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THE WORLD BANK
Washington, D.C.

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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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Contacts with member countries: Nordic Governors - Correspondence 01

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NORDIC COUNTRIES

1. 10/1/80 Nordic Governors: Messrs. Kastoft, Lundstrom,
Annual Arnason, Holst, Blix, Mrs. Tyolajarvi
Meeting

OFFICE OF THE PRESIDENT

Meeting with Nordic Governors, October 1, 1980

Present: Messrs. McNamara, Kastoft, Mrs. Tyolajarvi, Messrs. Lundstrom, Arnason, Holst, Blix, Qureshi

Mrs. Tyolajarvi opened the discussion by renewing the invitation of the five Nordic Governments to Mr. McNamara to visit their countries. Mr. McNamara thanked her for the invitation which he said he accepted in principle. He said in principle only, because he wanted to limit his travel during the next months prior to his departure from the Bank to be related to the major decisions which he thought the Board should take. He explained that he was concerned about a number of problems essentially related to the needed expansion of the lending program. He emphasized in particular the case of China for which there is not yet a lending program. Therefore, the question of lending to China is whether it will come at the cost of a reduction in lending for other countries. In his view, everyone will have one reason not to support the expansion of the lending program, either on the issues of modification of the gearing ratio and/or the capital base, or with respect to the energy affiliate. This situation may spell disaster since many simply do not realize what lies ahead. Today's capital surplus amounts to \$100 billion more than the level of two years ago and this surplus has to come from somewhere: namely, the Kenyas, Tanzanias and others, where it created huge current account deficits which cannot go on indefinitely and will have to be financed. If the surpluses are not channelled to the countries which need them, they will inevitably lead to heavy deflationary pressures.

Mr. McNamara then argued that the Nordic countries have always been convinced of the need for the transfer of additional resources to the developing countries in a philosophical way, but not necessarily in a political way. In fact, they tend to allow unimportant national aims to guide their policies when they ought to look at the "broader picture." Mr. McNamara then summarized the sequence of action which ought to be taken: (a) agree on the proposed expansion of the Bank's lending program; (b) decide on a way to do it which is compatible with the fiscal constraints of OECD countries; and (c) start acting. He argued that ten years from now there is little doubt that the Bank's gearing ratio will be different, but it is a long-term solution which will take time to come about. The proposal for an increase in the subscribed capital has some opponents. The proposal of the energy affiliate is acceptable to OECD countries only as long as OPEC contributes a substantial share. What is needed, therefore, is political leadership; it should be somebody who can decide to start, alone if necessary, and the Nordic countries can do this.

Mr. Blix explained that the Governments of the Nordic countries have their legal and political (parliamentary) problems. Mr. McNamara argued that the Nordic countries could help the Bank in the decision to draw forward Bank money from the 1987-90 period. He said that they could also help on the decisions concerning the energy affiliate. He explained that he could understand the difficulties faced by the Arab capital-surplus countries, when one realizes that 60% of the people in the streets of Kuwait are Palestinians. He added, however, that this cannot stand in the way of helping the developing countries.

Mr. McNamara then turned to the problem of the poorest countries, and he explained that additional IDA resources until 1983 are very unlikely. He emphasized that the poorest countries need relatively small amounts (a few billion dollars). He said that the only way to ensure IDA financing to these countries will be to reallocate IDA funds by transferring some countries from IDA to IBRD resources. Obvious candidates for such a change would be Egypt and Indonesia, but some other countries may also be eligible. Mr. McNamara commented on the need to initiate some promotion work throughout the world to mobilize political support to the cause of development assistance. He mentioned the intentions of then Secretary of State Cyrus Vance (whom he quoted as saying that the performance of the U.S. was "disgraceful") to double the ODA of the U.S. He had not been able to do it mainly because of resistance in Congress. He also explained that he thought a system of automatic transfers to developing countries would probably not come before 15 years but that the matter should be talked about now.

Mr. Blix concluded the meeting by expressing the Nordic Governors disappointment with the Development Committee Press Communique, especially regarding the role of the Development Committee with respect to the global negotiations at the UN. He also expressed dissatisfaction at the way in which it was decided and handled. He finally insisted that the Nordic Governments were very keen to see the Bank study on the increase of ODA go back to the Development Committee.

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October 14, 1980