoided a direct answer. It is possible that he will raise that question.) He then spoke at length about the \$6.8 billion program for FY79 because he was afraid that we would have difficulties getting that figure through. At the end he said he would make the point that not to make a decision on FY79 also was a decision because it would prevent the Bank from staffing up for that level and we would find ouselves in the same situation as we are now with regard to FY78.

Mr. Franco then told me that Mr. Kiribuchi had been speaking to various Alternates to convince them that in their decision regarding a capital increase of the IBRD member governments would have to take account of the balance of payments burden and the budget burden of other commitments in connection with trade and other matters now pending before CIEC. (See the paragraph on discussions with the Japanese ED below.)

The discussion with Mr. Rota was rather unsatisfactory. Rota said that he had no difficulties going along with \$6.1 billion for FY78, but expected trouble with regard to \$6.8 billion for FY79. He said that if the Americans did not object to it, he would accept it but he felt uneasy about it even as an assumption for planning purposes. Regarding the paper in general, he said that he had mentioned already to Mr. McNamara that the various issues raised in the paper could be resolved only after an agreement was reached on the size of the capital increase. He stressed several times that he felt uneasy about the paper and did not quite know what to do with it.

Mr. Bilget, who will be in Mr. de Groote's chair because de Groote will not be back until March 14, said he would give full support to the lending programs for the next two years. He then discussed at great length what he considered a crucial issue, i.e. the non-financial role of the Bank. He emphasized that the comments were his own since his Government had not reacted. According to him the paper showed a significant change in the non-financial role of the Bank--in his terms a change from a micro-economic to a macro-economic approach. He realized that his Government was probably more sensitive about foreign interference in internal affairs than others and he did not share his Government's concern in that respect; but he wanted to be absolutely sure that the Bank was aware that there were limits to the extent of its intervention in the formulation of economic policies in borrowing countries. I commented that his concern seemed to be based on what I thought was an erroneous interpretation of the thrust of the argument about the non-financial role of the Bank and that the Bank's advisory function would be reflected largely in its concern about the quality of projects including their equity aspects. Although he seemed to accept some of my arguments, he said that the whole subject of the non-financial role of the Bank deserves much more discussion. He realized however that this subject would not be taken up at next week's meeting.

Mr. Green, who had Mr. Cheek, his Alternate, and Mr. R.D.M. Smith, his Assistant, with him, said that he was disappointed that the paper which he had expected had not been forthcoming. He read to me part of a statement in which he had asked for a list of issues in order of priority; a list of topics in time sequence; and a proposed timetable. I am afraid that I did not follow him in his exposition, although I asked several questions. Only toward the end of the discussion did it become clear what he had in mind: he said that because of the precarious position of his Board seat, his governments would be concerned about voting rights and would want to have some assurances before committing themselves to a capital increase. He also wanted to be sure that the lending rate policy would be taken up in the course of the discussion because such a discussion had been promised to take place before the end of calendar 1976 and so far nothing had happened. I only commented that staff concerned with these issues had been involved in producing the paper now before the Board.

Regarding the lending programs for FY78 and FY79, he said that he expected no difficulties regarding FY78 and that he was willing to go along with $6.8 billion for FY79, although the arguments presented to prove the need for an assumption regarding FY79 had not convinced him. He saw no reason why a small increase in the average size of the projects, or an increase in the amounts allocated for program loans could not bring about an increase in the dollar amount of lending without specific authorization of a planning assumption of a $6.8 billion lending program.

Finally he inquired about the connection between increases in IMF quotas and the general capital increase. I referred to the reference in the Board paper on the subject and said that I would not be surprised to find that the IBRD capital increase and the IMF quota increases would come about more or less at the same time. In this connection I mentioned that the Bank's subscribed capital now was smaller than total IMF quotas. He thought this would be an important argument in favor of a substantial capital increase and therefore asked me to give him some more information on it. I said I would.

Mr. Looijens said his Government would fully support the request for increased lending programs for the next two years and a schedule of further discussions. He added however that he expected trouble with regard to the $6.8 billion figure for FY79 even as a basis for budget planning. He said it all depended on the position which the U.S. ED would take. I told him that I had heard that the U.S. would accept the figures proposed for FY78 and FY79 as a planning assumption. His comment was that in that case everything would be all right.

Mr. Matsunaga and Mr. Kiribuchi were the only ones who said that they were not convinced that a planning assumption for FY79 was needed. They were ready to accept $6.1 billion for FY78, but felt that the increase, if any, in lending in real terms between FY78 and FY79 was so small that it could be accomplished through greater staff productivity. Mr. Matsunaga also mentioned his concern about the disruptive effects of an increase to $6.8 billion if a cutback became necessary. He felt that an increase over and above the increase to $6.1 billion in FY78 which he was willing to condone should be deferred until agreement was reached on the future role of the Bank and a capital increase. He added that this was his own position; he had not had instructions from Tokyo.

Mr. Matsunaga's line of argument follows closely that of Mr. Kiribuchi who at lunch the previous day had confirmed that he had spoken to the other Alternates about the need to consider the role of the Bank in the broader framework of the North/South dialogue--and that his colleagues had agreed with him. He elaborated his view by saying that for example tariff preferences given to LDCs by Japan may make it necessary to provide budget support to the Japanese textile industry thus preempting budget resources. LDCs may prefer support through aid concessions to more Bank lending.

Joe Wood and I saw Mr. Rigaud, who came right to the point: (a) They had not heard from Paris and it was uncertain that they would; (b) they would accept $6.1 billion for FY78; and (c) they were apprehensive about the $6.8 billion figure for FY79 and would oppose it. $6.8 billion implied real growth in IBRD lending and a real increase in IBRD lending should not be planned until agreement had been reached on the role of the Bank. They would not press their point of view, however, if the Americans were willing to accept $6.8 billion for FY79; that would be a waste of effort.

JHA/mwm

cc: Messrs. McNamara, Cargill, Damry, Gabriel, Wood.

OFFICE MEMORANDUM

TO: Files | DATE: March 2, 1977

FROM: Joe Wood

7 11/4/3

SUBJECT: "Future Role of the Bank": Comments of Messrs. Thahane, Conesa and Khelif

1. I met separately with each of the above Directors on March 2. They all expressed full support for the two recommendations made in the Board memorandum, though Mr. Conesa said he might advocate a higher level of IBRD lending in FY78 than $6.1 billion. He accepted the fact that the number of IBRD operations could not be increased next year, but he thought the average volume of IBRD financing per project could be increased somewhat without major difficulty. I pointed out that the share of IBRD financing in any given project was normally based on a considered judgment about what would consitute an appropriate financing plan. To increase the Bank's share merely in order to achieve a higher commitment level was therefore not necessarily desirable and would almost certainly generate opposition from some other members of the Board. He accepted these points but did not indicate whether he would still press for a figure higher than $6.1 billion for FY78.

2. Mr. Thahane's main concern was to find a convincing argument to explain why the Bank can now plan to exceed $5.8 billion in FY78 and FY79 whereas it did not plan to do so last June in the budget memorandum. He asked if there had been some change which could be cited as justification for the management's current recommendation. I explained that there had been no change and that none was required to justify the current recommendation. Neither the management nor the Board had ever committed itself to a particular IBRD lending program for FY78 and subsequent years. All that had been agreed was a set of principles. The budget for FY77 had considered alternative interpretations of these principles for FY77 (i.e., $5.0 billion vs $5.8 billion). Discussion of lending alternatives for future years had been expressly avoided. Mr. Thahane seemed clearly unconvinced by this explanation, though he stressed that he would support management's current recommendation. He anticipated that objections would be raised against the need to "staff up" in FY78 to achieve a 5% real increase in IBRD lending in FY79. Some EDs, he thought, would argue that this increase could be achieved through increased efficiency in the use of Bank staff. I noted that the March 8th discussion was intended to reach agreement on output objectives and that the appropriate relation between inputs and outputs should presumably be taken up in the context of the budget discussion in June.

3. Mr. Khelif said he had no difficulty with the recommendations in the paper and would support them fully.

cc: Messrs. McNamara, Knapp, Cargill, Adler, Damry, Gabriel
DJW:bc

cc Mr. Wood.

First Boston Europe

FIRST BOSTON (EUROPE) LIMITED

16 Finsbury Circus London EC2M 7RY
Telephone 01-588 0101 Telex 884211

17th February, 1977.

711/4/3

Mr. I. Peter M. Cargill,
Vice President Finance,
International Bank for
Reconstruction and Development,
1818 H Street NW,
Washington DC 20433,
U.S.A.

Dear Peter,

Attached are First Boston's comments on "Future Role" which we found very interesting. We also appreciate the opportunity to comment. In general we have no problems with the program and only encourage you to go forward. I will be glad to review this with you in person or by telephone if that would be helpful.

I am sorry I was not there when you were in New York, but one way or another I will see you soon.

Regards,

Greg

N. Gregory Doescher

THE FIRST BOSTON CORPORATION

Comments on

"The Future Role of The World Bank"

January 31, 1977

IBRD AND PRIVATE FINANCE

Page 22; No. 52 Partial Guarantees

An involuntary cross default in combination with continuation of the Bank's non-financial presence in the financing of threshold countries might be a better alternative to partial guarantees. Our experience suggests it is possible to market the concept that a cross-default is as good as a guarantee because no issuer will default on the Bank. Our experience also suggests that the Bank contributes to the market education problem because it ceases even its non-financial presence when a country graduates, and thereby creates an information vacuum. We do not believe partial guarantees would be as effective as cross-defaults and continuing Bank non-financial assistance to the private market. Partial guarantees will have costs and risks to the Bank, and will be difficult for the market to evaluate. The suggested alternative will enable the private market to price the issuers' pure credit, although the issuers will like it less.

Page 22; No. 53 Graduated Countries

In line with the foregoing, some graduated countries have a difficult time in the private market. The Bank should monitor their progress and continue all possible non-financial assistance such as country and project analysis, up-to-date information and, perhaps, even loan supervision. Graduated countries should be eligible for re-entry as regards longer maturities so the Bank could act as a catalyst for the private sector.

POTENTIAL CONTRAINTS ON IBRD GROWTH

Page 35; No. 85 Institutional Constraints - Pension Funds

Under relatively easy or even moderately tight market conditions, we do not believe an annual program of up to $3 billion in the public market will present a problem during the FY 76-80 period. The market seems to take quarterly issues of $750 million in stride. The only difference might be as market conditions become-tighter, the penalty for size will increase. Under very tight market conditions as have been experienced on occasion during the past decade, one or more quarterly issues might have to be reduced to $500 million. We cannot envision conditions under which the public market could not accommodate at least $2 billion annually.

Page 36; Nos. 86, 87, 88 Institutional Constraints - Insurance Companies and Individuals

The foregoing comment is based on the public offering market made primarily by pension funds. This is the lowest cost market available to the Bank because pension funds must put quality and liquidity ahead of income and IBRD bonds are ideal for them. Insurance companies and individuals, on the other hand, are more concerned with income than quality and liquidity. Should the lower cost pension fund market prove inadequate to the Bank's needs, these markets will be available but at a higher cost. Logically, the pension fund market should be tapped first, except on the rare occasion when the insurance and individual markets can be tapped at no premium.

Page 36; No. 87 Secondary Markets

Considering the amount of bonds the Bank is currently asking investors to take, the secondary market is deficient in liquidity. The Bank did not sell bonds in quantity in the U.S. market for a long time, however, and as its current program progresses, liquidity naturally improves by dint of bonds outstanding. Every major bond dealer in New York competes vigorously in the secondary market, and it actually suffers only in comparison to the Government market and Bell System. As we know, there are certain structural differences with the Government market such as "eligibility" and Federal Reserve participation. With the Bell System it is simply a function of the volume of bonds outstanding. Also, the design of the bond itself, long average life - small sinking fund, creates a relatively poor trader in bear markets which is when traders notice it most. The foregoing are cited as matters with which we must deal. Actually, the market has improved substantially since the Bank commenced its current program, and for the same natural and competitive reasons, it will continue to improve.

Page 36; No. 87 Short-Term Borrowing

Unless the Bank has a good explanation, it is going to get into trouble with longer term investors when it begins to borrow short term in a major way. They are concerned about proper liability management.

Page 37; No. 89 Canada

The Canadian analogy is overdone. The Provinces have acted independently and often at cross purposes. The general point, however, is well taken, the U.S. market should be able to accommodate the Bank's requirements.

DESIGN OF A CAPITAL INCREASE

Page 51; No. 127 Interest Coverage

We only make a point we have made before, the absolute coverage is not as important to investors as its stability; 1.1 times would be as adequate as 1.2 or a higher coverage, provided it is stable.

Page 51; No. 130 Paid-in Capital Increase

We can see no market reasons to vary from the recommended 10% increase.

Pages 51-53 Voting Power

We understand from this discussion that this subject involves subtleties, perceptions and developing country psychology. By the same token, it would be unfortunate to the borrowing program if investors were to perceive that the capital exporting countries were not in full control of the lending program.

The First Boston Corporation
February 15, 1977

cc: Mr. E. H. Rotberg

7/8/83. I believe this memorandum to have been written by Mr. Damry VP and Secretary. B. Moore

"FUTURE ROLE OF THE WORLD BANK"

Informal Meeting - February 15, 1977
Mr. McNamara and 20 EDs

(In attendance: Messrs. Knapp, Cargill and Damry)

711/4/2

Mr. McNamara, opening, said that he believed the meeting should disclose ideas on the procedure for the examination, maybe over a period of time, of the points of substance in the paper. He did not think the Directors would be in a position to discuss substance at the present juncture: on March 8 a decision would have to be taken only on the two specific, urgent issues of i) the lending programs of 1978 and 1979 and ii) the timetable for agreement on a further capital increase. He emphasized that a decision on the two years' lending programs could be taken without a prior decision on a further capital increase.

Mr. Green - the Executive Directors had not yet had enough time to discuss the policy implications of the paper and so could not make any input on policy options as yet: the paper could be dealt with in three stages, i) an initial discussion, informal and unstructured, probably in Committee of the Whole, but possibly also in ad hoc meetings of smaller groups of Directors, ii) consultation with governments, followed by iii) formal discussion in the Board: it was important to fix topic-wise priorities and a timetable.

Mr. Sen - consultation with governments on the longer-term issues, before March 8, though desirable was just not feasible, since most issues would require iterative discussion over a much longer period. Meanwhile, the impact and consequences of the Governors' decision on the Special Increase had yet to be known. Deciding the two urgent issues - loan program and timetable for decision on the further capital increase - in isolation on March 8 was the only feasible course.

Mr. Thahane - agreed with Green and Sen, as long as we kept further discussion within a timetable. Informal discussions were very useful and he thought that if during the discussion of the selective increase this same method had been resorted to and Part I and Part II Directors had taken time off for internal discussion as a group of 20 with the President, many earlier misunderstandings would have been speedily resolved. He agreed that March 8 discussion should be confined to the two urgent issues and that after the selective capital increase had been approved by the Governors and within a timetable the remaining issues could be taken up over a period of time.

Mr. Janssen - agreed that the two urgent questions alone could be decided on March 8: four factors inhibiting satisfactory discussion of the rest of the issues were: 1) indeterminate situation of IDA V, 2) selective increase decision not yet finally approved by Governors, 3) the Carter Administration had yet to disclose its mind on many germane matters and 4) the consequences of the next round of Fund-quota increases. He also felt that the more important of the issues raised needed to be considered individually, piecemeal: these included the graduation policy, safeguarding that in future also the quality of projects remained high and also a deeper look into borrowing prospects and an examination of implications of the capital market situation on our policy: also the voting-rights question was of great concern to Part II countries. He incidentally mentioned that a journalist had questioned him about some specific points in the paper and wondered how it could have leaked.

Mr. McNamara - said this problem of leakage was not limited to the Bank. It appeared in government circles also and was unfortunately characteristic of the present times: anticipating leakage, he had carefully eliminated from the paper anything which through leakage could have embarrassed either the governments or the Bank.

Mr. Drake - agreed that the two urgent issues be decided on March 8: the paper was very good, it dealt with most if not all the germane issues very objectively and would be a useful basis for discussion of all the issues, in future, without any further papers in amplification of individual issues. He suggested scheduling regular meetings so as not to conflict with the Board schedules and thought that priorities should be assigned in terms of time allocated to those of the individual issues which could and should be decided or for which more information was needed before a decision could be taken: such issues were the voting rights, graduation and lending policy: by the same token, there were other issues in the paper which should be given low priority, such as the relations with regional banks. He favoured a two-stage procedure for dealing with the issues other than the two urgent ones - a first very informal set of discussions with no decisions but only a preliminary exchange of views which could also serve to bring out the underlying concerns of governments which could be stated frankly only in informal meetings: thereafter, a period of gestation for formal consultation with governments and then the regular Board discussions. He agreed with Mr. Janssen that the outcome of IDA V negotiations could have a bearing on the other issues and would have to be awaited but did not at all see why a signal from the Carter Administration was seen as equally important.

Mr. Razafindrabe - agreed to March 8 for a decision on the two principal issues.

Mr. de Groote - took a somewhat different line from the other Directors. He thought that we could have had a shorter paper dealing with specific issues separately from the general issues (paragraph 144 was a typical specific issue). He differed from the others in their view that we needed to - or even could - discuss the two urgent issues of '78 and '79 loan programs and capital increase timetable first and did not think that the paper made a good case for those two issues to be segregated and first decided. He somewhat deplored the paper's toning down anything so controversial that it could compromise or jeopardize the safe passage of the two urgent proposals and would have preferred a more frank and more objective paper (which he thought could have been even more optimistic than the present one) and would yet have resulted in our being able to decide in time on an enhanced lending program and a timetable for the next capital increase. At this stage Mr. McNamara pointed out that while there was a great deal of force in Mr. de Groote's argument, all decisions regarding the 1978 budget would have to take into account that the 5.8 (nominal) program would have to be maintained unless the Board reviewed that (5.8) decision quickly and took a decision for a different figure based on the data now available. Also, on the particular reference to 1979 the lead-time, 12 months, for '78 and '79 would have to be borne in mind. If we do not take these decisions now we could find ourselves in a position shortly of having the resources but a very lean or even empty pipeline; manpower at the present level would be unable to produce enough projects to keep the pipeline full commensurately with our resources. Hence the necessity for a quick decision on increasing our processing capability. This, Mr. McNamara thought, was the only real justification for deviating from what Mr. de Groote rightly considered a rational approach. He emphasized that but for a decision on or about March 8 the budget would not be ready in May for discussion in June.

Mr. Conesa - agreeing that the two urgent points had to be decided on March 8, felt on the other hand that the consideration of the other issues would have to abide the answers to many questions including the Carter Administration's views, the outcome of the Brand Commission proposal and other ongoing dialogues (incidentally Mr. Conesa took the opportunity to communicate his Governors' full support to Mr. McNamara's proposal on the International Commission).

Mr. Ryrie - thought that the procedure outlined by Mr. McNamara was very appropriate and that a quick decision on the lending program was needed, provided always that the 1979 program was regarded not quite as a program but as a plan which might conceivably have to be reduced later and when programming actually for 1979. He did fear that two different a figure for 1979 might get us into some sort of commitment regarding the right of extension of lending in 1980 onwards. He thought that the rest of the issues could be classified in groups and discussed accordingly over a period (see his later remarks).

Mr. Matsunaga - agreed with two points being decided March 8 but also felt that on the other issues the US Administration's views, the outcome of CIEC and the Brand Commission would have a bearing and that we can only discuss these issues after March 8 as developments outside the Bank became visible. He did not quite see the need for a regular stage by stage program of discussion as visualized by Green and could easily contemplate more informal meetings even after the second stage, i.e. consultation with governments.

Mr. Khelif - generally agreed on the urgency of the two decisions on March 8 but thought that priority of discussion of the other issues could await the outcome of developments outside.

Mr. Magnussen - agreed that a decision on lending program and timetable for capital increase on March 8 was necessary, but thought that the situation in respect of 1978 had already been compromised and that eventually we would find that we would be taking a lending-program decision only in respect of 1979. He thought that instead of all 20 Directors considering suitable procedures or fixing priorities, a small group within the Board could deal with them.

Mr. Looijen - agreed with the proposed program for March 8. He also felt like Mr. Green that the other issues should be discussed topic by topic and in the informal consultation through Board discussion stages suggested by Mr. Green.

Mr. Rota - had no problem with the two urgent points being decided on March 8, but the general issues he felt were interrelated; political situations in various countries had a bearing. He thought that we were relying too much on guesses on inflation and other projections and we needed time for the situation to crystallize in various respects so that we could choose the various options amongst the many that seemed to be offered on each issue.

Mr. Franco - agreed on the March 8 program and the separate and progressive discussion of the other issues but felt that we had to take the chance that our projections and assumptions were, at this stage, correct and that we should not wait too long on developments in the outside world to crystalize.

Mr. Janssen (intervening again) - we had so far adopted the assumption that no capital increase would take place for two years but by deciding on the proposed 1978 program we were in fact introducing an element of coercion of governments in respect of the future capital increase and hence his emphasis on waiting to see how Carter felt. Mr. McNamara at this stage assured the meeting that no coercion had ever been intended and that all the issues had advisedly first been exposed so that the Board should be aware of them - though not necessarily decide them - before deciding on the bigger program for 1978 and 1979; but the Board must all the same give directions quickly on the program for those two years.

Mr. Drake - all governments were wrestling with questions of transfer of resources and that while we could await the resolution of those questions it would obviously be better that we should use the present excellent paper to focus the attention of governments on the various issues and thereby stimulate them to greater activity in examining them.

Mr. de Groote - intervening a second time said he would go along with the majority on the proposed March 8 program but also asked whether the 6.1 and the 6.8 programs did not tend to go further than what we had already, elaborately justified not so long ago: he thought, therefore, that while an increase was welcome "some extra justification" was called for. He also wondered whether an early decision on '78 and '79 would not be counterproductive in that it would take away from governments the incentive to apply their minds promptly to the longer-term issues: we might in fact cause governments to lose interest in these. He was prepared however to consider the opposite view that an early decision on '78 and '79 could be a stimulus to the governments to consider the larger and longer term issues. Introducing a new thought he felt that if no extra justification was deemed needed for an agreement on the proposed programs for '78 and '79 then we ought to find ourselves able to make further projections for the next few years sufficiently credibly to influence the governments' early decision on future years' policy. He also felt that we should be in a position even at this stage to highlight the Bank's proposed role in non-financial activities.

Mr. McNamara - intervening, did not think that decisions on '78 and '79 preceding discussion of the longer-term issues would vitiate or compromise such discussions, but a greater evil in terms of damage to the institution and to developing countries would be a deferment of the '78 and '79 program decisions. He made it very clear that while he had stated that we could technically wait 17 months for a decision on the next capital increase, his own preference would be for a much earlier decision and he would in fact recommend the Board setting an earlier target date for it: he did indeed realize that the next 12 months were going to be different, not perhaps so much with reference to the Group of 77 and OECD, but the uncertainties surrounding the CIEC dialogues, the Carter Administration policies and the other factors mentioned by Directors, none of which he thought would be clearly resolved within the next 12 months. He thought we could deal with de Groote's point on focussing governments' minds on programs for the later years by setting out some optional hypotheses regarding future lending programs on the basis of an increase to 30 billion (see Annex 1).

Mr. Sen - again intervened to say that the kind of focus de Groote wanted was needed in respect of 1980, and not 1978 and 1979, and thought that in any case we should have to be focussing on 1980 in a few months - even as early as June or July 1977.

Mr. Ryrie - thought that one effect of mentioning a figure like 6.8 for 1979 would be to create a sense of urgency for a further capital increase decision.

Mr. McNamara - again, though we could technically wait for 17 months for a capital increase decision we ought in fact to try and get this decision by January 1, 1978. This date was of course conceivably extensible by six or seven months more in discussion. He agreed that the needs of developing countries would themselves create a sense of urgency in the minds of governments, comparing Bank to Fund, our problem was much more serious than the current account deficits of countries. In this context also he mentioned the role of commercial banks and the example of one of them which is already publicly questioning the assumption that commercial banks would continue to find about 10 percent of the external finance needs of the developing countries. He said he would hope that the Executive Directors would be able to persuade the governments that the decision on the further capital increase should be made sometime between January and July, 1978.

Mr. Green - countered that while Executive Directors would no doubt try to communicate this sense of urgency, the governments would retort that we had unaccountably lost a year having mentioned the urgency last April. He also thought that the IMF quota increase would itself create a sense of urgency for a Bank capital increase.

Mr. McNamara - while agreeing that the IMF quota decision would fit within the 17 month time-frame, even if the Fund acted more urgently we could advance our decision on the capital increase correspondingly to that. But he thought that even if the actual decisions on the Fund quotas were postponed beyond the 17 month period we should be able to deduce sufficiently from the trends of the Fund discussions the capital increases for the Bank corresponding to the expected Fund quota increases. He pointed out that we had never said last April that we could at that stage discuss a further increase. The real issue, Mr. McNamara said, was whether we could come to a decision within the 11 to 17 months, having regard to the difficulties that would arise from external developments referred to earlier. He thought despite those difficulties such a decision would be possible, with the single exception of the voting rights question, which he thought would take a great deal of time to solve; he believed that decisions on the capital increase issue while it might not be perfect could be taken within 11 to 17 months acceptably both to developing and industrialized countries. On the voting rights he thought we would even be able to evolve some timely solutions to meet the difficulties regarding representation on the Board, but not on the principal, general questions relating to voting rights. Speaking generally, he thought that an effective procedure of discussion would be for informal discussions to precede each formal meeting on these issues. In conclusion he said we would try to draw up a list of subjects for discussion in Committee of the Whole from time to time, commencing the week after next. The subjects might be in two lists, one in order of their relative priorities and the other with reference to the sort of political considerations mentioned by the various Directors.

Mr. Ryrie thought these meetings could effectively cover the whole ground of the paper though not necessarily to the stage of conclusion in all cases, before this Summer: he did not think 10 months would be needed.

Mr. McNamara - made it clear that he did not mean that all issues would need 10 months for a decision and thought that we could conclude the cycle of informal discussions by summer, while in his mind January 1, 1978 remained the time-limit of choice for a decision on the next capital increase.

Staff Compensation

Mr. McNamara briefly explained the problems that had arisen and the wide range of views that had been expressed as the result of the recent discussion, with reference to the Fund and the Bank Boards and the staff and that we had just circulated a paper containing all the options we thought relevant and suggested we might in informal meeting at 4.00 p.m. on Thursday, February 17 discuss, not the pros and cons of the options listed in our paper but to see whether they were complete. On completing our lists we would try to correlate them to the IMF's and the two institutions would procede in parallel to consider the whole range of options.

Mr. Cargill gave a brief account of the current situation regarding IDA V-Bridging.
