McNamara Papers

Memos for the record
1975 (Jan. - June)

MEMORANDUM FOR THE RECORD

792/2/106

Meeting to Discuss Financial Policies, June 23, 1975

Present: Messrs. McNamara, Cargill, Goodman, Adler

The following subjects were discussed:

1. 5IDA. Mr. Cargill said that a fair amount of work had already been done on 5IDA. Mr. McNamara requested to have a table by the end of the day showing IDA contributions as a proportion of Part I countries' GNP for 3IDA, 4IDA and 5IDA. It was agreed that the figures shown in the Budget were too low, both in amounts and projects.

2. Borrowing in the U.S. Mr. Goodman said that the market had turned bad on Friday. The underwriters were worried and foresaw cost of 8.25% to 8.30% for five-year maturities and 8.50% to 8.55% for 10-year maturities by July 15. Mr. Cargill said that it was still worthwhile to get the Board's preliminary approval on June 24 but not to send out the prospectus immediately.

3. Third Window. Mr. Cargill reported that Kuwait would include $20 million for the Third Window in its budget and pass it by June 30. In Saudi Arabia no action was required. In Canada, U.K. and the Netherlands no Parliamentary action was required but there might be a trigger level. The contributions for the five countries amounted to $105 million. Mr. McNamara said that this was sufficient for $500 million lending. He felt that a paper to the Board should be prepared on this basis by July 8 for Board discussion on July 29. In the meantime Mr. Cargill should work on the five countries and hopefully obtain their contributions without a trigger. He should also contact the smaller countries, such as Denmark and Norway. Mr. McNamara said that, if the Third Window did not start operating before the Annual Meeting, it might slip.

4. Allocation of IBRD Income. Mr. McNamara was in favor of transferring income to the Third Window but the U.S. and Germany were against it. He asked Mr. Adler to check with Mr. Nurick on the date by which a transfer was legally required. Income could now be estimated at $265 million. If $100 million were transferred to IDA, some EDs might question why only $100 million and not $125million to $150 million, particularly if a contribution to the Third Window was also requested. Mr. Cargill said that these issues would be addressed and a full paper would be ready by July 8.

5. Lending Rate. There was no need to change the lending rate at this stage, and a paper would not be required until the end of the year.

6. Increase in Capital Subscriptions. Mr. Cargill said that Mr. Nurick's paper would be finalized soon in view of recent discussions in the IMF, and he would inform Mr. McNamara.

cc: Mr. Goodman

SB
June 24, 1975

MEMORANDUM FOR THE RECORD

Meeting to Discuss Urban Development, June 23, 1975

Present: Messrs. McNamara, Baum, Chenery, Churchill, Maddux and Mrs. Hughes

Mr. McNamara asked how our work on Urban Development could be translated into an operations program for the Bank. Mrs. Hughes said that there were five areas in which the Bank could work:

1. Productivity of small enterprises could be increased through availability of credit. This could be done through DFCs.

2. Governments need advice on capital utilization, such as number of shifts and elimination of disincentives. This had successfully been carried out in Taiwan, Singapore and Hong Kong.

3. Increased access to infrastructure, such as land, water and transportation for the informal sector.

4. Placing small enterprises near large industry to achieve integration.

5. Provision of extension services to encourage entrepreneurship, particularly in Africa.

Mr. McNamara agreed with this program. He asked how the increase in productivity could be measured. Mrs. Hughes said that this was difficult but could be done on a GNP per capita basis. This had been possible in Taiwan and Singapore.

Mr. Churchill emphasized the necessity for land control in cities. Mr. McNamara said that land control would not come soon and we should be able to proceed without it. Mr. Baum said that it was necessary to restructure the standards of services. Cheaper electricity and water should be supplied and techniques for this were available. Mr. Chenery said that urban development should in many ways be easier than rural development since the target group was easier to reach. The speed of change was faster in urban areas and the most enterprising people were the ones who had migrated from the rural areas to the city.

Mr. McNamara said that a city project for expansion of earning opportunities could be envisaged to consist of sites and services, industrial estates, transportation, housing and other social services. Four or five pilot cities around the world could be selected for this purpose. He was willing to spend large sums on such pilot projects.

Mr. Baum said that the work on urban development should be organized along the lines established for rural development, consisting of operations, research and policy papers. Mr. McNamara asked Mr. Baum to talk to Mr. Chenery and establish a work program for discussion with him. It might be required to establish a committee for this purpose.

The next meeting should take place in about four weeks.

SB
June 26, 1975

792/2/04

MEMORANDUM FOR THE RECORD

Meeting to Discuss Program and Budget, June 20, 1975

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Goodman, Adler, Schulmann, Damry, Shoaib

The following issues were discussed with a view to providing answers to the Board on June 24:

1. FY75 Overrun. Mr. McNamara said that in number of projects there had been no overrun. In fact only 190 projects instead of 196 would be presented. The Budget bought manpower to execute projects. We were budgeting for 210 projects in FY76 and this would not be changed. If the Board insisted on the dollar overrun, the approximately \$250 million overrun in FY75, plus the roughly \$180 million of the six projects which had not been approved in FY75, could be deducted. Mr. Knapp felt that this was getting too refined. Mr. McNamara agreed but said that we should tell the Board that it would be informed during the year whenever an overrun in dollar amount of more than 5% was indicated.

2. How to Avoid FY76 Overrun. Mr. McNamara again stressed that in terms of projects there would be no FY76 overrun.

3. Increase in Subscribed Capital. Mr. McNamara said that a paper on the Selective Increase to complement the IMF increase would soon go to the Board. The question of seats would be taken up at the same time. A future increase would not be needed until roughly six years from now.

4. Borrowing Program. Mr. McNamara said that questions on the Borrowing Program should be answered by promising the Board an analysis of Capital Markets. However, the preparation of such a study should not hurt the studies on Capital Structure, 5IDA and mid-year Program Revision. A way out might be to promise the Board a study on Capital Markets and IBRD Borrowing and a discussion of Capital Structure instead of the mid-year revision. Mr. Cargill said that he would work on the Capital Market study as soon as possible.

5. Lending Rate. Mr. McNamara said that this could be discussed when the paper on Allocation of Income went to the Board.

6. The Budget. Some EDs felt that the Bank was getting too big. Mr. McNamara asked Mr. Schulmann to send a copy of the recently prepared input-output table to all participants. It would then be decided at the pre-Board meeting whether or not to send the table to the Board.

It was decided that the order of speakers should be Messrs. Razafindrabe, Isbister, Mekki, Hori.

SB
June 23, 1975

MEMORANDUM FOR THE RECORD

792/2/103

Meeting to Discuss Financial Policies, June 16, 1975

Present: Messrs. McNamara, Cargill, Adler, Goodman (for the entire meeting), Damry, Shoaib, Gaud and Nurick (for Third Window and Capital Subscription)

Third Window--Mr. McNamara distributed a paper on potential donor countries' reactions in Paris. Commitments now totaled between $134 million and $154 million. There was a lengthy discussion on how to proceed from here. It was decided:

a. To prepare a paper and resolution for the Board to authorize the Third Window. The documents should be distributed by July 8 for Board discussion on July 29. The issues of additionality, "trigger" level, if any, and management of the Third Window should be dealt with in the paper.

b. Mr. El Fishawy should be cabled immediately to go to Kuwait and Saudi Arabia. He should attempt to obtain appropriations for the contributions to the Subsidy Fund in the two countries, and a statement that the contributions will be committed after agreement with the Bank.

c. Mr. Cargill should contact the U.K., Canada and the Netherlands.

d. Mr. Adler should prepare an IBRD/IDA/Third Window operations and lending program before the Board discussion. The first draft should be discussed among Messrs. McNamara, Knapp and Cargill before obtaining comments from the Regions.

e. The Allocation of FY75 Net Income paper, to be discussed on July 29, should deal with the issue of contribution to the Third Window if the Board supported additionality in the discussion of the Bank program and budget on June 24. In that case a maximum contribution of $25 million contingent upon $200 million from the donors might be considered.

Mr. Cargill would work out a time schedule for the different steps to be taken.

Increase in Subscribed Capital--Mr. Nurick said that we had three options:

a. To go to the Board with an increase for OPEC countries only;

b. To go to the Board before the Interim Committee meeting on August 30 and 31; and

c. To do nothing until after the Interim Committee meeting.

It was agreed to follow option (b) and to consider the minimum common increase in the IMF as a general increase and all above as selective. The increase in IBRD subscribed capital would be based on the selective increase only. This would ensure maximum parallelism with the IMF.

Five-Year Program and FY76 Budget--Mr. McNamara said that he would like to meet on this before the Board discussion on June 24.

Deflators--Mr. Goodman said that he would have a statement prepared during the week, explaining the deflators and how they link. The statement would be discussed among Messrs. Cargill, Goodman and Adler before submitting to Mr. McNamara. Mr. McNamara would like to have the statement before the Program and Budget discussion on June 24.

LPAU--Mr. McNamara agreed with the proposed assignments and staffing of LPAU. He stressed the importance of the study of reschedulings since World War II and the experience of export guarantee and similar institutions. He would like to have a firm schedule for these studies as soon as possible.

cc: Messrs. Goodman, Knapp

SB
June 16, 1975

MEMORANDUM FOR THE RECORD

792/2/102

Meeting to Discuss Financial Policies, June 9, 1975

Present: Messrs. McNamara, Adler, Goodman, Rotberg

FY76 Borrowing Program. Mr. McNamara said that it was unlikely that we would obtain $1.2 billion from OPEC. Even if we could, we should get ready to enter the U.S. market. It was decided to discuss a five-year $200 million issue and a $300 million ten-year issue with the underwriters and the Treasury for possible sale in August depending on the underwriters' recommendation. A basic guideline should be that average maturity for total IBRD borrowing should not be less than 7-1/2 years. Mr. Rotberg would review the FY76 borrowing program accordingly. Mr. Rotberg suggested that the Bank should start issuing nine-month commercial paper. Mr. McNamara asked him to put this suggestion in writing.

Investment Authority. Mr. McNamara referred to Mr. Cargill's memorandum of May 22, 1975, and said that we should go ahead and talk to the FED and the U.S. Treasury. If they agreed, we should then contact the EDs of the U.K., Germany, France and Japan. There was some discussion of government obligations in currencies other than their own. Mr. Rotberg explained that the French telecommunications company had paid 200 basic points premium in the U.S. market. Mr. McNamara found this puzzling and asked Mr. Rotberg to contact Mr. Wahl and write a note to explain this large premium. Mr. McNamara also wondered why our Pension Fund had not invested in these French bonds and asked Mr. Goodman to explain this in writing. Nondomestic time deposits were also discussed. Mr. Rotberg said that this referred to placement of time deposits denominated in the currency of the country in which a bank's head office is located with its foreign branches. Mr. Rotberg had already received a legal opinion indicating that the Bank could go ahead with such deposits. Mr. McNamara congratulated Mr. Rotberg on his efforts in this field and asked him to go ahead with the deposits.

LPAU Assignments. Mr. McNamara said that the studies of rescheduling since World War II and of loss experience of other institutions deserved high priority. He asked Mr. Goodman to talk to Mr. Eccles about this. Mr. Goodman said that there were manpower constraints in the LPAU. Mr. McNamara said that he was willing to eliminate these constraints if so required.

Input-Output Analysis of the Bank's Work. Mr. McNamara referred to Mr. Sigurdsson's comments on the Program & Budget paper. Mr. McNamara asked Mr. Adler to prepare a format for an input-output analysis and discuss it with him before his departure for Paris.

Deflator. Mr. McNamara felt that there was something wrong with the recently established deflator, particularly for past years. He asked Mr. Goodman to contact Messrs. Baum, van der Tak, Holsen and Adler about this. Comparisons of IDA replenishment periods in terms of projects and value should be added to Mr. Adler's table on IBRD and IDA lending for FY64-FY80.

Budget. Mr. Gabriel had told Mr. McNamara that the budget included a considerable amount of "fat." Mr. McNamara had asked Mr. Gabriel to talk to Messrs. Cargill and Goodman about this.

cc: Mr. Goodman

SB
June 10, 1975

7912/2/101

MEMORANDUM FOR THE RECORD

Meeting to Discuss Bank Program and Budget, June 3, 1975

Present: Messrs. McNamara, Knapp, Shoaib, Adler, Damry, Goodman, Sella

Mr. McNamara referred to Mr. Hori's comments on the Program and Budget. Mr. Hori was concerned that lending for FY75 would substantially exceed the program discussed by the Board in June 1974. Mr. McNamara said that there were two elements to the issue raised by Mr. Hori, namely, the budget and the lending program. Although the budget should not be considered a strict spending limit, Mr. McNamara felt that every effort should be made to stay within it. He reminded Mr. Adler of the study of guidelines for adjusting the budget and authority to exceed it, as agreed in the meeting on Financial Policies, May 8, 1975. Mr. McNamara felt that we had a larger margin with respect to the program. He asked Messrs. Damry and Sella to study the records and talk to Mr. Hori before end of business on Wednesday, June 4. If the record did not confirm Mr. McNamara's views, he would like to be informed before the conversation with Mr. Hori.

There was some discussion of how flexibility with respect to the program should be interpreted. Mr. Knapp was surprised that the Japanese and not the U.S. had raised the issue. He agreed that the program was more flexible than the budget but was still worried about the large overrun on commitments in FY75. It was agreed that Standard Table Ic from now on should show over or underestimates in the program as soon as figures were available. Mr. Goodman said that overruns could be in either projects or financial commitment. There was no overrun on projects in FY75. Mr. Hori's point was apparently that, as in international financial institution, we should stick to a ceiling on financial commitment. While we worked on a financial limit for IDA, this had not so far been the case for IBRD. Mr. McNamara agreed with Mr. Goodman and said that, had we stayed within the financial limit for IBRD in FY75, we would have wasted our budgetary resources and manpower since the number of projects would have been smaller. Mr. Adler said that the greater flexibility on the program was illustrated by the fact that no program existed before Mr. McNamara came to the Bank, whereas the presentation of a budget to the Board is mentioned in the Articles of Agreement. While the increase in price contingencies could not explain the total overrun, it at least provided a large part of the reason. Another factor was five or six large projects in FY75 which accounted for more than $400 million. Mr. Adler would send Mr. McNamara a note on the influence of large projects. Mr. Adler also felt that programs were approved by the Board in real terms. Mr. McNamara was not convinced of this but asked Mr. Adler to prepare a note on the subject, comparing Board approvals and outcome over the years. Mr. McNamara said that we must find out what a program means and what authority we have to deviate from it. In the discussions with Mr. Hori, emphasis should be given to exposing and explaining the matter rather than concentrating on the purely legislative aspect.

Mr. Hori was also concerned that the overrun in FY75 would lead to too rapid an expansion of the Bank when used as a basis for future projections. Mr. McNamara and Mr. Adler would prepare a table to illustrate the issue.

Mr. Hori had also felt that the argument given for increasing the subscriptions to Bank capital by about $13 billion was "very casual." He did not feel that the total increase in IMF quotas could be considered as a selective increase. Furthermore the increase in OPEC subscriptions from 10%-15%, compared with the IMF, should not be considered as additional. Mr. McNamara had pointed out to Mr. Hori that taking his two points into account would only lead to a reduction in the capital increase of $3 billion.

Mr. McNamara wondered whether Mr. Hori had presented a personal view or the view of the Ministry of Finance in Japan. He asked Messrs. Adler and Goodman to talk to Mr. Soejima about all the points that Mr. Hori had raised and enquire why Japan seemed opposed to IBRD expansion.

Mr. Goodman reported that the Alternate EDs would meet on June 16 to discuss the program and budget. Mr. McNamara asked Mr. Shoaib to contact the LDC EDs before then. If they shared our view that the program was required by the need of the LDCs and consistent with sound financial management, they should talk to the EDs from the developed countries and convince them of this view.

There would be no projects presented to the Board on June 19, since the Board had been promised that the whole day would be available for program and budget discussion.

SB
June 4, 1975

792/2/100

MEMORANDUM FOR THE RECORD

Meeting on Financial Policies, June 2, 1975

Present: Messrs. McNamara, Adler, Goodman

FY76 Borrowing Program--Mr. Goodman would prepare a new version of the FY76 Borrowing Program, including countries, dates, amounts and terms, separating roll-overs from new money for next Monday's regular Financial Policy meeting.

China--Mr. Cargill should pursue the question with Mr. Dale in the IMF.

4IDA--A quarterly report on 4IDA should be prepared, the first showing the status as of June 1, 1975. A senior person, possibly Mr. Gaud, should be responsible.

Loan Portfolio Analysis Unit--Mr. Goodman would prepare an outline and a time schedule for the Unit's comprehensive report on defaults and reschedulings since World War II by next Monday.

Mr. Goodman would prepare an agenda for next week's meeting and talk to Mr. McNamara about it by June 5.

There was some discussion of Mr. Cheek's proposal for a review of the role and operations of the Bank. It was agreed that the proposal was potentially dangerous. Messrs. McNamara and Goodman would talk to Mr. Cheek.

cc: Mr. Goodman

SB
June 3, 1975

792/2/79

MEMORANDUM FOR THE RECORD

Meeting to Discuss Increases in Bank Subscribed Capital, May 29, 1975

Present: Messrs. McNamara, Knapp, Broches, Damry, Adler, Goodman, Nurick, Stern

It was decided to review the paper in view of results of the Interim and Development Committee meetings in Paris, distribute it to the Board on June 17 for Board discussion on July 8. This would leave ample time for discussion before distributing to the Governors on August 1. Bank capital increase should be decided upon at the Annual Meeting and not through a postal ballot. Mr. McNamara asked Mr. Nurick to prepare a backup note, showing when previous capital subscriptions took place in what amounts, and possible differences between IMF and the Bank in amounts and procedure.

Mr. McNamara said that the two main issues were whether IBRD should increase its capital and whether the OPEC share should go to 15%. He felt that the paper was thin on both issues. The only argument for an increase seemed to be parallelism with the IMF. Mr. Knapp said that this was more than a formality. Governments felt that the IMF gave benefits along with subscriptions and that it was only fair that a corresponding sacrifice would be made towards the IBRD. With respect to the increase for OPEC, Mr. McNamara asked Mr. Adler to prepare a note before the Board Meeting examining whether the trade, reserves and financial position of OPEC countries justified an increase to 15%.

Mr. Knapp said that it might not be possible to maintain that the whole increase in the Fund should be regarded as a special increase, but he felt that we should go ahead on that basis. Mr. McNamara agreed.

The meeting turned to a page-by-page revision of the paper. Mr. Nurick would be the redrafter of the paper. Main points of the discussion were:

1. Mr. Adler should check whether the EDs reacted favorably to the proposal of a 15% share for OPEC during the discussion of financial policies in January, as indicated in paragraph 9.

2. The increase in OPEC share from 5% to 10% would be parallel with the Fund. The extra increase from 10% to 15% would be distributed as the first increase. Countries could then decide whether they would take up the increase or not. Mr. Knapp said that Algeria apparently wanted OPEC to go to 15% in IMF as well, and that this might be requested during the Interim Committee meeting in Paris. The OPEC countries would discuss the subject among themselves during the Finance Ministers meeting on June 2. Mr. McNamara thought that OPEC would stick to the position already taken in the Fund. It would, however, be useful for Bank staff to discuss the subject of capital subscriptions again with Finance Ministers in Paris. He asked Mr. Goodman to prepare a plan for his own and Messrs. Knapp's and Cargill's contacts with Ministers in Paris on both the subject of capital subscription and the Third Window.

3. It was decided that a possible change in Board seats should not be mentioned at this stage. The U.S. was worried about losing its veto power over increase in Board seats and amendment to the Articles by having its share go below 20%. The U.S. position was not clear at this stage but should be watched closely.

4. Mr. Knapp said that countries might be worried about maintenance of value obligations. Mr. McNamara asked Mr. Adler to prepare a note on the subject.

SB
May 30, 1975

MEMORANDUM FOR THE RECORD

792/2/98

Meeting to Discuss Financial Policies, May 22, 1975

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

The following subjects were discussed:

1. Germany--Discussions with Dr. Bahr. Mr. McNamara said that Mr. Wapenhans had met Dr. Bahr in Frankfurt. Mr. Benjenk was preparing a memorandum on the conversation which would be sent to all participants in the meeting. In brief, Dr.Bahr had supported intensification of relations between the Bank and OPEC countries, increased borrowing by the Bank in OPEC countries, and the Third Window concept. He had urged the Bank not to drop the idea of the Third Window, even though it might mean starting at a lower level than the originally proposed figure. Germany might be able to participate in the scheme towards the time of the Annual Meeting. 5IDA could also be discussed at the Annual Meeting, but not before. Mr. McNamara said that this clearly indicated a change in the German position. Mr. Cargill said that Dr. Bahr would know of our Five-Year Program at their meeting scheduled for June 2. Mr. McNamara asked Mr. Cargill to take a copy of Mr. Adler's memorandum on "Future Bank Commitments and the Statutory Limit on Lending" along to the meeting.

2. Third Window. Mr. McNamara said that it was important that the second Donor Meeting on June 10 would be positive. Mr. Cargill said that delegations were now thinking about the Third Window in light of the positive effect of the first meeting. Furthermore, Iran, Japan and Germany would be properly represented at the second meeting. However, he would sound out several potential donors during his visit to Europe next week. If he felt that the reactions were not satisfactory, the second meeting should be canceled. Mr. McNamara agreed. Mr. McNamara said that he was reluctant to go ahead with the Third Window if it were not to be additional and if we could not start at $500 million and increase towards $1 billion. It was agreed that the possibility of an IBRD contribution should be left to Mr. Cargill's tactical judgment but that we should be much nearer $225 million subsidy before mentioning it. Mr.McNamara asked Mr. Goodman to complete his list of May 22 on Third Window donors, including South Africa and Austria and, where possible, quoting directly from donors statements. There was some discussion on how to present the Third Window to the Development Committee. It would be dangerous if committee members started discussing additionality or details of the scheme. Mr. Goodman wondered whether we should coordinate with Mr. Costanzo at this stage. Mr. McNamara did not think so. Mr. Stern had suggested that Mr. McNamara give an initial statement. Mr. Stern was drafting the statement and it would be circulated to participants. Mr. McNamara planned to meet with Messrs. Witteveen, Bedie and Costanzo on June 11 to discuss approach and tactics for the Development Committee. He would meet with Mr. Turner during the same day. He would also like to meet for dinner with Messrs. Knapp, Cargill and Stern that evening.

3. Increase in Capital Subscriptions. Mr. McNamara asked to have Mr. Cargill's views on the paper before his departure. Other participants would then discuss the paper and finalize it before departure for Paris. Hence the paper would be ready for distribution immediately after the Interim Committee meeting, possibly on June 16. Mr. Adler said that Iraq and Libya would not take up the increases in the IMF. It was not yet clear what the distribution of seats in the IMF would be. Mr. Cargill said he would talk to Mr. Dale about that on May 23. Mr. McNamara said that an effort should be made to have Iraq subscribe to an increase in the Bank. He said he would call Mr. Kittani in New York. Mr. Cargill said that the 15% envisaged for OPEC should be distributed on a rational basis. If some OPEC countries would refuse to take up an increase in subscription, total OPEC would be less than 15%. Mr. McNamara agreed.

4. <u>Cable from the Asian Development Bank</u>. The ADB was worried about a U.S. suggestion of annual contributions. Mr. Goodman would prepare a reply.

cc: Mr. Goodman

SB
May 23, 1975

MEMORANDUM FOR THE RECORD

7°12/2/97

Meeting on China, May 19, 1975

Present: Messrs. McNamara, Knapp, Broches, Cargill, Clark, Hoffman

Mr. McNamara referred to Messrs. Broches' and Hoffman's memorandum of May 15, 1975, on China membership. He said that we should now approach Taiwan formally and inform them, perhaps even in writing, of their options on the question. They could either wait till the matter was raised by a friend of the PRC, probably in the Annual Meeting, and then face a vote which they would surely lose, or they could take the initiative and bring up the matter in the Boards of IMF and the Bank. Finally, the management of the IMF or the Bank could take the initiative. Before approaching Taiwan, however, we should agree on a common approach with the IMF. Mr. McNamara asked Messrs. Broches and Cargill to meet with Messrs. Gold and Dale in the IMF. Taiwan should be requested to answer in writing on which option it would choose.

Mr. Cargill said that we needed the PRC more than they needed us. Mr. McNamara said that we did not need the PRC as a member at this point but we needed their silence. Their attack was weakening us.

Mr. Clark said that the Taiwanese should realize that the U.S. could no longer protect them. Mr. McNamara said that they already knew. At this point they should just be told what options they had and be requested to give an answer as described above.

SB
May 20, 1975

7-92/2/96

MEMORANDUM FOR THE RECORD

Meeting to Discuss Annual Meeting Speech, May 19, 1975

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

Mr. McNamara said that he would cover both foreign exchange requirements of LDCs and urban problems in the speech. He felt, however, that the urban part of the technical draft was thin. He asked Messrs. Chenery, Stern and Rao to strengthen the urban part during the coming week. More emphasis should be given to reorientation of DFC lending in the urban sector and the need to support the informal sector which had been shown to be productive. Both these areas were more important than sites and services. Reference to intermediate technology and poles of development should be avoided. LDCs should not necessarily spend more in the urban sector but spend it better, stressing labor-intensive technology.

Mr. McNamara said that he would ask Messrs. Baum, Yudelman and Christoffersen to prepare a report on progress in implementation of the strategy for rural development.

Mr. McNamara asked Mr. Maddux to prepare a draft of Chapter II "Capital Requirements in the Developing Countries" in two weeks. There was some discussion of whether the correct term was "Capital Requirements" or "Foreign Exchange Requirements." The latter was undoubtedly more correct but many readers or listeners would not be familiar with the term. Mr. McNamara said that some further thought should be given to this problem.

Mr. Clark said that the Special Session of the General Assembly would meet in the afternoon of September 1, 1975--the first day of the Annual Meeting. He therefore hoped that some reference to the new international economic order would be given in the speech. Mr. McNamara confirmed this but said that it was not his intention to discuss the NIEO but the subjects that he would discuss ought to be part of the strategy for NIEO.

Mr. Chenery felt that the speech would be too long if all these subjects had to be covered. Mr. McNamara said that the written version definitely would be longer than the oral version. He wondered whether a series of speeches in an appropriate forum might not be required. The meeting agreed with this.

SB
May 20, 1975

792/2/95

President's Council Meeting, May 19, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Shoaib, van der Meer, Kearns, von Hoffmann

Mr. van der Meer reported that Bangladesh had devalued the taka, partly under pressure from the IMF and the Bank.

Mr. Chadenet said that the paper on compensation would be distributed the same morning. He planned to have a meeting with the Department Directors Tuesday at 11:30 a.m.

Mr. Chenery said that Mr. Willett in the U.S. Treasury had written a paper on oil prices. The U.S. Government was now more realistic on this subject. Mr. McNamara asked Mr. Chenery to send him a copy of the study.

Mr. Baum reported on his trip to Kuwait and Saudi Arabia. He said that the two countries were besieged by money seekers. This had made it difficult to obtain funds for the CGIAR, particularly since FAO and the World Food Fund had requested funds at the same time. Mr. McNamara said that the World Food Fund had had a good first meeting in Geneva. The U.S. was considering a contribution.

Mr. Clark reported that Mr. Gardner had finished his study commissioned by Mr. Waldheim. The study called for rearrangement of voting rights in the Bank, giving 40% to the LDCs, 15% to OPEC and the rest to OECD countries. The study supported the Third Window. Mr. McNamara asked that copies of the study be sent to PC members. The study would be discussed in the Special Assembly in September. Mr. Waldheim apparently was concerned about the possibility of confrontation in the Special Assembly. To avoid this it would be better to concentrate on specific subjects such as raw materials on which agreement was possible. The Bank would make every effort to meet the request from the Tin Council.

Mr. Krieger reported on his trip to Colombia. He said that Colombia would still depend on medium- and long-term finance for a long time to come and this was hard to find outside the Bank. Mr. McNamara said that we now approached the point where IBRD money was limited and had to be allocated. We were in fact restrained by our capital structure.

Mr. Husain hoped that Mr. McNamara would talk about internal policies in the LDCs in the Annual Meeting speech. Mr. McNamara agreed.

Mr. McNamara said there would be no PC meeting the following week.

SB
May 20, 1975

MEMORANDUM FOR THE RECORD

792/2/94

Meeting to Discuss Investments in Raw Materials and Commodity Financing, May 19, 1975

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

Mr. McNamara referred to Mr. Kissinger's speech in Kansas City on May 13 where the Bank had been urged to explore new ways of financing raw material investment in producing countries and where the U.S. had shown willingness to discuss new arrangements for commodity financing.

Raw Materials Investment. After some discussion, it was decided that this subject should be handled by CPS. Mr. McNamara asked Mr. Knapp to talk to Messrs. Baum and Fuchs about finding a person who could work full-time on the subject. Mr. McNamara asked Mr. Knapp to report by the end of the week. It was felt that a study on the subject should concentrate on one raw material, possibly copper.

Commodity Financing. Mr. McNamara pointed to the possible overlap with the IMF and UNCTAD in this field. A study on who should finance what and how, and how much the Bank could do should be prepared. He asked Mr. Chenery to have a time schedule and an outline for such a study prepared and report back.

SB
May 20, 1975

792/2/93

MEMORANDUM FOR THE RECORD

<u>Meeting to Discuss Financial Policies, May 19, 1975</u>

Present: Messrs. McNamara, Cargill, Adler, Goodman

The following subjects were discussed:

1. <u>Increases in Capital Subscription</u>. The paper was being revised and would be distributed to those present. It was decided to meet again to prepare a time schedule for further action on Thursday, May 22, at 5:00 p.m.

2. <u>Third Window</u>. Mr. McNamara said that we needed to approach Venezuela. Iran was committed and he would be willing to send a message to the Shah. Mr. Cargill said that he would go to Norway during his forthcoming trip to Europe. He would meet with the Germans on June 2. Mr. McNamara asked Mr. Cargill to prepare a short note on further action by Tuesday, May 20.

3. <u>Missions to OPEC Countries</u>. Mr. Kochman had left for Algeria. Mr. McNamara asked to have a copy of his brief and terms of reference.

4. <u>Bank Program and Budget</u>. There had been no comments from the EDs yet. Mr. McNamara hoped that Mr. Adler's studies on how to avoid an increase in capital subscription by lowering commitments would be ready for the Thursday meeting.

5. <u>Loan Portfolio Analysis Unit</u>. Mr. Cargill said that the Unit had staffing problems. He hoped he could borrow two first-rate people from Mr. Haq for a six-month period. Mr. McNamara asked Mr. Cargill to talk to Mr. Chenery about this.

Mr. McNamara asked Mr. Goodman to prepare an agenda for the meeting on Thursday, May 22.

SB
May 20, 1975

792/2/92

MEMORANDUM FOR THE RECORD

Meeting to Discuss Bank Program and Budget, May 8, 1975

Present: Messrs. McNamara, Knapp, Cargill, Goodman, Adler, Schulmann

Mr. McNamara asked Mr. Adler to distribute the paper on Revision of Bank Program and FY76 Budget to the PC for discussion on May 12. He said that it was important that the managers in the Bank felt that the program was theirs. Comments from the Operational Vice Presidents before Monday should go through Mr. Knapp.

Financial Projections to FY85. Mr. McNamara said that the lending commitment in real terms after FY80 should be kept constant rather than increased by 7% as indicated in the paper. He had come to this conclusion because, at some stage, countries like Brazil and Mexico would graduate and because there were limits to expansion with the present debt equity rule of the Bank. Mr. Cargill felt that it might be necessary to cut the program even before FY80. Mr. McNamara said that, rather than cutting the program, we should study how to raise the required finance. He therefore asked Mr. Cargill to prepare a revision of the Capital Markets study and IBRD borrowing potential. However, as an exercise, Mr. Adler should examine the consequences of no real growth beyond FY75. Mr. Knapp said that another possibility was to amend the Articles or increase the subscribed capital. Mr. McNamara said that this would be very difficult today.

Borrowing Costs and Income from Securities. Those present felt that the estimated borrowing cost in paragraph 224 was optimistic. Mr. Rotberg should establish a realistic estimate and describe the volatility of capital markets and the difficulty of forecasting in the text. Mr. Goodman would prepare a note on the influence of estimated borrowing costs on 1976 income.

Average Cost of Projects. The average cost of projects had been creeping upwards recently. Mr. McNamara asked Mr. Cargill to study the creep, taking due account of a recent paper on the subject.

Venezuela. Mr. McNamara said that technical assistance should not be mentioned when discussing Third Window with the Venezuelans. Discussion of technical assistance to Venezuela should remain in the Budget. By June 20, 1975, Mr. Cargill should decide who would solve the problem of a technical assistance agreement.

Bunching. Mr. McNamara asked Mr. Cargill to examine what can be done to relieve bunching which again had become a problem in this fiscal year.

Budget Adjustment. Mr. McNamara asked Mr. Cargill to prepare guidelines for adjusting the Budget and examine what authority we had to spend beyond currently authorized budget.

The meeting then turned to page-by-page editing. Mr. McNamara gave his copy to Mr. Adler and asked him to redraft the paper and submit it to those present.

cc: Mr. Goodman

SB
May 9, 1975

MEMORANDUM FOR THE RECORD

792/2/91

Meeting to Discuss Financial Policies, May 5, 1975

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

1. Third Window--Mr. Cargill said that the Board paper was being revised (corresponds to Item 4 Vice President Finance Schedule, May 1, 1975). He would pursue the matter further with potential donors and possibly meet again in Paris between the meetings of the Interim Committee and the Development Committee. Mr. McNamara asked Mr. Cargill to prepare an Aide Memoire on the Third Window to give to Mr. Whitlam on Wednesday, May 7. He would also like to have a similar Aide Memoire for his possible meeting with the Shah of Iran. Mr. Cargill should consider visiting Venezuela next week. A schedule for Messrs. El Fishaway's and Kochman's visits to OPEC countries within the next year should be prepared and revised every month (corresponds to Item 18 on VP Finance Schedule, May 1, 1975). Mr. McNamara stressed the importance of following up with Qatar and Mr. Cargill emphasized the importance of Algeria. The most difficult question, namely, Germany, would be discussed among Messrs. McNamara, Knapp and Cargill at a separate meeting.

2. Increased OPEC Capital Subscription--Mr. Nurick's Board paper is being finalized (Item 20 VP Finance Schedule, May 1, 1975).

3. Borrowing Program--It was agreed to proceed with borrowing in Germany as outlined in Mr. Rotberg's memo to Mr. Cargill dated May 5, 1975. Mr. McNamara requested that, in the future, comparison with U.S. markets be included in such memoranda. Mr. McNamara said that the U.S. market should be stretched up to $1 billion. Mr. Cargill said that the study on the secondary U.S. market now was ready (Item 5, VP Finance Schedule, May 1, 1975) and would go to Mr. McNamara the same afternoon. Mr. McNamara said that it was unlikely that we could borrow $2,250 million from OPEC in FY76 as planned in Mr. Goodman's memorandum to Mr. McNamara dated April 28, 1975. A contingency plan was required stressing the increased use of central banks (Item 6, VP Finance Schedule, May 1). The situation with respect to borrowing in Iran was unclear. Mr. McNamara asked Mr. Cargill to prepare a one-page memorandum on borrowing and lending to Iran. Apparently $50 million offset borrowing was required and it was our understanding that net borrowing of $200 million before January 1, 1976 had been agreed upon. A letter on the matter should be sent to the Iranian Government before the visit of the Shah to the U.S.

4. Budget FY76--Mr. McNamara asked for a meeting on this Thursday, May 8, at 4:00 p.m.

5. Technical Assistance to Venezuela--Mr. Knapp said that we still did not have a clear agreement with Venezuela on reimbursement for technical assistance. Mr. McNamara requested that such an agreement be finalized as soon as possible. He stressed that all IBRD technical assistance is under the responsibilities of the VP Finance and asked Mr. Cargill to prepare clear instructions to his staff on how to deal with technical assistance.

6. Mr. McNamara reported that the Group of Five apparently had agreed to sell gold from the IMF. If this were in fact the case, the Bank should share in the profits from such a sale to support the Third Window and IDA-V.

7. Nigeria--Mr. Knapp reported that Nigeria had accepted the 8-1/2% interest rate but that nothing definite had been agreed on borrowing.

cc: Mr. Goodman

SB
May 7, 1975

7912/2/90

MEMORANDUM FOR THE RECORD

Meeting to Discuss Increases in Capital Subscriptions, April 15, 1975

Present: Messrs. McNamara, Knapp, Adler, Nurick

Mr. Knapp said that all increases should be considered as selective since this might avoid getting the U.S. "involved," and hence also avoiding cumbersome legislative procedures in the U.S. Mr. McNamara said that it would be better to follow tradition and therefore consider part of the increase as general and the rest as selective. After an increase in OPEC voting power to 15%, the number of seats in the Board could become a problem. It was, however, possible to maintain the Japanese seat, three seats for the African countries and three for the Latin Americans if, for instance, the Australian seat were dropped.

After some discussion it was decided that Mr. Nurick would prepare a memorandum for the Board by April 25. The memorandum would recommend a modified version of Alternative C in Mr. Nurick's paper of April 8, 1975. The authorized increase in capital would be 50% out of which 33% would be selective and 17% unitilized. The U.S. views should not be sought before preparing the memorandum.

SB
April 16, 1975

792/2/89

MEMORANDUM FOR THE RECORD

Meeting to Discuss Annual Meeting Speech, April 14, 1975

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

Mr. McNamara said that the objective of the speech was to obtain maximum newspaper coverage, and through this coverage to stimulate interest for the 50,000 copies which would be distributed after the Meeting.

Mr. Stern said that it was not possible in his opinion to combine the two themes in Alternatives A and B. Mr. McNamara said that at least for now Mr. Rao should attempt to make a statement including both themes by May 5, 1975. Mr. McNamara also said that the urban note was excellent. Mr. Rao said that he would attempt to make a detailed outline before he prepared the statement and he hoped to have this outline ready by the beginning of next week.

Mr. Chenery enquired whether the urban aspects could not be dealt with at the Vancouver meeting next year. Mr. McNamara felt that this was too far in the future and that both urban aspects and the state of the world economy should be included in the speech.

It was tentatively agreed to use the following outline combining Alternatives B and A in Mr. Chenery's memorandum of April 9, 1975:

B-I
B-II
B-III-a
B-IV-a, b, c
A-II-4
A-II-1, 2, 3
A-III

SB
April 15, 1975

MEMORANDUM FOR THE RECORD

792/2/88

Meeting to Discuss Long-Term Capital Requirements of Developing Countries, April 2, 1975

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Clark, Benjenk, Chaufournier, Husain, Weiner, Adler, Votaw, Krieger, Stern, Tims, and Elinor Yudin

Mr. McNamara said that we had drawn a heavy lesson from R-477 which had been misunderstood in the press and by others. We should, therefore, draft the present paper with as much clarity as possible. The paper would be discussed in the Board on April 22, then distributed to the Development Committee by May 15 at the latest for its discussion at the June meeting.

Mr. Knapp said that the assumption that the developing countries will follow suitable policies and make maximum domestic effort was wrongly stated. Mr. McNamara agreed and asked that paragraph (1) be revised accordingly.

Mr. Knapp felt that the capital flows assumed in the first part of the paper already strained the creditworthiness of the LDCs. Mr. Stern disagreed and said that the estimated private flows were conservative.

Mr. Knapp said that he was skeptical about export earnings as a cure-all for the LDCs. LDCs needed resources and, although exports gained foreign exchange, real resources were lost by export.

Mr. Benjenk said that the paper was not focussed on an audience. Was it to be directed towards specialists or towards political decision-makers? Mr. Stern said that it was directed towards the latter. In that case, Mr. Benjenk felt that the analysis should be put in annexes. Mr. Chenery said that he would look into a possible reorganization of the paper and present his views to Mr. McNamara the same afternoon.

Mr. Benjenk was puzzled that the conditions in the middle-income countries seemed to have worsened while conditions in the low-income countries had improved. Mr. Tims said that this was due to an increased flow from OPEC countries to low-income countries. Also the terms of trade had improved for low-income countries in comparison with R-477.

Mr. Husain said that the report should discuss gross as well as net flows, since most people decided on the basis of gross flows, including the Bank.

Mr. Husain had problems with the title of the paper. He felt that something like "probable flow of capital, resulting growth rates, and capital required to raise these growth rates" would be a more appropriate title.

Mr. Husain said that the conclusion was the best part of the paper and should be brought forward.

Mr. Krieger said that some concrete suggestions on how to increase exports might be included. Mr. McNamara said that he did not know what these suggestions might be. Mr. Stern added that this could be better handled by GATT or UNCTAD.

Mr. Votaw asked what it was we were trying to convince people about. Mr. McNamara answered that we wanted to show that growth rates would be very low on reasonable assumptions (about 1.5% per capita in low-income countries) and that, therefore, developed countries as well as LDCs should concentrate on doing things that they are not now doing.

Mr. Votaw wondered whether disaggregation of capital flows by donor country shouldn't be included. Mr. McNamara did not think this was appropriate.

Mr. Votaw said that there was no reference to capital flows from Eastern Europe and China in the paper. Mr. Chenery said that this was not worth including.

Mr. Votaw finally felt that the paper should not discuss oil prices too much. Mr. McNamara agreed.

Meeting to Discuss Long-Term Capital Requirements of Developing Countries, April 2, 1975, 2:00 p.m.

Present: Messrs. McNamara, Chenery, Stern, Tims and Miss Yudin

Mr. McNamara said that many of the tables could be aggregated into master tables at the end of the paper. An introductory summary of about three pages should be prepared in the form of a letter from Mr. McNamara to the Board. The summary should show need to reconsider capital flows, export growth, commodity stabilization, trade negotiations between LDCs and developed countries, improved access of LDCs to private capital markets, and the need to increase aid programs.

The meeting then proceeded to discuss redrafting of the paper in detail as outlined in Mr. McNamara's master copy of the paper.

Mr. McNamara hoped that the paper could be redrafted by Friday, April 4, or Monday, April 7, at the latest. It would have to be distributed to the EDs on Tuesday, April 8.

SB
April 3, 1975

MEMORANDUM FOR THE RECORD

792/2/87

Meeting to Discuss Compensation Policy, March 24, 1975

Present: Messrs. McNamara, Knapp, Broches, Chadenet, Shoaib, Clarke, Trott

Mr. Chadenet favored a 9.7% untapered increase for professionals, divided between dependency allowance and salary increase; Mr. Knapp a 9.7% tax tapered, divided increase; Messrs. Broches and Shoaib agreed with Mr. Knapp. Mr. McNamara was in favor of Mr. Chadenet's proposal. Mr. Clarke said that we should treat non-professionals and professionals alike. Mr. McNamara was concerned about the apparent overpayment at the lower non-professional levels. He asked Mr. Clarke to compare a 9.7% untapered increase for these levels with U.S. Government salaries, adding 5% for Bank premium, approximately 4% for anticipated salary increase in October 1975, and 2% for the tax cuts now under consideration by the Congress.

Mr. McNamara asked whether the I Level should be increased. Mr. Clarke felt that this was not necessary since the I Level is not a recruitment level.

Mr. Clarke said that the proposed capital transfer subsidy was a highly selective expatriation allowance. It would be given only to staff members originating from countries where the cost-of-living was higher than in Washington. It was based on the assumption that such staff transferred 20% of their salaries to their home countries. The total cost would be about $600,000. Mr. Knapp felt that introducing this capital transfer subsidy would give us a lot of mileage for little money. Mr. McNamara favored the proposal but said that the basis might be less than 20% of salary.

Mr. McNamara said that consideration should be given to increasing the parking fee. He said that Messrs. Chadenet and Cargill should look into possible changes in the Pension Plan and integrate this into the Compensation package. He agreed with Mr. Clarke's proposals on education benefits, spouse travel, medical plan, housing loans and abolition of the principal income earner test, if the combined income were less than, say, $25,000.

Mr. McNamara asked Mr. Clarke to look at the influence of the increase on salary structure.

Mr. McNamara also asked Mr. Clarke to prepare a memorandum to the Board and use it for discussion with the IMF on Wednesday of this week. The memorandum should show both a tapered and an untapered compensation increase divided between a salary increase and an increase in dependency allowance, with a cutoff at a level similar to the Vice Presidents' level. The memorandum should state that management was leaning towards an untapered increase for competitive reasons.

SB
March 25, 1975

792/2/86

MEMORANDUM FOR THE RECORD

Meeting to Discuss Bank Lending to the IMF, March 19, 1975

Present: Messrs. McNamara, Knapp, Broches, Rotberg, Stern

Mr. McNamara said that Mr. Witteveen had enquired whether the Fund could borrow $500 million SDRs from the Bank for the Oil Facility. He suggested that our basic position should be:

a. We were anxious to help our sister organization.

b. Our primary responsibility was the LDCs and we would not do anything that would penalize the LDCs.

Specifically we could not accept exchange risk, repayment risk, income penalty or liquidity penalty.

Mr. Stern said that it would be necessary to segregate the part of the money which would go to the LDCs from money going to the developed countries in the Oil Facility. Mr. Rotberg said that the BIS recently had turned down a request from the IMF. Mr. McNamara asked Messrs. Broches and Rotberg to prepare an answer to the IMF.

SB
March 20, 1975

MEMORANDUM FOR THE RECORD

7 92/2/85

Meeting to Discuss Staff Compensation, March 18, 1975

Present: Messrs. McNamara, Broches, Chadenet, Sommers, Clarke, Trott

Mr. Clarke said that the Staff Association did not dispute the data. The Staff Association was preparing a paper which would show the real income growth from 1971 to 1975 of Bank staff and discount the different data to May 1, 1974. The Staff Association would probably request compensation for cost-of-living and loss in real income.

Mr. McNamara asked if the Staff Association would accept higher increases for professionals than for non-professionals in view of the fact that the non-professionals should be compared with U.S. Government. Mr. Clarke said that the officers of the Staff Association would but the IMF Staff Association would not.

Mr. Knapp favored 11% tax tapered increase for all; Mr. Chadenet the same for non-professionals but some productivity increase added for professionals; Mr. Clarke the same for non-professionals and 11% cost-of-living plus 3% productivity increase tax tapered for professionals. Messrs. Broches and Sommers shared Mr. Clarke's view. Mr. McNamara felt for non-professionals competitiveness with U.S. Government plus 5% would be justified and 11% tax tapered for professionals.

There was some discussion on whether the increase should take place solely in salary or should be divided between salary and other benefits. Mr. McNamara preferred to have as much as possible of the increase in salaries due to the psychological impact. Mr. Clarke felt that some of the increase should be in form of dependency and home country allowance. Mr. McNamara said that we should attempt to eliminate some of the discriminatory practices such as the G4 Visa requirement not permitting wives to work. Also indexing and more frequent adjustments should be studied.

At the COSCOM on Thursday it was decided that Mr. Clarke give a short introduction. The Staff Association would then be invited in and its views heard. After the Staff Association had left, further discussion could take place between the Board and Management.

Mr. McNamara asked Mr. Clarke to give him the names of the Staff Association representatives, to inform the Staff Association of the procedure and to make a one-page summary of the increases for different organizations in the last 12 months.

Mr. McNamara said that the paper on the Pension Plan should be presented to the Board before final decision on compensation.

SB
March 20, 1975

MEMORANDUM FOR THE RECORD

792/2/84

Meeting to Discuss Middle East Trip, March 17, 1975

Present: Messrs. McNamara, Knapp, Shoaib, Stern, Adler, Nurick, Wapenhans

Mr. McNamara distributed a summary sheet of results of the trip along with summaries of conversations in Saudi Arabia and Qatar and arrangements for technical cooperation between Saudi Arabia and the Bank.

Mr. McNamara said that all four countries would participate in the capital increase. Mr. Knapp said that Iraq would not participate.

Mr. McNamara still hoped to get $35 million from Saudi Arabia for the Third Window. In this case Kuwait would probably give $25 million. In Qatar the decision on the Third Window would be taken when The Ruler returned. Abu Dhabi felt the conflict of financial stringency and unrealized expectations. Mr. Stern asked whether we would know about the Third Window contributions before March 25. He said it was likely that the OECD countries would contribute approximately 50% if the OPEC countries would put up their share. Mr. McNamara said that it was unlikely that we would hear from the four countries before March 25. Mr. Knapp said that the Venezuelans had suggested that the repayments on the Oil Facility would go into the Bank's subsidy fund.

Mr. McNamara said that Dr. Mahsoon of the Saudi Arabian Development Fund would visit the Bank in April and asked Messrs. Kochman and El Fishawy to arrange his visit in cooperation with Messrs. Cargill and Benjenk.

Mr. McNamara then proceeded to assign the following tasks to Mr. Cargill. In Mr. Cargill's absence, he asked Mr. Adler to start work on the preparation of:

1. A schedule of visits by Bank personnel for a 12-month period starting April 1, 1975 to OPEC countries.

2. Instructions to the entire staff (Mr. Kearns to prepare a draft) that no visits to surplus OPEC countries dealing with matters other than those specifically exempted should take place without the knowledge and written concurrence of VP, Finance. Each visit is to take place on the basis of written guideline or aide memoire.

3. A systematic approach to Iran including when and how this country would be approached on six subjects: (1) capital increase, (2) Third Window, (3) FY75 borrowing, (4) FY76 borrowing, (5) Technical Assistance, and (6) lending program and offset agreements.

4. A note on approach to borrowing from Swiss market in FY76.

5. A note on our borrowing intentions in the U.S. in FY76.

6. A note regarding secondary market for IBRD securities as it exists now and what steps are taken to ensure that it becomes an "optimum market."

7. A five-year plan of central bank issues stating the objective and the basis of its derivation, possibly aiming at an amount outstanding of at least $3 billion at the end of five years.

8. A plan for IDA5 to cover (a) the basic concept, (b) a schedule of negotiations, and (c) who will be responsible for preparation and negotiations.

9. Together with Mr. El Fishawy, plan briefing of Mr. Al-Atrash of the outcome and results of visits to the Middle East.

10. A plan for denominating borrowing in currencies equivalent to SDRs with the help of Messrs. Broches and Nurick.

11. The strategy and timetable for the increase in capital subscriptions, in coordination with Messrs. Broches and Nurick.

12. A strategy and timetable for the implementation of Third Window proposal, possibly arranging for a gathering of donors similar to Deputy Meetings for IDA Replenishment during first half of April.

13. With the help of Mr. Kochman, take responsibility for preparation of an extract of the memoranda of conversation of Mr. McNamara's visit to OPEC countries of items for which action would be required and monitor progress of action. Copy of extract should be sent to Mr. McNamara as reminder.

14. Statement of relations of Bank Technical Assistance activities with the ones of UNDP.

Mr. McNamara asked Mr. Wapenhans in Mr. Benjenk's absence to establish a plan for Bank Technical Assistance to Saudi Arabia in FY76 along the lines of the Memorandum of Understanding exchanged in Riyadh.

cc: Mr. El Fishawy

SB
March 20, 1975

MEMORANDUM FOR THE RECORD

792/2/82

Meeting to Discuss Bank Group Lending to Chile, March 4, 1975

Present: Messrs. McNamara, Knapp, Baum, Broches, Chenery, Clark, Krieger, van der Tak

Mr. McNamara said that we had no commitment to go ahead with the loan to Chile but a decision should be made now. In his opinion it was very difficult to distinguish economic from political arguments. We should, however, decide on economic grounds. He was deeply worried about several economic factors, such as forecast of copper prices, the possible results of the Paris debt rescheduling and the economic effects of the political repression in Chile.

Mr. Knapp agreed with the difficulty in distinguishing between economic and political factors. He said that the important question was the long-term creditworthiness of Chile and felt that "Chile is a risk we can take."

Mr. McNamara said that the short-term political stability would be important for the economic gains of the project to be realized.

Mr. Broches wondered about the political cost for the Bank of going ahead with the project. Mr. McNamara said that there was hardly any political cost in saying no to the project, but going ahead with the project would most likely lead Sweden to say no to the Third Window and 5IDA.

Mr. Chenery said that on purely economic grounds, the project was justified. Economic factors could, however, be more clearly analyzed after some months and he wondered whether we could defer the project. Mr. McNamara did not feel that anything would be gained by this.

Mr. Krieger said that the IMF had given Chile a standby in 1974 and would now go ahead with a standby for 1975. He felt it odd for the Bank to act differently from the IMF. Mr. McNamara said that the IMF used different standards and that there is no direct comparability between the two.

Mr. Clark said Britain would oppose the project in the Board on economic grounds. Chile's creditworthiness would be damaged if the Social Democratic governments in Europe would oppose the debt rescheduling in Paris. He wondered whether it would be wise to wait with Board presentation until after the Paris meeting. Mr. McNamara said that the likely result of the Paris meeting would be that the U.S. agreed to rescheduling, whereas the U.K. would be against. The German position was not clear. In any event Germany and the U.K. did not hold more than approximately 10% of Chile's foreign debt.

Mr. McNamara concluded that we should go ahead with the project and plan for Board presentation on March 25. He asked that a clear presentation be made of the economic benefits and justification in the President's Report and asked Mr. Baum to do this. He asked Mr. Clark to be ready to defend our decision.

SB
March 5, 1975

792/2/83

MEMORANDUM FOR THE RECORD

Policy Review Committee Meeting to Discuss Establishment of Third Window, March 4, 1975

Present: Messrs. McNamara, Knapp, Baum, Broches, Nurick, Cargill, Chenery, Krieger, Votaw, Benjenk, Chaufournier, HAdler, Weiner, Gaud, JAdler, Haq, Stern, van der Tak, Gabriel, Vibert, Goodman

The paper was reviewed, page by page, and corrections inserted in Mr. McNamara's copy. Mr. McNamara asked Mr. Stern to prepare a new draft to be seen by Mr. McNamara before March 5, at noon. The paper should be distributed on March 5 to the Board for Board discussion on March 25.

Mr. McNamara asked Mr. Stern to prepare before the March 25 meeting:

a. A table showing share in total lending by country before and after Third Window;

b. A revised summary table as on page 13 in the draft, including a column showing Bank Group Lending per capita before and after introduction of the Third Window; and

c. A talking note based on the tables to be used by negotiators or for Board presentation.

SB
March 5, 1975

7̶92/2/81

MEMORANDUM FOR THE RECORD

Meeting to Discuss Technical Assistance for Oil Exporting Countries, March 4

Present: Messrs. McNamara, Knapp, Baum, Hoffman, Cargill, Adler, Schulmann, Krieger, Gonzalez-Cofino, Benjenk and Wapenhans

Mr. McNamara said that our posture with respect to technical assistance was at present totally disorganized. He asked that the posture be clarified within the next ten days. To simplify the discussion, he suggested that only the major countries, namely Iran, Saudi Arabia and Venezuela be dealt with. It would also be helpful to divide technical assistance into two categories: Category One would be technical assistance for internal development in capital surplus countries in the form of services usually performed by the Bank for borrowing countries. Category Two would be technical assistance for internal development of capital surplus countries outside of services usually performed by the Bank for borrowing countries. For Category One, budgets should be established showing gross and net basis by country and regions for FY76. The regions would then be free to allocate technical assistance within the established limits. For Category Two, Mr. Knapp's acceptance would be required. In the request to Mr. Knapp, suggestions on how to finance this type of technical assistance should be included.

Technical assistance could be charged to the country in two ways:

a. A concessional rate could be obtained on borrowing. The Bank would provide technical assistance free, within agreed limits.

b. If borrowing was in normal terms, technical assistance should be fully reimbursed by the country.

The meeting then turned to discussion of Category One technical assistance by country.

Saudi Arabia. Mr. Benjenk said that Saudi Arabia was eager to obtain Bank technical assistance. Mr. McNamara said that, with this in mind, Saudi Arabia should be charged 100% of the direct cost of technical assistance. He asked Mr. Benjenk to check on the reimbursement procedures for technical assistance to Saudi Arabia from Germany and the United States and take a small paper on this subject along on the trip to the Middle East. It was agreed to provide Saudi Arabia with 15 man-years of Category One technical assistance in FY76, on the basis of full reimbursement.

Iran. The amount of Category One technical assistance for Iran would be worked out after we have received a request. Technical assistance should be fully reimbursed and probably restricted to agriculture and education.

Venezuela. There was some discussion of what the Bank is obligated to do by the agreement reached with the Venezuelan Government. Mr. McNamara asked Messrs. Knapp, Cargill and Krieger to carefully trace the legislative history of the Caracas Agreement. Unless the Bank borrows further in Venezuela, technical assistance should be restricted to less than thirteen man-years in FY75, thirteen man-years in FY76 and less than thirteen man-years in FY77, for a total of about twenty-seven man-years. This should be discussed by Messrs. Krieger and Cargill with the Venezuelans. Mr. McNamara asked Mr. Krieger to prepare an Aide Memoire for these discussions and review this with Messrs. Knapp and Cargill.

The agreement also included possible lending to Venezuela. Venezuela recently had cancelled two loans for a total of $29 million but a $25 million education loan was still in the pipeline. Mr. McNamara said that the lending program should be discussed within the Bank in the coming ten days, but should not be discussed with the Venezuelans. Before sending the agreement to the Board, Messrs. Cargill and Krieger should attempt to get support from the EDs. Messrs. Knapp, Cargill and Krieger should also establish a list of questions that might be raised in the Board and provide answers for them.

The paper should be rewritten as a general policy paper for Board presentation, although it might not eventually go to the Board.

cc: Mr. Schulmann

SB
March 5, 1975

7912/2/80

MEMORANDUM FOR THE RECORD

Meeting to Discuss Draft Memorandum to the Executive Directors on Establishment of Third Window, February 21, 1975

Present: Messrs. McNamara, Knapp, Gaud, Stern, Wood, Vibert

Mr. McNamara distributed a copy of the memorandum with his comments to the participants and asked that the memorandum be rewritten and distributed to the Policy Review Committee by Wednesday, February 26. The PRC meeting should take place on March 4 at 2:00 p.m. and Mr. Gaud should participate. The memorandum should be distributed to the Board on March 11 for discussion on April 1.

Mr. Knapp said that 20 years in his opinion was too short a maturity for the Third Window. In effect the annual payments for the borrower would be the same for even one-half percent, 30-year IBRD loan with a seven-year grace period, and a 4-1/2% Third Window loan with a seven-year grace period and 20-years maturity, namely, 10% per year. He therefore felt that a longer maturity should be contemplated. After some discussion, it was decided to keep the terms flexible but, in principle, to use a four point subsidy, seven-year grace period and 25-year maturity. Tables to illustrate the effect of this decision and comparison with typical IBRD loans should be worked out.

Mr. Knapp said that investing the subsidy funds in World Bank bonds could be interpreted as a conflict of interest. Mr. McNamara agreed and asked that paragraph 4.04 be revised accordingly. IBRD bonds should be mentioned as a possibility but not as the main investment outlet.

Mr. Knapp felt that U.S. dollars should be used as a basis for the Third Window to avoid exchange risk. Mr. McNamara was more concerned about flexibility than about the exchange risk. He asked that the exchange risk be calculated under different assumptions.

Mr. Knapp said that, as the memorandum had been drafted, $300 million of the $1 billion would not be additional. Mr. McNamara said that the $300 million should be offset by Bank lending to make the full $1 billion additional. The table "Allocation for Third Window" should be revised accordingly. India was a special case and the lending program for India for FY76 should consist of $60 million IBRD, $250 million Third Window, and $600 million IDA. The revised table should be considered as confidential and not distributed to the Policy Review Committee.

Mr. Knapp asked that performance be included as an eligibility criterion and this was agreed.

Mr. Stern asked that paragraph 313 be revised since not all OECD countries had lengthy legislative procedures and it was not necessarily the case that a large part of the initial voluntary contributions would come from the OPEC countries. Mr. McNamara agreed.

Mr. Gaud asked about the approval procedure for Third Window loans. Mr. McNamara envisaged a two-stage procedure. First the loan would be approved by the Board as usual for IBRD loans. Second the allocation of interest subsidy funds would be made by management in accordance with general agreed criteria, such as lending only to countries with under $375 per capita and only between 20% and 30% of total Third Window lending for India.

Mr. McNamara said that no reference should be made to the Board of Governors in paragraph 4.01. No mention should be made of instalments in paragraph 4.03 and the sentence "The Bank would not charge any expenses to the Fund for this initial one-year proposal" in paragraph 4.07 should be eliminated.

Mr. McNamara said that he had talked to Mr. Janssen who had indicated that the German attitude towards the Third Window might be flexible. He asked Messrs. Gaud and Stern to talk to Mr. Janssen.

SB
March 3, 1975

792/2/79

February 20, 1975

MEMORANDUM FOR THE RECORD

Mr. Rotberg and I discussed this morning the interest rate to be offered in connection with the refinancing of the two-year Central Bank issue which matures next month.

Taking account of yesterday's pricing of U.S. Treasury two-year notes which yields a return of 6.09%, Mr. Rotberg suggested a rate of 6.50% on our issue. I had in mind 6.35%. We agreed on 6.40%. Further, we tentatively concluded future Central Bank issues should be priced based on Treasury yields instead of agency yields, and when we plan to limit the future issue to the same amount as the maturing issue, we will try to hold to a 30-point spread. As we begin to expand our borrowing from Central Banks, we will consider increasing that spread. In addition, we will take account of our experience in each refinancing, paying particular attention to the extent to which Central Banks appear to be "price sensitive." Mr. Rotberg believes that approximately 75% of each issue is placed in the hands of "insensitive" banks.

RMcN

cc: Mr. Rotberg

MEMORANDUM FOR THE RECORD

7-92/2/78

Meeting to Discuss Work Program for Mr. McNamara's Trip to Kinshasa and the Middle East, February 12, 1975

Present: Messrs. McNamara, Benjenk, Wiehen, El Fishawy, Burmester

Mr. McNamara would:

1. Arrange to meet Ambassador Akins through the U.S. State Department.

2. See Dr. Ahmed Zaki Saad, Counselor to His Majesty The King.

Mr. Benjenk would:

1. Prepare a brief on technical assistance.

Mr. Wiehen would:

1. Arrange for the loan signing in Kinshasa, including preparation of a statement for Mr. McNamara.

2. Brief Messrs. Kochman and Guetta about the loan signing.

3. Prepare a short brief on Zaire, including memos of conversation between Mr. McNamara and President Mobutu.

4. Keep Messrs. Razafindrabe or Kpognon informed.

Mr. El Fishawy would:

1. Inform Mr. McNamara about Mr. Kochman's discussions in the Middle East.

2. Arrange for Mr. Kochman to meet Mr. McNamara at Dulles Airport on February 21.

3. Inform Mr. Kochman about Mr. McNamara's arrangements for Kinshasa. Mr. Kochman should definitely be in Kinshasa for the loan signing.

4. Inform Mr. McNamara with respect to Mr. Shoaib's discussions in the Middle East.

5. Arrange for Messrs. McNamara, Shoaib and himself to meet in London on March 7.

6. Prepare a memorandum in Arabic to give to Mr. Qadhafi in Kinshasa on capital subscriptions, Third Window and borrowing. With respect to borrowing, reference should be made to Messrs. McNamara, Cargill and his own conversations with the Libyans.

7. Make all hotel arrangements in the Middle East.

8. Make all appointments and programs in the Middle East after clearance with Mr. McNamara and, where appropriate, Mr. Benjenk. It might be possible to have all appointments in Saudi Arabia, except for The King, on March 10 and 11. This would leave a possibility, if so required, of seeing Mr. Atiqi in Kuwait on March 12. Mr. El Fishawy would pay particular attention to and recommend action with respect to meeting Mr. Atiqi.

9. Talk to Messrs. Kochman and Shoaib about additional people to see in the Middle East.

10. Monitor cables with respect to the trip. All outgoing cables should be cleared by Mr. McNamara.

11 Keep Mr. McNamara informed about the results of Mr. Witteveen's trip, particularly with respect to subsidies for the Oil Facility.

12. Make a special effort to keep Mr. Al-Atrash informed.

Mr. Burmester would obtain:

1. Notes on each Arab development bank, including the Kuwait Fund, the Abu Dhabi Fund, the Arab Fund, the Islamic Bank and the Saudi Arabian Development Fund.

2. Messrs. Shoaib's, Cargill's and Kochman's memos of conversation including memos of conversation in Libya.

3. The most recent report on OPEC aid.

4. A memorandum on the OPEC aid reporting system.

5. A memorandum from Mr. Gaud on subsidies for Third Window including contacts made and present outlook.

6. Tables on Bank Group lending to the Arab countries.

7. A table on yields of U.S. Treasury and U.S. agency securities monthly from January 1, 1974.

8. The ~~A~~ memorandum on technical assistance being prepared for the Board.

9. The borrowing program from FY74-FY80.

10. All air travel arrangements for Mr. McNamara, including charter flight from either Dahran to Doha or Riyadh to Doha.

These arrangements are supplementary to the ones listed in Mr. Burmester's memo of February 6.

cc: Participants

Take: OPEC Liq. Res Projections

SB
February 13, 1975

7 92/2/77

MEMORANDUM FOR THE RECORD

Second Meeting to Discuss Work Program for CGFPI, February 10, 1975

Present: Messrs. McNamara, Knapp, Clark, Stern, Yudelman, Martin

Mr. McNamara said that in his opinion predictions of food grain production imports and consumption as done for India should be carried out for the following 13 countries: India, Pakistan, Bangladesh, Indonesia, Thailand, Philippines, Mexico, Iran, Egypt, Turkey, Nigeria, Ethiopia and Sudan. After some discussion, the meeting agreed. Mr. Goering in Mr. Yudelman's group would be responsible for this work and attempt to have it ready by April 15. Mr. McNamara said that these schedules then should be refined leading, in the longer run, to food production plans for these countries. He said that something like a PERT chart for food production should be established. Mr. Stern said that such a chart could not be used for operations but might help identify unknowns and establish consistency. Mr. McNamara asked Mr. Yudelman to send a memorandum to the participants in the meeting on how to proceed. It was agreed that the work that Mr. Yudelman had initiated on the People's Republic of China would be continued.

Mr. Knapp asked about OPEC plans for financing food production in LDCs. Mr. Martin said that apparently there were no specific plans but that Mr. Kamal Ramzi Stino had been put in charge at the Khartoum conference to work on the establishment of an agricultural fund. Mr. Martin would visit the Arab countries in the beginning of March and would enquire further.

SB
February 11, 1975

MEMORANDUM FOR THE RECORD

792/2/75

Meeting to Discuss the Conflict of Interest Committee, February 5, 1975

Present: Messrs. McNamara, Knapp, Broches, Chadenet, Kearns

Mr. McNamara said that the procedures of the Conflict of Interest Committee should be formalized and asked Mr. Kearns to prepare a paper on this by Friday, February 7. The Committee should remain fully independent. The procedures might include that cases should be acted upon within 30 days, that Mr. Chadenet should be informed of cases under consideration by the Committee, that Committee work would have preference over other Bank work, that the individual under investigation should have full opportunity to be heard by the Committee, and that the individual and Mr. Chadenet should be informed at once of the Committee's decisions. Cases already under consideration by the Committee should be completed by March 1, 1975.

Mr. McNamara said that he and Mr. Chadenet should have the responsibility of referring cases with which they became acquainted to the Committee. It should also be possible for Messrs. McNamara and Chadenet to overrule the Committee in the case that an individual was cleared and this was not found justified by Mr. McNamara or Mr. Chadenet. On the other hand, a ruling of conflict of interest by the Committee could never be overruled by Mr. Chadenet or Mr. McNamara.

Several cases of alleged conflict of interest had recently come to Mr. McNamara's attention. Mr. Janssen had said that a correspondent from Handelsblatt was investigating Mr. von Hoffmann, apparently based on information from the U.S. Treasury. Mr. McNamara asked Mr. Knapp to call the Inspector General, Mr. Ralph Hirschtritt in the U.S. Treasury and enquire whether the Treasury kept files on Bank employees and whether Mr. Hirschtritt had any information on alleged conflict of interest of any Bank employee. Mr. McNamara said that potential conflicts of interest also existed for Mr. Rotberg and Mr. Wiese. He asked Mr. Chadenet to call Messrs. von Hoffmann, Rotberg and Wiese today to enquire whether there was any basis for these allegations. Mr. Broches would check whether these individuals had already filed disclosures of their financial interests. Mr. Kearns said that a Dr. Lee from the U.S. Treasury called about the possible reorganization of the Bank's Capital Market work and wondered whether this could be related to conflict of interest.

Mr. McNamara said that Mr. Chenery would resign his Directorship in Southern Natural Resources Inc. if the Committee ruled that he should do so. Mr. Broches said that he had information that the Committee in fact would rule this way. The Committee could not, however, rule whether Mr. Chenery's stockholdings implied a conflict of interest, since it was not within its jurisdiction. Mr. McNamara asked Mr. Chadenet to talk to Mr. Broches about whether the jurisdiction of the Committee should be widened to include such cases. The press would not be informed of the ruling in the Chenery case but we should respond to enquiries from the press. There were rumors that Miss Yudin was being investigated by the FBI as part of the Chenery case. Mr. McNamara asked Mr. Chadenet to call Mr. Merriam to find out whether Chairman Reuss was pursuing the Chenery case.

Mr. McNamara wondered whether additional procedures should be adopted for Bank officers in particularly sensitive positions, such as Messrs. Cargill, von Hoffmann, Rotberg and himself. A full financial disclosure, including portfolio statement and yearly transactions statement, might be required for these officers. He asked Mr. Chadenet to look into this with Mr. Broches' advice.

SB
February 5, 1975

MEMORANDUM FOR THE RECORD

792/2/76

Meeting to Discuss Work Program for the Consultative Group on Food Production and Investment, February 5, 1975

Present: Messrs. McNamara, Baum, Hoffman, Yudelman and Ed Martin

Mr. Martin reported that staffing and work program for his group were now well underway. A first draft of a report to the principals, i.e., the Bank, FAO and UNDP, had been prepared. UNDP and FAO had indicated that they were willing to finance each one-third of the budget. A first meeting was scheduled for mid-May. Mr. Martin felt that the rich countries should participate on a "self-election" basis and that the CGIAR format would be the best for LDC participation. Countries from the Soviet Bloc would be welcome. Mr. McNamara said that this should be supplemented by the large grain producers and other interested international agencies, such as a representative from the World Food Council. Mr. Martin said that he would inform the Development Committee of the capital requirements for food production. He would visit DAC later this month and continue to Rome for meetings with FAO.

The agenda for the first meeting might include:

(a) Fertilizer. Mr. Martin said that a fertilizer study was well underway. Mr. McNamara suggested that the study should deal with two questions. First, the present outlook for supply and demand for fertilizer and, second, in the case that demand was larger than supply, where best to locate fertilizer plants. He mentioned that U.S. Steel had withdrawn from a fertilizer plant in Pakistan. If there was an agreed shortage of fertilizer, the Bank should pick up this project instead of giving program loans to Pakistan.

(b) Capital Requirements for Food Production. Mr. McNamara said that a study should be made including present and future capacity for food production plans for expansion in LDCs, and possible finance and expansion from aid donors. A useful input for the study would be tables similar to those prepared on food production in India. He asked Mr. Yudelman to request similar tables from the South Asia Region for Bangladesh and Pakistan, and from the East Asia Region for Indonesia and possibly Thailand. These tables should be reviewed by the countries concerned stating that we would wish to present them to the consultative group. He felt that this item should be discussed at every meeting.

(c) Agricultural Pricing Policies. Mr. Martin felt that the policies of 4-5 countries should be discussed but he was reluctant to accept Mr. McNamara's idea of a country case study. This could lead to political difficulties. Mr. McNamara said that we should aim at a preparation of a booklet of country plans so that the study of individual countries would be seen in an over-all framework.

(d) Regional Projects. Mr. Martin said that the Arab countries particularly would like to see something concrete which they could finance. He would, therefore, carefully examine the Brahmaputra, the Senegal River Basin and the Sudan projects.

(e) Manpower Training

(f) Rural Development and Land Reform. Mr. Martin had talked to the Dutch Ambassador to the UN who had said that the Dutch, and particularly Mr. Pronk, were interested in the subject.

(g) Grains, Cereals and Root Crops. These items have high priority, whereas sugar, horticulture, fishing and cattle raising could be taken up in the future.

(h) Pesticides, Agricultural Machinery and Equipment. This item was not considered urgent.

The agenda should be prepared before Mr. Martin's departure for Europe.

SB
February 6, 1975

MEMORANDUM FOR THE RECORD

792/2/74

Meeting to Discuss Technical Assistance for OPEC countries, February 3, 1975

Present: Messrs. McNamara, Knapp, Cargill, Alter, Benjenk, El Fishawy, Schulmann, Bowron

Mr. McNamara referred to Mr. Adler's memorandum on Requests for Allocations from the General Contingency, dated January 29, 1975, and said that our technical assistance program had now become so large in both finance and man-years that a policy statement was required. Mr. Benjenk said that he had already prepared a paper for technical assistance in the EMENA Region. Mr. McNamara asked that this paper be used as an input for a Bank-wide paper to be prepared by Mr. Cargill. Mr. Cargill said that he hoped to have this paper ready by the end of this week. Mr. McNamara said that it would be a difficult paper to write since we apparently had given non-uniform treatment to countries in similar positions. He referred to the cases of Saudi Arabia, Iran and Venezuela. The paper would have to show the TA program country-by-country, project-by-project for FY75 and FY76, with recommendations for FY77.

It was agreed to hold another meeting when Mr. Cargill's paper was ready.

SB
February 4, 1975

792/2/73

January 22, 1975

MEMORANDUM FOR THE RECORD

Today I told Chuck Cooper that we were examining the possibility of a loan to South Vietnam, but that we could not move ahead with such a loan unless it were for a project that could be completed given the present security problems in Vietnam, and one which when completed would significantly benefit large numbers of poor people.

He said he understood that these conditions would have to be met and that the problem of doing so was much greater now, of course, than it had been when the U. S. and we were discussing their participation in the 4th Replenishment of IDA.

RMcN

792/2/72

January 21, 1975

MEMORANDUM FOR THE RECORD

During today's Board Meeting, Mr. Wahl asked when we would begin negotiations leading to a general increase in subscribed capital.

During the noon recess I explained to Wahl that I thought it would be undesirable to even establish a time schedule for such negotiations because such a statement would complicate the work relating to such matters as the Third Window, the Selective Capital Increases, and the 5th IDA Replenishment. He stated he understood my point, but his Government needed to know in relation to its own financial planning whether we anticipated significant increases in subscribed and/or paid-in capital from the Part I countries during the next several years. In reply I stated that while such increases would be desirable, I did not think they would be required within the next four years as a necessary foundation for the Bank's Financial Program which now lay before the Board.

RMcN

Robert S. McNamara

cc: Mr. Cargill
Mr. Adler

792/2/F1

MEMORANDUM FOR THE RECORD
Financial Policy Paper Meeting, January 20, 1975

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Shoaib, Stern, Adler, Wood, Damry

The following 12 subjects were discussed:

1. Effective date of increase in lending rate;

2. Inclusion of accelerating clauses in Bank loan agreements;

3. Introduction of premium lending rate;

4. Size of IBRD lending program;

5. Pension Plan funding program FY75;

6. Auditors recommendations;

7. SDR as a unit of account;

8. Cut-off of lending to higher-income countries;

9. Liquidity position of the Bank;

10. Income objective of the Bank;

11. General increase in paid-in capital; and

12. Lending to OPEC countries.

1. Several EDs might be in favor of a postponement of the effective date for an interest rate increase. Possible alternatives would be to give a 16-day respite or to apply the old interest rate to documents already distributed to the Board.

2. Mr. Knapp said that an acceleration provision would be very difficult to work out and could lead to claim for a deceleration clause as well.

3. There might be support in the Board for application of premium rates to higher-income countries. Arguments against this would be that premium rates were devisive and not much income would be derived from applying them. Twelve of the 14 higher-income countries would be phased out before FY79.

4. Mr. McNamara was very worried about the now-projected IBRD overrun for FY75 and the possible shortfall in IDA projects. He asked Mr. Cargill to make a precise study of the IBRD program for FY75-FY79 by category of projects, by country, by region and by year. He would need this within one or two weeks. Mr. McNamara also wanted an analysis of the IDA program for FY75, indicating the regions in which shortfall in IDA projects might occur. An error had obviously been committed in estimating the size of Bank projects in FY75. Mr. McNamara also asked Mr. Adler to issue a statement requiring the country programs departments to submit a written request for change in the lending program whenever an overrun was indicated. He further asked Mr. Adler to include in his opening statement to the Board a sentence about the possibility of exceeding the program for FY75 and that we would be watching the implications for future years.

5. Mr. McNamara said that, if the cost-of-living increase in the Pension Plan would exceed 3% per year, we would not have enough money to fund the Plan according to the new U.S. Pension Act by which pay-as-you-go methods were no longer allowed. We had no obligation to follow the Pension Act but there was general agreement that the Act's requirements should be considered as a minimum. $4.2 million would be required in FY75 to start amortization of unfunded liabilities and only $2 million had been indicated in the Financial Policy Paper.

6. The auditors had recommended that the Bank allocate sufficient resources to permit the implementation of a revised accounting information system fully utilizing computer capabilities, eliminating unnecessary manual tasks, and providing reasonable assurance that the reliability and integrity of the financial information is not lost. Mr. McNamara said that preserving the integrity of the Bank's accounting system was absolutely fundamental. He wanted to know exactly what the auditors recommended and said that we would implement these recommendations. He asked Mr. Cargill to put in writing what the auditors had recommended with respect to preserving the integrity.

7. SDRs could be used as units of account in both lending, borrowing and financial statements. Capital markets do not work in SDRs and that could pose a problem for borrowing. Mr. Knapp said that IDA credits are stated in gold dollars and, with the abolishment of gold as a standard, IDA would consequently be floating. In his opinion SDRs should be used for IDA repayments. Mr. McNamara asked Mr. Cargill within three months to prepare a paper on how Bank Group policies should be adjusted as we move away from the gold standard.

8. No specific comments.

9. Mr. McNamara said that the 40% liquidity target was not too high. If we could make long-term arrangements with the OPEC countries, we might need less liquidity, but, with the possible disorder in capital markets, Mr. McNamara felt that our present liquidity should be preserved, particularly since there was no carrying cost for the next 18 months.

10. Aside from the arguments for the net income targets in FY79 given in the Financial Policy Paper, it should also be stressed that, to maintain the real value of the Bank's capital, we would need another $1 billion between now and FY79.

11. Mr. Cargill said that we would need a general increase in capital subscription around 1980, but we could seek such a capital increase before the Articles require it. Mr. McNamara felt that we shouldn't be too precise about this since the U.S. opposed any subscription increase now.

12. Mr. McNamara said that the OPEC countries could be divided into two groups: (a) the continuing capital surplus countries, and (b) Indonesia, Nigeria, and Algeria. Bank lending to the continuing capital surplus countries could be phased out whereas group (b) countries would still need it. Mr. Stern said that the U.S. would probably not object to Bank lending to Indonesia and Nigeria.

SB
January 22, 1975

792/2/70

January 13, 1975

MEMORANDUM FOR THE RECORD

Bill Simon called me at home on Sunday, January 12, to state that the President had decided to send a letter to me informing me of the US ratification of IDA IV.

RMcN

7992/2/69

MEMORANDUM FOR THE RECORD

Second Meeting to Discuss Development Committee Meeting, January 8, 1975

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

Mr. McNamara wanted some clarifications on Mr. Stern's paper dated January 8, 1975. Mr. Stern explained that he considered that the Third Window should not only be an emergency operation but rather a longer-term institution. Mr. McNamara said that a useful way to think of the Third Window was to consider that IDA had two windows: one soft and one harder. Mr. Knapp wondered whether countries would be willing to lend to the Third Window at 4%. Mr. McNamara thought they would if they were assured of repayment. Such repayment could be guaranteed if some of the IDA reserves would be used as backing. There was no doubt in Mr. McNamara's mind that a large proportion of the $12 billion IDA reserves could be considered as true equity.

Mr. Stern said that the Development Committee Secretariat now consisted of Mr. Costanzo, Executive Secretary, Messrs. Ahmad and Fernandez as Deputies, and Messrs. Finkel and Frimpong-Ansah as consultants.

The meeting then turned to discussion of a reasonable agenda and work program for the Development Committee. The situation was very confused at the moment. The draft agenda obviously contained too many items for one day. Many delegations were looking for direction. On the other hand, Mr. Costanzo was receiving directions from all sides and seemed to have come to an unfortunate compromise. Mr. McNamara said that the problem was that the Bank in many ways was considered responsible for the Development Committee but did not run it. In this situation Mr. McNamara felt that the Committee should concentrate on one or two important items. In his opinion the most important items were:

1. (a) Longer-term development requirements of low-income countries for external funds to support reasonable rates of growth;

   (b) Recommendations for meeting these requirements on appropriate terms; and

2. Improving the access of medium- and higher-income countries to world capital markets.

The items would be considered by the Development Committee in a mid-year meeting following consideration in appropriate forums which would be worked out by the Managing Director of the Fund, the President of the World Bank, and the Executive Secretary of the Development Committee.

Mr. McNamara asked whether discussion of the Trust Fund could be transferred from the Interim to the Development Committee. Mr. Stern said that that would be difficult since the Interim Committee would discuss the oil facility and the Trust Fund relates directly to this. On the other hand, the U.S. has suggested that the Development Committee form a working group to discuss the Trust Fund.

Mr. McNamara would contact Mr. Witteveen on the appropriateness of these items. Messrs. Witteveen and McNamara would then contact first Mr. Costanzo, then Mr. Bedie and then some of the more important delegations, in particular the British and finally the United States.

SB
January 9, 1975

7.92/2/68

MEMORANDUM FOR THE RECORD

Meeting with Executive Directors representing OPEC Countries, January 6, 1975

Present: Messrs. McNamara, Cargill, Adler, Kochman, Al-Atrash, Heng, Gavidia, Gyasi-Tum, Mekki

Mr. McNamara pointed to the footnote on page 22 of the Bank's Financial Policy Paper where it is mentioned that the OPEC share in the Bank's subscribed capital might be increased to 15%. He would like to have the views of the OPEC governments on the suggestion by January 13. Mr. McNamara stressed that he would be opposed to a reduction in Board seats for the Latin American and African countries. Mr. Gavidia enquired how the increased allocation would be divided among countries. Mr. McNamara replied that this would be done on the basis of financial strength of the countries involved.

Mr. Al-Atrash said that Saudi Arabia still seemed hesitant about the proposed increase in capital subscription and further enquired what the specific amounts for each country would be. Mr. McNamara replied that preliminary figures would be given to the OPEC EDs by noon January 6. He urged the OPEC EDs when reporting to their countries to stress that these figures only indicated orders of magnitude.

SB
January 7, 1975

792/2/67

MEMORANDUM FOR THE RECORD

Meeting to Discuss Papers for the Development Committee Second Meeting, January 2, 1975

Present: Messrs. McNamara, Knapp, Cargill, Stern

Mr. McNamara asked Mr. Stern about the status of the preparation for the Development Committee meeting. Mr. Stern said that he would speak to Mr. Ahmad on January 3. He would enquire about the interest of the OPEC countries in the meeting. He had heard that Kuwait was receptive to the ideas and that Kuwait would make contact with Saudi Arabia and the Gulf Emirates. He would tell Mr. Ahmad that Mr. McNamara would like to see Mr. Costanzo on his return from the Ivory Coast. Mr. Stern would also attend the meetings of the several Fund committees and report to Mr. McNamara by January 11.

The meeting then turned to consideration of the papers prepared by Mr. Costanzo. The specific comments of the participants are included in Mr. Burmester's copy.

Mr. Knapp asked whether the co-financing paper could be distributed to the Development Committee. Mr. McNamara would want to read the paper before making a decision on this.

Mr. McNamara concluded that he was concerned about the outcome of the meeting. He would of course attend the meeting but did not feel that he should speak. Rather he and Mr. Witteveen should be available for technical consultations. He would like Mr. Stern to contact Mr. Cooper in the Treasury about the U.S. position.

SB
January 3, 1975