

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

Folder Title: IDA VI Replenishment - Correspondence 03

Folder ID: 1771425

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

Series: Subject files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized January 24, 2013

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

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

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

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



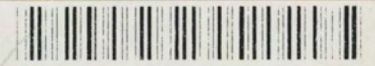
THE WORLD BANK  
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or  
The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

McNamara Papers

The Walter Reed Group  
**Archives**



1771425

A1995-256 Other #: 4

309660B

IDA VI Replenishment - Correspondence 03

Folder 3 of 6

**DECLASSIFIED**  
WBG Archives

## OFFICE MEMORANDUM

805/2/34

TO: Mr. I.P.M. Cargill

DATE: December 14, 1979

FROM: J. Burke Knapp

SUBJECT: ROMANIA - IDA 6

During the course of the final Paris meeting on the Sixth IDA Replenishment I had talks with Mr. Mada, the Romanian representative, regarding Romania's taking up membership in IDA.

He informed me at the outset that he was not ready to make a pledge to IDA 6, and that his authorities wanted to send a delegation to Washington early in the New Year to resume negotiations regarding a) the amount of Romania's participation, and b) the conditions for IDA's drawings upon the Romanian funds. He said that the Romanians would want their funds to be drawn upon only to cover a percentage of IDA procurement in Romania, a proposal that I had rejected during my discussions on this subject in Bucharest on September 7.

At this point I refer you to my memorandum to you dated September 10 reporting these discussions - see copy attached, and see particularly the last two paragraphs on Page 2 and the first two paragraphs on Page 3.

I told Mr. Mada, perhaps with some impatience, that I was not sure that we would want to undertake negotiations on that basis and that we would let him know later on whether we could invite them to Washington for this purpose.

I have reported on this subject today to Mr. McNamara and suggest that you review the matter with him. His first reaction was that we should hold the Romanians to the figure of \$17 million, which he had discussed with the Romanian Minister of Finance in Bucharest last July, that we should not accept the Romanian proposal for a percentage deal on the use by IDA of the Romanian funds, but that we might put to them the following alternatives:

- a) Release of the Romanian funds in convertible currency as part of the regular pro rata drawings system,
- b) Release of the Romanian funds for payment of 100 percent of any IDA procurement which might result from the disbursement of IDA funds (we would of course be taking a chance that such procurement would be insufficient to use up the funds over the IDA 6 disbursement period, but, as you will see from my memorandum of September 10, there is a strong probability that this would work out all right).
- c) Use of the Romanian funds for some percentage of any procurement in Romania out of IDA 6 funds, but with the additional provision that, if in any year IDA

drawings for such purpose turned out to be less than IDA would have been entitled to draw under the regular pro rata drawing system, the balance would be released by Romania in convertible currency. (I do not think that this alternative would be any more acceptable to the Romanians than alternative a).)

I have also today, at Mr. McNamara's request, reported to Mr. Looijen regarding the present status of our discussions with the Romanians.

A decision now needs to be made on whether to abandon discussions with the Romanians until IDA 7, or to invite them for further discussions in Washington. In the latter case, in order to save their (and most of all, our) time, I suggest that the letter inviting negotiations state the bases on which we are prepared to accept their funds. I still think they may be prepared to accept alternative b) above but in that case they may try to chisel the figure of \$17 million downward. We should in no case accept less than \$10 million, which is the amount that they would have to put up for an initial subscription to IDA under the normal IDA procedures.

Attach.

cc: Messrs. <sup>✓</sup>McNamara  
Qureshi  
Vibert

JBKnapp:isk

Mr. I.P.M. Cargill

September 10, 1979

J. Burke Knapp

Romanian Participation in IDA 6

In long discussions with the Romanian authorities in Bucharest on September 7 we clarified the various issues that they must consider in connection with the above subject and they will try to be ready to declare themselves by the time of the Deputies meeting in Belgrade on September 29. They want to make their pledge to IDA 6 in US dollars; they have not yet decided the amount of the pledge and they are still considering whether the dollars that they pledge should be tied to IDA procurement in Romania. A further report on my visit follows.

\*\*\*\*\*

I had a long session in the morning of September 7 with Dr. Bituleanu, the Deputy Minister of Finance, accompanied by Mr. Ion Ratoi, the Vice President of the Romanian Investment Bank, and Mr. Mada of the Ministry of Finance. They announced that Romania had decided in principle to participate in IDA 6 but they wanted to discuss the amount and the "modalities".

On the amount, Dr. Bituleanu said they thought that the figure of \$20 million was too high and he wanted to ask my view on the alternative figures of \$5 million, \$8 million and \$10 million.

I explained that any contribution from Romania was purely voluntary and that therefore I was not there to negotiate a figure. However, as their friendly adviser I would give them my opinion of what might seem fitting for Romania in relation to other countries.

I said that we had originally thought that they might consider \$20 million to match the contribution of Yugoslavia, which after all had already contributed \$21 million through its earlier membership subscription and special contributions. But I acknowledged that the Romanian economy was somewhat smaller (perhaps 75 percent of Yugoslavia). I said that we had proposed figures of \$15 million to Greece and \$7 million to Portugal, although I pointed out that we had no confirmation of these figures. On the basis of reasonable comparisons I suggested that a figure for Romania of between \$15 million and \$20 million might be regarded as reasonable, and said that Mr. McNamara had informed me that his impression was that they were considering \$17 million. I emphasized that the financial commitment was quite insignificant and that the decision on a figure was really a political question.

Bituleanu responded that they would give further consideration to the issue. Note that I ignored his invitation to discuss figures of \$5 million - \$10 million, and he never came back to the subject. On the proposed new method for calculating the Romanian subscription at only a

few hundred thousand dollars while at the same time assuring them their full rights in voting power, they accepted our proposal after a long discussion. They seemed particularly pleased that no down payment in convertible currency would be required.

As to the currency of their pledge, they have problems. We had proposed a pledge in lei with the exchange rate of RL12 to the dollar if the lei were freely convertible, and RL18 to the dollar if the lei were tied to procurement in Romania. They agreed that these exchange rates were appropriate but said that they would rather exercise the option to make their pledge in dollars. (Bituleanu "let the cat out of the bag" when he said they were wondering what would happen if they should change the "commercial" exchange rate from RL18 to RL15.) I explained that a dollar option had been proposed for IDA 6 mainly to meet the very different situation of Brazil and Argentina (where pledges in local currency would be inappropriate). I further mentioned that there had been some objection among the Deputies at Brussels to making pledges in dollars as distinct from SDR's. However, I ended by saying that if the dollar option was finally adopted by the Deputies a Romanian pledge in dollars would be acceptable. If the dollar option is rejected by the Deputies I am sure that SDR's will be acceptable to the Romanians.

We then embarked upon an extensive discussion of whether the Romanian funds should be freely convertible or tied to Romanian exports. I reiterated at some length my view that it would be in their best interest to refrain from tying their funds to the payment of Romanian exports. I emphasized that all other contributions to IDA 6 would be freely convertible and that it would detract from the political credit that they would obtain from their contribution if they should tie their funds. I then argued at some length (on the basis of the attached table which I had sent to them for the purposes of our discussion) that they would have to redeem their pledge much faster if they insisted on tying their funds.

They did not question the validity of the estimates in the table but still seemed frightened at the prospect of making their pledge in convertible form. They seemed obsessed with their foreign exchange budget and almost impervious to my argument that they would be much better off foreign exchange-wise in the earlier years by permitting drawings on the Romanian pledge in convertible currencies as part of the pro rata pool, and receiving payment in convertible currencies for IDA procurement in Romania. (Mada later told me that they felt it would be very difficult to explain this simple point to other authorities in Romania involved in the IDA decision - another way of putting it is that the Ministry of Finance people may be frightened of the consequences that would ensue if, by some chance, in any particular year, IDA procurement in Romania should fall short of the pro rata drawings upon them under the pool.) They are to consider this matter further and I fear that in the end they will still insist upon tying.

In the middle of the foregoing discussion Bituleanu, obviously seeking a method for stretching out their payments under a tied arrangement, asked whether IDA could not use the Romanian funds to pay for 50 percent of the cost of items procured by IDA in Romania, with the remaining 50 percent to be covered by IDA's other resources. Or if not 50 percent, some other percentage. I rejected any such fractional proposal out of hand and said that it just was not possible. Please note, however, that I was not on very strong ground here since in fact we are supposed to accept contributions "in usable form" defined (see footnote on page 20 of our present draft report on the Sixth Replenishment) as resources for which there is "a reasonable expectation that they will be fully used for procurement in that country during the respective replenishment disbursement period". On this basis, and using our estimates in the second column of the attached table, the Romanian funds would be used up over the 10-year disbursement period even if the funds pledged by Romania were available to cover only 61.5 percent of the cost of IDA procurement in Romania. Indeed, if we used FY79 instead of FY77 - 79 as the basis for our procurement estimates, even a 50-50 deal would result in using the Romanian funds up over a period of 7 years. Moreover, it should be noted that all these estimates assume a Romanian contribution of \$20 million. If in fact it were only \$15 million - \$17 million, under a 50-50 deal and using a FY77 - 79 base for calculating future Romanian procurement, the Romanian pledge would be used up in 8-10 years.

Nonetheless, on general policy grounds I do not believe that we should compromise with the Romanians on this point and ask your support for this position. If they should challenge us on the basis of calculations such as those above (and I am not sure that they will) we could just say that we need to have a margin for error in determining what would be "usable" and that no fractional scheme would give us sufficient confidence.

Finally, I should note that during our morning's discussion I made the point, coming out of our exchanges with the Latin American countries, that a Romanian contribution to IDA would be a plus rather than a minus in terms of maintaining their access to loans from the World Bank. They accepted this point and said in this connection that they were making representations to the major stockholders of the Bank urging that in the forthcoming debate in the Bank Board on lending to middle income countries they should take a positive view regarding the continuance of such lending.

\*\*\*\*\*

In the afternoon on September 7 I had a meeting with the Romanian Minister of Finance, Paul Niculescu-Mizil, who was accompanied by the team from the morning talks. I thanked him for Romania's decision to participate in IDA 6 and said I thought we had cleared up all the points except for the amount of the Romanian pledge and the manner in which IDA would utilize it.

On the amount I rehearsed the discussion in the morning and again referred to Mr. McNamara's impression that a figure of \$17 million was under consideration. The Minister did not respond directly but said that they had

September 10, 1979

to consider how much to put through multilateral as distinct from bilateral channels. He said that so far their aid to developing countries had been bilateral, that they had refused to provide money for this purpose through COMECON and that they would have to explain (to whom?) why they made an exception for IDA. I said that they should point out that they were putting \$2 million a year into IDA and receiving \$200 million a year from the Bank; he responded laughingly that they expected more than \$200 million a year from the Bank.

I then outlined briefly to the Minister the reasons why I thought Romania should make its funds available in freely convertible form and not tie them to Romanian exports. He said only that they would study this matter further. Although I know that he had been fully briefed for his talk with me he did not raise the proposal for a 50-50 deal.

I concluded by referring to the forthcoming IDA Deputies' meetings and said that the time had now come to do business on this matter and that Romania should designate a Deputy rather than an Observer for these meetings. Even on this point the Minister was uncommunicative but I am not sure he grasped the distinction immediately and I believe we may expect a full-fledged Deputy from Romania at the IDA meetings in Belgrade and Dubrovnik.

Attachment

cc: Messrs. McNamara  
Benjenk  
Vibert  
D.R. Clarke  
Scott  
Perch

JEKnapp:isk



Estimated Rate of Drawings on a Possible  
Romanian Participation of \$20 million Equivalent  
in a Sixth Replenishment of \$12.5 Billion Equivalent

<u>Fiscal Year</u>	<u>Alternative (a)<sup>1/</sup></u> (in \$ millions equivalent)	<u>Alternative (b)<sup>2/</sup></u>
1981	0.2	0.3
1982	1.0	1.6
1983	2.6	4.2
1984	4.0	6.5
1985	4.0	6.5
1986	3.0	0.9
1987	2.0	-
1988	1.4	-
1989	1.0	-
1990	<u>0.8</u>	<u>-</u>
Total	20.0	20.0

<sup>1/</sup> These figures represent Romania's pro rata share (0.16 percent) in the estimated drawings by IDA on the total amount of funds to be provided by donor countries to the Sixth Replenishment--they assume no change in exchange rates.

<sup>2/</sup> These figures assume that procurement in Romania will continue at 0.26 percent of total IDA procurement out of Sixth Replenishment resources; as shown by the data in the following table, this has been the average percentage during the period, July 1, 1976 - June 30, 1979.

<u>Fiscal Year</u>	<u>Total IDA Procurement</u> (in \$ millions equivalent)	<u>Procurement in Romania</u>
1977	1298	2.63
1978	1062	1.82
1979	<u>1222</u>	<u>4.94</u>
Total	3582	9.39

The estimates for 1981 - 1990 also assume no change in the leu-dollar exchange rate.

895/2/33

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Moeen A. Qureshi *mkh*

SUBJECT: Visit to Bonn

DATE: December 4, 1979



Following my visit to Cologne where I spoke to the Federation of German Industries/Patronat, I visited Bonn at the request of the German authorities. I met with a number of people dealing with economic and financial matters, including Ministers Offergeld (Ministry for Economic Cooperation) and Matthoefer (Finance). As you had suggested, I followed up on the issue of the German share in IDA 6 raised in your letter to Matthoefer. Following a joint discussion between Minister Offergeld and Matthoefer, I was able to obtain a commitment that Germany would be prepared to increase its share in IDA 6 from 12% to 12-1/2%.

Let me indicate precisely what I said and what they have committed themselves to do.

I indicated that IDA 6 negotiations were at a critical stage. German acceptance of an additional 1/2% could well mean the difference between closing the remaining gap in IDA commitments and bringing the negotiations to a successful conclusion on December 12-13, and failure to do so. German acceptance of the increased share would enable us to move in three directions from a tactical point of view:

(a) With the Americans: It was not at all sure that the Aid Bill would pass the U.S. Congress by the end of the first week of December. It was most likely therefore that the U.S. would have to make a decision on IDA 6 prior to the passage of the bill, if it wished to make a pledge at the December 12-13 meeting. They also had to reach some decision on this matter because of the timing of the U.S. budgetary process. German agreement to an increase in its share by 1/2% would enable us to put maximum pressure on the U.S. We should then be able to indicate that the non-U.S. share of IDA 6 (73%) would be fully taken up.

(b) With the Japanese: The Japanese were committed in principle to match the Germans on a cumulative parity basis; it would enable us to move immediately and put pressure on the Japanese for another roughly 1/2%.

(c) With the Small Contributors: German willingness to make the additional effort would be extremely helpful with the smaller countries who had indicated willingness to make some extra amounts available to IDA over and above their normal IDA share. While the amounts involved were not substantial, it was extremely desirable to spread the burden sharing arrangements as widely as possible.

Offergeld was in principle prepared to be helpful but felt that the decision rested with Matthoefer who had to make the budgetary decisions and provide the additional financing.

Matthoefer's position was that he would have been very glad to do something at an earlier stage. The problem now was timing; the budget discussion was completed, it could not now be opened up. The only available alternative was for the Aid Ministry to somehow accommodate the additional amount within its existing approved budget. In the end, it was agreed between Offergeld and Matthoefer (on the telephone) that they would go along with the additional 1/2% and that it would come from the existing budget of the Ministry of Aid and Cooperation.

Offergeld took the position that he would instruct his representative (Kerckhoff) to indicate at the December 12-13 meeting that Germany would be prepared to take the additional 1/2% provided (i) this was deemed essential to the success of the exercise and (ii) provided the 1/2% was matched by others.

I told Matthoefer that this was not good enough. We needed to say to the U.S. and the Japanese that the Germans would definitely increase their share by 1/2%. Only then would we be able to put the maximum pressure on the other countries and be able to mobilize the matching 1/2%. I conceded however that if, in the end, we failed to get the matching 1/2% from the Japanese and/or other donors, we would not then insist that the Germans stick to 12-1/2%. Matthoefer called in one of his officials to record the agreement, and said it was a deal. He would convey that position to Offergeld and I could convey to Mr. McNamara that the German position, and the understanding as I had expressed it, were acceptable to both Offergeld and him.

#### Other Matters

My visit coincided with Jolles' visit to Bonn. Both Offergeld and Matthoefer said to me that they had put a great deal of pressure on Jolles with respect to the Swiss/IDA matter. Genscher would also be speaking to his Swiss counterpart. Jolles whom I met accidentally following his meeting with Offergeld confirmed this.

Matthoefer expressed his satisfaction with the information provided to him on the questions he had raised with you in Belgrade: Uganda, Nicaragua, Sahel, Drug Control. He wanted me to convey his thanks to you regarding the contact in the State Department. He said that he had talked further with Monory (French Minister of Economy) regarding the German desire to organize a program for the Sahel and had, in fact, told Monory that the Germans would go ahead with it whether, or not, the French wished to cooperate. He looked forward to close collaboration with the Bank in this matter.

Another person whom I met in Frankfurt, and who particularly wished to be remembered to you was Poehl, the President designate of Bundesbank.

MAQureshi:sav

cc: Mr. Cargill  
Mr. Stern

815/2132

## OFFICE MEMORANDUM

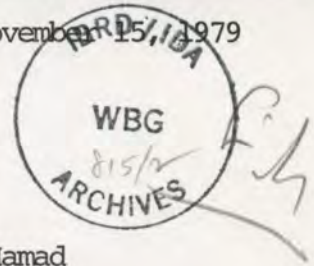
STRICTLY CONFIDENTIAL

DECLASSIFIED

DATE: November 15, 1979

NOV 30 2012

WBG ARCHIVES



TO: For the Record

FROM: Saad S. El Fishawy

SUBJECT: IDA VI - Meeting with Mr. Abdlatif Y. Al-Hamad

On November 6, Mr. Cargill and I met with Mr. Abdlatif Al-Hamad and Mr. Badr Al Hemaiddhi (of the Kuwait Fund) in New York. In the course of the discussion, which was conducted in a very friendly fashion, Mr. Al-Hamad said that the Bank had to realize that people like himself in the Arab world who were convinced of the urgency of the economic development of the poor countries and who much admired Mr. McNamara's efforts in this field, needed all the help they could muster to gain support for the World Bank. It was easy to imagine what a different situation would have existed had it not been for the evolution, or rather the revolution, which under Mr. McNamara's leadership had occurred since he took over as president. Had it remained as before, the Bank would not have its present dominating position in the field of economic development.

Instead of the World Bank being what it is now as the major player on that scene, it would have been relegated to an insignificant role. However, the Management of the Bank had to realize that there was still a lot of resistance in this part of the world against the World Bank and foreign aid in general. There were also remnants of associating the World Bank with Western powers. The track record of Mr. McNamara in helping the economic development process in the Arab countries was certainly impressive as it was impressive in all the other regions. The Arab countries would not seek or want more than their fair share in these efforts, something they were not previously getting. They were grateful to Mr. McNamara's endeavors on this front. That made it all the more important to realize that irritants which may seem insignificant from the World Bank's view in Washington could have significant repercussions in the area and might muddy the relationship.

Mr. Cargill explained the steps which the Bank was proposing to take with regard to the Press Reports (clippings) and the checking of statistics and information related to OPEC countries' aid efforts. Mr. Al-Hamad said that the core of the problem was that there were no Arab nationals in the decision-making positions of the Bank. If Arab nationals were to be appointed to such positions, they could prevent incidents such as those which had recently caused tensions. Mr. Cargill said that the Bank was in the process of reviewing prospective vacancies which were expected to occur in such positions over the next 18 months. The Personnel Department would mount a serious effort to see if one or more of them could be filled by qualified and capable Arabs. Mr. Al-Hamad said that it was unfortunate that the situation had reached this stage. He himself, Minister Al-Ateegy and Minister Abalkhail had brought this point to Mr. McNamara's and his senior associates' attention at several occasions

over the past five years. They may have spoken too softly, as it is the nature of the Arabs, but they certainly had meant to express their views in a firm way. Mr. Al-Hamad said that he had always indicated that they did not in any way limit the 'Arabs' they had in mind to Saudis, Kuwaitis or Abu Dhabi nationals. They meant Arabs from any Arab country in whom they could have confidence that they represented the Arab point of view. He said that although in the Arab world they had need for all the talented Arabs to be in the area, the sacrifice, however, of having some of them in the Bank, in his view, was definitely worthwhile. He personally could think of many Arabs who were eminently qualified to fill decision-making positions in the Bank. Nobody should be searching for geniuses, but the people he had in mind were certainly of the same caliber and standard as most of the upper-echelon staff in the Bank. Mr. Al-Hamad said that Minister Al-Ateegy would have to report to his colleagues, the Ministers of Finance of the other Arab countries about the outcome of his discussions with Mr. McNamara. It would be of great help to Minister Al-Ateegy if Mr. McNamara could send him a letter indicating the actions which the World Bank had taken and was in the process of taking to meet the points mentioned and the views expressed in Minister Al-Ateegy's letter along the lines which Mr. Cargill had explained to Mr. Al-Hamad. (Draft of proposed letter, cleared by Mr. Cargill, attached.)

Mr. Al-Hamad asked about our travel plans. I told him that we were planning to visit Minister Abalkhail in Riyadh to brief him along the same lines as we did with him. He said that Minister Abalkhail had been trying to reach him in the past week but they were not able to get in touch with each other. We told him that we would also have liked to visit Kuwait but we would not want to do that during his absence. He said that he would be away from Kuwait during most of the month of November and that it would be better for us to visit there at the end of November or beginning of December. I told him that I personally would be going to Kuwait after Riyadh to meet, if possible, with H.H. Sheikh Jaber and with Minister Al-Ateegy and then go back again with Mr. Cargill at the end of November. He thought that this was a good idea. I explained to him that it was unfortunate that Mr. McNamara would probably not be back in Washington before he (Al-Hamad) would have left after his visit to Washington in mid-November and that Mr. McNamara regretted this. He said that he understood perfectly well and he would be looking forward to meeting Mr. McNamara on another occasion.

I told Mr. Al-Hamad that we missed him at the Dubrovnik meeting and briefed him on what happened there. I handed him a copy of a letter I had sent to him in Kuwait, attaching the Chairman's Report on the meeting, the draft Report on the Sixth Replenishment of the Executive Directors to the Governors and the Chairman's Proposal on Contributions to IDA VI. I told him that the next and final meeting would be in Paris on the 12th and 13th of December. He said that during his short stay in Kuwait in November, he would be working hard defending the case of the IDA VI Replenishment and Kuwait's contribution. He said that a ministerial committee had been formed for this purpose in Kuwait. He said that he knew that it was not going to be easy sailing but that he would do his best. He was kind enough to offer to call Minister Al-Shirawi of Development and Industry in Bahrain to inform him about our short stay in Bahrain en route to Riyadh.

Cleared with and cc: Mr. Cargill  
cc: Messrs. McNamara, Stern, Qureshi, Benjenk, Paijmans

ElFishawy/rh

Encl.

815/2/31

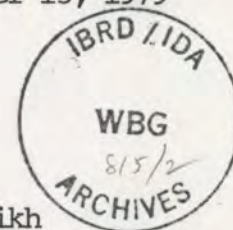
## OFFICE MEMORANDUM

STRICTLY CONFIDENTIAL

TO: For the Record

DATE: November 15, 1979

FROM: Saad S. El Fishawy

**DECLASSIFIED****NOV 30 2012****WBG ARCHIVES**SUBJECT: IDA VI - Meeting with Minister Abalkhail

On November 14, 1979, Mr. Cargill and I met in Riyadh with Sheikh Mohammed Abalkhail, Minister of Finance and National Economy, and Mr. Mohammed Al Sugair, Deputy Minister for Budget and Organization.

Mr. Cargill said that as a follow-up on Minister Abalkhail's discussions with Mr. McNamara in the Belgrade meetings, he wanted to inform Minister Abalkhail of what the Bank had done since then and was in the process of doing to meet the points raised in Minister Al-Ateegy's letter to Mr. McNamara.

With regard to the Press Reports (clippings), it was decided to substitute them with daily bulletins which will only include news items directly related to economic development and international finance. Instead of the daily clippings, there will be weekly ones which will have limited distribution within the Bank. Under the previous system, the lack of time made it impossible for clippings to be reviewed adequately, or for persons with specialized knowledge like Mr. El Fishawy, to be adequately consulted as to the implications of circulating them.

With regard to statistics, data and information related to economic development aid of Arab OPEC countries, it was decided that the Bank would try as much as possible to seek such information directly from the countries concerned. Also, it would be aiming at much closer consultation with them and with OPEC agencies with regard to such information. Minister Abalkhail said that it should not be difficult for the Bank to consider the Arab Gulf countries as a separate group for the purpose of reporting on economic development aid. It did not make much sense to group them together with other OPEC countries such as Indonesia and Nigeria when it came to economic development aid. He said that the spirit of cooperation between the Bank and Arab Gulf countries was excellent. Saudi Arabia was grateful for the technical assistance extended to it by the Bank. Although these were two different and separate issues, Saudi Arabia on its part has supported the Bank and continued to support its efforts in the field of economic development. The economic development aid that the Kingdom was extending to needy countries all over the world was being done out of a sense of duty and brotherhood to all humanity. They expected that the Bank presentations of these efforts would give them full recognition. The Bank could also highlight particular features of the aid extended by Arab Gulf countries. For example, they did not get any of it back in the form of procurement. It was also made out of a depletable resource. He added that the Bank reports and publications were widely quoted and given worldwide circulation. They were considered authoritative. This was the reason why he and others like him attached so much importance to how their aid efforts were represented in such reports.

Mr. Cargill said that the most important issue raised in Minister Al-Ateegy's letter was the issue of Arab representation in the decision-making positions of the Bank. He said that Mr. McNamara was on a mission to the Latin American countries, but that before he left he had asked for a review of all the prospective vacancies in these positions over the next 18 months and would make an effort to fill one or more of these positions when they became vacant by qualified and capable Arabs. Minister Abalkhail inquired about how many of these positions were expected to become available over the next six months. Mr. Cargill said that the review had not been finished before he left Washington, but he knew that in the next 12 months several senior people, including himself, would be leaving. Minister Abalkhail said it should be possible to find Arabs to fill decision-making positions in the Bank from within the Bank or the IMF or from other international and Arab aid agencies. Mr. Cargill said that in this effort the Bank would need the help and cooperation of people like Minister Abalkhail and Mr. Abdlatif Al-Hamad. Minister Abalkhail said that when they raised this point, they normally meant Arabs from any Arab country. They did not in any way mean exclusively Saudis, Kuwaitis or Abu Dhabians but any qualified, capable and suitable Arab nationals as long as they had confidence in their ability.

I asked Minister Abalkhail whether he had received my letter in which I reported to him about the Dubrovnik meeting. He said that he had received it and that he would be sending his Deputy to the next Paris meeting. I said that this was expected to be the final meeting for IDA VI Replenishment. He asked about the American position and whether the U.S.A. will be in a position to make a pledge. Mr. Cargill said that the Americans would be in a position at the next meeting to pledge their share of 27 percent out of a total replenishment of \$12 billion. He said that all the other countries had pledged to participate in IDA VI their same shares as in IDA V. Only four countries reduced their shares and these were: United States, United Kingdom, Sweden and Canada. The decrease in the shares of these four countries would be approximately made up by the increase in shares of both Germany and Japan. Minister Abalkhail inquired about the justification for these countries to decrease their shares. Mr. Cargill said that for the United States, Congress had required that they decrease their shares gradually to 25 percent in all international agencies. This had been done over the previous replenishments. As for the United Kingdom and Canada, the governments of these two countries had decided to curtail public expenditures. As for Sweden, its aid effort was the highest among the OECD countries and it had already reached one percent of the GNP, and was now experiencing severe budget difficulties.

I handed to Minister Abalkhail an updated aide-mémoire (in Arabic and English) on the progress of IDA VI negotiations and on Saudi Arabia's proposed share in the Sixth Replenishment.

Minister Abalkhail thanked us for our visit. He said that he was very pleased with the cooperation between the Bank and Saudi Arabia. He also said that we should rest assured that his Deputy would attend the Paris meeting and would be fully authorized to make a pledge.

Cleared with and cc: Mr. Cargill  
cc: Messrs. McNamara, Stern, Qureshi, Benjenk, Paijmans

ELFishawy/rh



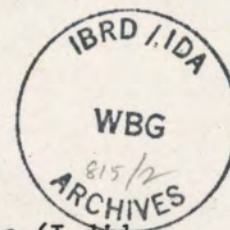
## OFFICE MEMORANDUM

Mr. McNamara

815/2/30

TO: For the Record

DATE: October 31, 1979

FROM: Saad S. El Fishawy *Saad El Fishawy*SUBJECT: IDA6: United Arab Emirates

This afternoon I called Mr. Nasser Al-Nowais in Doha (I did not find him in Abu Dhabi when I first called there). I told him that we missed his presence at the meeting in Dubrovnik. I also told him that the next and final meeting was scheduled originally to be on November 28 and 29 in Paris. However, it was postponed to December 12 and 13 for reasons in the forefront of which was to allow more ample opportunity for the Arab countries to be able to attend.

I mentioned that Mr. Cargill and I were planning to visit Riyadh from November 10 to November 12, and Abu Dhabi from November 12 to November 14 and asked him whether this time would be suitable for him. Mr. Al-Nowais said that, unfortunately, he would be out of Abu Dhabi during this period, since he would be in San Francisco attending a meeting of the Bank of International Investments (Mr. Al-Hammad will also be attending the same meeting before he comes to Washington on November 15 and 16). He added that as far as the attendance at the Paris meeting was concerned, Abu Dhabi would be making its decision in the light of what Kuwait and Saudi Arabia would decide.

cc: ✓ Mr. McNamara  
 Mr. Cargill  
 Mr. Qureshi  
 Mr. Stern

ElFishawy:rh

11745 To Messrs. Cargill 8/25/29

El Fishawy

# OFFICE MEMORANDUM

TO Mr. Robert S. McNamara

DATE October 23, 1979

FROM: Saad S. El Fishawy, through Mr. Cargill

Seed El Fishawy

SUBJECT: IDA VI: Your Visit to Kuwait, Saudi Arabia and the United Arab Emirates



Further to my memorandum to you on the above subject dated October 17 and my memorandum for the record dated October 22 reporting on a telephone conversation Mr. Cargill and I had with Mr. Al-Hamad on Saturday, October 20, and your annotation on my memorandum dated October 17 which I just received, I would like to state the following.

As I recall, during your meeting with Minister Al-Ateegy in Belgrade on October 4, you were kind enough to tell Al-Ateegy that he should feel free any time to pick up the telephone and call you for whatever matter he wanted to discuss with you. You were generous in adding that you would even be prepared to go to see him in Kuwait. Whereupon Minister Al-Ateegy seized the opportunity and said that they wanted to see you in Kuwait and that you had not been there for a long time -- about two years.

I don't recall this

On Saturday, October 6, I met Minister Al-Ateegy by chance at the Belgrade airport and, among other things, he said that he expected to see you soon in Kuwait and that he was confident that the questions which were raised in your exchange of letters would be favorably settled.

In my view, there is no doubt that your visit to Kuwait, Saudi Arabia and the United Arab Emirates would be most welcome and, if it had been necessary during the past 12 months, it is now essential. However, from the timing point of view, we can withhold taking any final action in preparing for it until Mr. Al-Hamad's visit to Washington in mid-November. In the meantime, for preliminary contacts, I would like you to reserve the week beginning December 1 for your possible visit to the region.

I believe this is an inappropriate time or relation to Peterstrip the IDA VI December meeting.

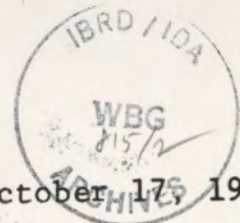
cc: Messrs. Cargill  
Stern  
Qureshi  
Benjenk

ElFishawy/rh

Let's not stimulate a trip

If the Saudis or Kuwaitis want me to visit I'll visit. If I want to, initiative to be theirs. Per.

815/2/28



Date: October 17, 1979

MEMORANDUM FOR: Gene Godley  
Fred Bergsten

From: *Colby*  
Colbert I. King

Subject: MDB Support in the House: Status Report

Based on an examination of eight key votes (attached) during consideration of H.R. 4473, House support for the MDBs is as follows:

<u>Solid</u>		<u>Generally Favorable</u>		<u>Possible but Doubtful</u>		<u>Solidly Opposed</u>	
<u>D</u>	<u>R</u>	<u>D</u>	<u>R</u>	<u>D</u>	<u>R</u>	<u>D</u>	<u>R</u>
89	2	77	21	42	24	66	112
91		98		66		178	

This result is not far out of line with our support at the end of last year.

Based on ten key MDB/IMF House votes in calendar 1978, MDB support was as follows:

<u>Solid</u>	<u>Generally Favorable</u>	<u>Mixed</u>	<u>Generally Opposed</u>	<u>Solidly Opposed</u>
98	114	43	49	131

This year's total still represents somewhat of an improvement over 1977 when our support at the end of the first session, 95th Congress was:

<u>Solid</u>	<u>Generally Favorable</u>	<u>Mixed</u>	<u>Opposed</u>
53	157	51	174

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
Initials / Date	/	/	/	/	/	/

Today's voting profile obviously does not fully reflect House sentiment toward the MDBs (e.g. some votes are strictly "political", others were cast only after the results were apparent), nonetheless, these results suggest strongly that every effort should be exerted to avoid another confrontation on the House floor over "indirect" aid restrictions. Therefore, this means that the restrictive amendments in the House version of the foreign aid bill should be eliminated in conference, and not be returned to the House floor in disagreement where separate votes are required.

Elimination of the restrictive amendments during conference will not be easy. House conferees have not yet been appointed, however, they will probably be Long Subcommittee members plus Whitten and Conte

Potential House conferees voted on restrictive amendments as follows:

	<u>Young/IDA</u>	<u>Taiwan</u>	<u>McHugh</u>	<u>Young</u>
Long	+	+	+	+
Obey	+	+	+	+
Wilson	-	+	+	-
Yates	+	+	+	+
McHugh	+	+	+	+
Lehman	+	+	+	+
Dixon	+	+	+	+
Whitten	-	-	-	-
Young	-	-	-	-
Smith	-	-	-	-
Kemp	-	-	-	-
Conte	-	-	-	-

Five members solidly opposed restrictions (Long, Obey, Yates, McHugh, Lehman, Dixon) and five solidly favored restrictions (Whitten, Young, Smith, Kemp, Conte). Wilson, having voted with Young twice, and Long, having sworn to support the House position are the two obvious swing votes.

Conte's record on restrictions this year represents a sharp departure from his previous votes. Also Whitten, as Chairman, may be willing to consider the Administration's views in light of the critical situation we are in. Detailed strategy will follow.

Attachment

- 1) Lott Amendment reducing the IBRD \$145 million. (219-196)
- 2) Smith Amendment reducing IDA \$207 million. (207-210)
- 3) Young Amendment eliminating IDA IV. (194-219)
- 4) Young Amendment Vietnam Prohibition/IDA. (291-122)
- 5) Solomon Amendment restriction ADB/Taiwan. (244-164)
- 6) Smith Amendment reducing AFDF. (148-262)
- 7) McHugh Amendment to Young 5 country MDB restrictions. (153  
24)
- 8) Young Amendment 5 country restrictions. (281-117)
- 9) Final Passage. (224-183)

100% Support on 9 Key MDB Votes

(91)

Cuts and Restrictions

Democrats (89)

Republicans (2)

Ashley  
Aspin  
AuCoin (2-NV)  
Barnes  
Beilenson  
Bingham  
Blanchard (1-NV)  
Bonior  
Bonker (2-NV)  
Brademas  
Brodhead  
Brown, G. (2-NV)  
Burlison  
Burton, J. (No-FP)  
Burton, P.  
Carr  
Chisholm  
Clay  
Collins, C.  
Corman  
Danielson  
Dellums  
Diggs (1-NV)  
Dixon  
Dodd (1-NV)  
Downey  
Drinan  
Eckhardt  
Edgar (1-NV)  
Edwards, D.  
Fascell  
Fazio  
Garcia  
Gephardt  
Gray  
Hall, T.  
Hamilton

Fenwick

Democrats

Hawkins  
Holtzman  
Kastenmeier (No-FP)  
Kildee  
Kostmayer  
LaFalce  
Lehman  
Leland  
Long, C.  
Lundine (1-NV)  
Maguire  
Markey  
Matsui  
McHugh  
Miller, G. (3-NV)  
Mineta  
Mitchell, P.  
Moffett  
Moorhead, W.  
Murphy, M.  
Nedzi  
Noland  
Obey (No-FP)  
Pease  
Pepper (2-NV)  
Pritchard (2-NV)  
Rangel  
Ratchford  
Reuss  
Richmond  
Rodino (2-NV)  
Rosenthal  
Roybal (3-NV)  
Sabo  
Seiberling  
Shannon  
Simon (2-NV)  
Solarz  
Stark  
Stewart  
Stokes  
Studds  
Swift  
Thompson  
Ullman  
Vento  
Waxman

Republicans

McKinney

Democrats

Weiss  
Wirth (No-FP)  
Wolpe  
Wright (2-NV)  
Yates

Republicans



Supported MDBs Except for: (98)

Democrats (77)

Addabbo - Taiwan  
 - Young MDB restr.

Akaka - Young IDA restr.

Alexander - Young IDA (6-NV)

Anderson, G- Young IDA restr.  
 - Young MDB restr.

Annunzio - Young MDB restr.

Baldus - Young IDA restr.  
 - McHugh Admt MDB restr.

Bedell - Young IDA restr.

Boggs - Taiwan  
 - McHugh/MDB restr.  
 - Young/MDB restr.

Bolling - (6-NV)

Bowen - McHugh/MDB restr.  
 - Young/MDB restr.

Cavanaugh - McHugh MDB restr.

Conyers - (6-NV incl. 3 pairs)

D'Amours - Young IDA restr.

Dicks - Young IDA restr.

Biaggi - Young IDA restr.  
 Taiwan restr.  
 McHugh MDB restr.  
 Young MDB restr.

Republicans (21)

Buchanan - Young IDA restr  
 - McHugh MDB "  
 - Young MDB "

Conable - Young IDA "  
 - McHugh MDB "  
 - Young MDB "

Conte - Young IDA "  
 - Taiwan restr.  
 - McHugh MDB restr  
 - Young MDB "

Democrats

Dingell - Lott Amdt  
- Young IDA restr.

Duncan - Taiwan

Erdahl - Young IDA restr.  
- Taiwan  
- McHugh MDB "  
- Young MDB "

Fary - Young IDA restr.

Ferraro - Young IDA restr.  
- Young MDA "

Fisher - Young IDA restr.

Florio - Young MDB restr.

Foley - Young IDA restr.

Ford, H. - Young MDB restr.

Ford, W. - Young MDB restr.  
(3-NV)

Fowler - Young IDA restr.  
- Taiwan  
- Young MDB restr.

Frost - Young IDA restr.  
- Taiwan  
- Young MDB restr.

Giaimo - Young MDB restr.

Gonzalez - Young IDA restr.

Republicans

Derwinski - Young IDA restr  
- Taiwan restr.  
- Young MDB restr

Dougherty - Young IDA restr  
- Taiwan  
- McHugh restr.  
- Young "

Erlenborn - Lott Amdt.  
- Taiwan

Findley - McHugh

Frenzel - Taiwan  
- Young MDB restr

Gilman - Young IDA restr  
- Taiwan  
- McHugh MDB "

Evans T. - Young IDA restr  
Taiwan  
McHugh  
Young MDB restr

Green - Taiwan

Democrats

Gore - Young Vietnam  
IDA restr.  
- McHugh MDB restr.  
- Young MDB restr.

Guarini - Lott Amdt.  
- Taiwan  
- McHugh MDB restr.  
- Young

Gudger - Lott Amdt  
- Young IDA restr.  
- McHugh MDB restr.  
- Young restr.

Harkin - Young IDA restr.

Harris - Young IDA restr.

Heftel - Young IDA restr.  
- Young MDB restr.

Howard - Taiwan  
- Young MDB restr.

Hughes - Young IDA restr.  
- Taiwan (2-NV)

Jacobs - Lott Amdt.  
- Smith IDA cut  
- Young IDA restr.

Johnson, H.- Smith IDA cut

Kogovsek - Young MDB restr.

Lederer - Young IDA restr.  
- Taiwan  
- Young MDB restr.

Hanley - Young IDA restr.  
AFDF cut  
Young MDB restr.

Republicans

Heckler - Young IDA  
- McHugh MDB restr  
- Young MDB restr

Hollenbeck - Young IDA restr  
(2-NV)

Hyde - McHugh MDB restr

Jeffords - Taiwan  
- AFDF cut  
- Young MDB restr

Johnson, J. - Lott Amdt.  
- Smith IDA cut  
- Young IDA cut  
- AFDF cut

Pursell - Taiwan  
McHugh MDB restr  
Young MDB restr

Railsback - Young IDA restr  
Taiwan  
McHugh MDB restr  
Young MDB restr

Democrats

- Lloyd
  - Smith IDA Cut
  - Young IDA restr.
  - Young MDB restr.
- Long G.
  - Young IDA restr.
  - McHugh MDB restr.
  - Young MDB restr.
- Lowry
  - Young IDA restr.
- Mavroules
  - Young IDA restr.
  - McHugh MDB restr.
  - Young MDB restr.
- McCormack
  - Young MDB restr.
- Mikulski
  - Lott Amdt.
  - Young IDA restr.
- Minish
  - Young IDA restr.
  - McHugh MDB restr.
  - Young MDB restr.
- Mollohan
  - Lott Amdt.
  - Young IDA restr.
  - McHugh MDB restr.
  - Young MDB restr.
- Neal
  - Lott Amdt.
  - Young MDB restr.
- Nowak
  - Young IDA restr.
- Oberstar
  - McHugh MDB restr.
- Ottinger
  - Young IDA restr.
- Patten
  - Young MDB restr.
- Patterson
  - Young IDA restr.
  - Young MDB restr.
- Peyser
  - Young IDA restr.
  - Taiwan

Republicans

- McCloskey
  - McHugh MDB restr.
- Stanton
  - Young IDA restr.
  - Taiwan
  - McHugh MDB restr.
  - Young MDB restr.
- Stockman
  - Young IDA restr.
  - McHugh MDB restr.
  - Young MDB restr.

Democrats

Republicans

Preyer - Young IDA restr.  
Price - Taiwan  
Roe - Young IDA restr.  
- Taiwan  
- McHugh MDB restr.  
- Young MDB restr.  
Rose - Young IDA restr.  
- McHugh MDB restr.  
- Young MDB restr.  
Rostenkowski - Young IDA restr.  
Scheuer - Young IDA restr.  
Schroeder - Young IDA restr.  
Sharp - Young IDA restr.  
- Young MDB restr.  
Spellman - (3NV)  
St Germain - Young MDB restr.  
Stack - Young IDA cut  
- Young IDA restr.  
- Young MDB restr.  
Staggers - Young IDA restr.  
- McHugh MDB restr.  
- Young MDB restr.  
Udall - Young IDA restr.  
- Taiwan  
- Young MDB restr.  
Van Deerlin - Taiwan  
- Young MDB restr.  
Vanik - Young IDA restr.  
- Young MDB restr.

Democrats

Republicans

Walgren - Lott  
- Young IDA restr.  
- Young MDB restr.

Williams P. - Young IDA cut  
- Young IDA restr.  
- Young MDB restr.

Wilson C. - Young IDA restr.  
(Tex) - Young MDB restr.

Wolff - Taiwan (2NV)

Zablocki - Taiwan

Possible, but Doubtful (66)

Democrats (42)

Alexander  
Ambro  
Andrews  
Anthony  
Benjamin  
Boland  
Brooks  
Coelho  
Cotter  
Daschle  
de la Garza  
Derrick  
Ertel  
Evans, B.  
Fithian  
Glickman  
Hefner  
Hightower  
Holland  
Jones, J.  
Kazen  
Luken  
Mattox  
Mazzoli  
McDade  
McKay  
Mica  
Murphy  
Murtha  
Myers, M.  
Natcher  
Nelson  
Oakar  
Panetta  
Perkins  
Pickle  
Smith  
Steed  
Synar  
Traxler  
Volkmer  
Zeferetti

Republicans (24)

Anderson, J.  
Bereuter  
Broomfield  
Brown, C.  
Clinger  
Coughlin  
Emergy  
Evans  
Fish  
Forsythe  
Gradison  
Horton  
Leach, J.  
Marks  
Mitchell  
O'Brien  
Petri  
Regula  
Snowe  
Tauke  
Vander Jagt  
Wilson, B.  
Winn  
Wylie

100% Opposition on 8 Key MDB Votes

(178)

Democrats (66)

Albosta  
Applegate  
Atkinson  
Bailey (+ on AFDF)  
Barnard (+ on AFDF)  
Beard, E. (+ on AFDF)  
Bennett  
Bevill  
Boner (+ on AFDF)  
Bouquard (+ on AFDF)  
Breux (+ on Young IDA cut)  
Brinkley (+ on AFDF)  
Chappell  
Daniel, D.  
Davis, M.  
Donnelly (+ on AFDF)  
Early  
English  
Evans, D. (+ on Young IDA cut)  
Flippo (+ on AFDF)  
Fountain  
Fugua  
Gaydos  
Gibbons (6-NV)  
Ginn (+ on AFDF)  
Gramm  
Hall, S.  
Hance  
Hubbard  
Huckaby  
Hutto  
Ichord  
Ireland  
Jenkins  
Jenrette  
Jones, E. (+ on AFDF)  
Jones, W. (+ on AFDF)  
Leach, C.  
Leath  
Levitas (3-NV)  
Mathis (3-NV, + on AFDF)  
McDonald  
Montgomery  
Mottl  
Murphy, A.

Republicans (112)

Abdnor  
Andrews, M.  
Archer  
Ashbrook  
Badham  
Bafalis  
Bauman  
Beard, R.  
Bethune  
Broyhill  
Burgener  
Butler  
Byron  
Campbell  
Carney  
Carter (+ on Young IDA cut)  
Cheney (+ on Young IDA cut)  
Clausen  
Cleveland (+ on AFDF)  
Coleman  
Collins, J.  
Corcoran  
Courter  
Crane, D.  
Crane, P.  
Daniel, R.  
Dannemeyer  
Davis, R.  
Deckard (+ on AFDF)  
Devine  
Dickinson  
Dornan  
Duncan, J.  
Edwards, M.  
Emery  
Gingrich (+ on Lott)  
Goldwater  
Goodling (+ on AFDF)  
Grassley  
Grisham  
Guyer  
Hagedorn  
Hammerschmidt  
Hansen  
Harsha



Democrats

Nichols  
Rahall  
Roberts  
Runnels  
Russo  
Santini  
Satterfield  
Shelby  
Skelton (+ on AFDF)  
Slack  
Stenholm  
Stratton  
Stump  
Watkins  
Weaver (+ on Taiwan, 3-NV)  
White (+ on AFDF)  
Whitley  
Whitten (+ on Smith IDA cut)  
Wilson, C. (+ on Lott, 1-NV)  
Wyatt  
Yatron

Republicans

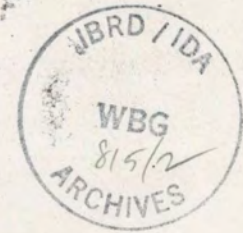
Hillis  
Hinson  
Holt  
Hopkins  
Jeffries  
Kelly  
Kemp  
Kindness  
Lagomarsino  
Latta  
Lee  
Lent  
Lewis  
Livingston  
Loeffler  
Lott  
Lujan  
Lungren  
Madigan  
Marlenee  
Marriott  
Martin  
McClory (1-NV, + on Young IDA cut)  
McEwen (3-NV)  
Michel (+ on Young Vietnam/IDA)  
Miller  
Moore  
Moorhead, C.  
Myers, J.  
Pashayan (2-NV)  
Paul  
Quayle  
Quillen  
Rhodes  
Rinaldo  
Ritter  
Robinson  
Roth  
Rousselot  
Royer (+ on Lott)  
Rudd  
Sawyer  
Schulze  
Sebelius (+ on AFDF)  
Sensenbrenner (+ on AFDF)  
Shumway  
Shuster  
Smith, V.  
Snyder  
Solomon

Democrats

Republicans

Spence  
Stangeland  
Symms  
Taylor  
Thomas  
Treen  
Trible  
Vander Jagt  
Walker  
Wampler (+ on AFDF)  
Whitehurst  
Whittaker  
Williams, L.  
Wydler (+ on AFDF)  
Young, C.W.  
Young, D. (5-NV)  
Young D.

OIDB Record  
Fried  
8/15/2/27



MEMORANDUM FOR THE HONORABLE THOMAS EHRLICH, DIRECTOR  
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

SUBJECT: Conference Position

Attached per your memorandum of October 12 is a paper discussing issues of concern to us in the context of this year's conference.

C. Fred Bergsten

Attachment

OASIA/OIDB/JW/sfm 10-15-79

CODE	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	
SURNAME						
INITIAL/DATE	/	/	/	/	/	

Multilateral Development Banks

I. Restrictive Amendments

A. It is essential that the following provisions in the House version of H.R. 4473 be deleted; as in the Senate bill:

1. Provision barring use of appropriated funds for indirect assistance to Angola, Central African Empire, Cambodia, Laos or Vietnam.
2. Provision barring use of appropriated funds for any form of aid indirectly to Cuba.
3. Provision barring payment of appropriated funds to the Asian Development Bank unless Taiwan continues its membership in the Bank.

Enactment of these provisions into law would bar U.S. subscriptions and contributions to the multilateral development banks. The banks, under their charters, could not accept U.S. subscriptions or contributions either conditioned on their not being used for lending to certain countries or conditioned on continued membership of Taiwan.

B. It is essential that the second paragraph of the Dole Amendment concerning further foreign military encroachment in the Western Hemisphere in the Senate version of the bill be deleted or that it be clarified to exclude from its coverage funds made available to the multilateral development banks.

The second paragraph of the Dole Amendment is ambiguous. It does not make clear whether included in its prohibition are funds made available to the multilateral development banks. Since the banks could not accept U.S. subscriptions or contributions conditioned on their not being used for countries described in the Dole Amendment, the provision should either be deleted or clarified to indicate that multilateral assistance through the development banks is not covered.

C. It would be highly desirable to delete the provision in the House version of the bill which prohibits the use of funds appropriated in the bill for U.S. contributions to the International Development Association (IDA) for assistance by IDA to Vietnam with the proviso that this prohibition shall not prevent the expenditure of funds that could be used to finance assistance through IDA to Egypt and Sudan.

The proviso relating to Egypt and Sudan nullifies the prohibition on indirect assistance to Vietnam. The distinction between this provision and the other provisions prohibiting use of U.S. funds for certain countries may, however, not be clear to members of Congress voting on the bill. It would, therefore, be highly desirable to delete the provision to avoid confusion and a potentially bad precedent.

## II. Funding Levels

Attached is a table giving the Administration's request for the MDBs this year, the actions taken in the Senate and the House, and our proposed position for the conference.

The total of \$2966.8 million would represent a cut of over \$650 million or 18 percent in the Administration's request. It would retain substantial arrearages which would need to be funded in next year's budget and which place us further behind in honoring the terms of replenishment agreements we have negotiated with our financial partners. This level represents the minimum amount consistent with U.S. interests in the institutions.

This number should be achievable in the conference for the following reasons:

a) The paid-in amounts which actually result in outlays (\$1.6 billion) are almost exactly half way between the House and Senate Bills (prior to the across-the-board cuts).

b) This paid-in total is almost identical to the paid-in total in the FY 79 Appropriations Bill as finally passed a year ago. Hence it can be convincingly argued that such a result would amount to "no increase in budget outlays for the MDBs."

c) The budget authority total (as well as the paid-in total) is less than the marks provided by either the House or Senate Subcommittees.

d) This amount allows the United States to avoid any new arrearages and to make some (albeit limited) headway in cleaning up prior arrearages.

The following section presents a priority listing of the amounts by windows along with the justification for the amount.

IDA	\$1092.0	This provides the full \$800 million for our third and final contribution to IDA V and cleans up our \$292 million arrearage to IDA IV. It is \$166 million less than the Congress actually appropriated for IDA in FY 79. Number one priority.
-----	----------	---

IDB Cap	\$687.3	We must get back the \$100 million cut by the Senate. This is the first installment of a new replenishment negotiated last year in which we obtained many major concessions from the Latins. Failure to provide the full amount of our contribution might give them an excuse to back away on their part of the deal. In addition, due to IDB Charter provisions associated with the U.S. veto power, every dollar we fail to provide backs out \$2 from other donors resulting in a three to one impact on the Bank's lending level and additional hostility concerning the U.S. veto. We have no arrearages on IDB capital now and it is important that we avoid creating any.
AFDF	\$41.7	Neither the Senate nor the House cut these requests (excluding the across-the-board cuts). In each case the amount is small and it is very desirable to avoid creating a new arrearage. In the case of the AFDF we need the full amount in order to avoid proportionate reductions in the contributions of others.
IFC	\$33.4	
IDB-FSO	\$200.0	This amount represents \$175 million as our first installment to the new FSO replenishment and \$25 million toward our \$150 million arrearage. It is essential that we get this amount in order to avoid proportionate reductions by others, to enable the IDB to fund at least a substantial part of this year's lending program which is focussed increasingly on low income countries, and to make some headway on reducing our substantial arrearage.
ADF	\$141.2	This amount represents the first contribution of \$111.2 million to the new ADF replenishment along with half of our \$60 million arrearage. This amount will ensure that other countries will not reduce their contributions because of a lower U.S. level, enable the Fund to meet this year's lending levels and cut our existing arrearage in half.

IBRD	\$523.0	This amount represents the third and final payment to the selective capital increase. It omits entirely any of the \$503.8 million arrearage. Obtaining this amount ensures that the U.S. will not lose its veto in the World Bank as a result of other countries subscriptions to the SCI. It also avoids adding further to the existing already substantial arrearage.
ADB Cap	\$248.2	This represents the third of four installments of \$203.6 million to the current ADB replenishment as well as our \$44.6 million arrearage. This amount would enable the Bank to meet its lending program and would clean up this relatively small but embarrassing arrearage.

FY 1980 MDB Appropriations  
(\$ millions)

	<u>Administration Request</u>	<u>Senate Bill</u>	<u>Senate Bill Less 3%</u>	<u>House Bill</u>	<u>House Bill Less 4%</u>	<u>Conference Position</u>
<u>World Bank</u>						
Paid-in Capital	102.6	82.6	80.1	16.3	15.7	52.3
Callable Capital	923.2	743.2	720.9	145.8	140.9	470.7
Total	<u>1,025.8</u>	<u>825.8</u>	<u>801.0</u>	<u>163.1</u>	<u>156.6</u>	<u>523.0</u>
<u>International Development Association</u>	1,092.0	1,092.0	1,059.2	1,086.2	1,042.8	1,092.0
<u>International Finance Corporation</u>	33.4	33.4	32.4	33.4	32.1	33.4
<u>Inter-American Development Bank</u>						
Paid-in Capital	51.5	51.5	50.0	51.5	49.5	51.5
Callable Capital	635.8	535.8	519.7	635.8	610.3	635.8
Total	<u>687.3</u>	<u>587.3</u>	<u>569.7</u>	<u>687.3</u>	<u>659.8</u>	<u>687.3</u>
FSO	325.3	225.0	218.3	182.3	174.9	200.0
<u>Asian Development Bank</u>						
Paid-in Capital	24.8	24.8	24.0	24.8	23.8	24.8
Callable Capital	223.4	175.0	169.8	223.4	214.5	223.4
Total	<u>248.2</u>	<u>199.8</u>	<u>193.8</u>	<u>248.2</u>	<u>238.3</u>	<u>248.2</u>
Asian Development Fund	171.2	171.2	166.1	107.3	103.0	141.2
<u>African Development Fund</u>	41.7	41.7	40.4	41.7	40.0	41.7
<u>Totals</u>	<u>3,624.9</u>	<u>3,176.2</u>	<u>3,080.9</u>	<u>2,549.5</u>	<u>2,447.5</u>	<u>2,966.8</u>
Paid-in	1,842.6	1,722.2	1,670.5	1,543.5	1,481.8	1,636.8
Callable	1,782.3	1,454.0	1,410.4	1,006.0	965.7	1,329.8



815/2/26

October 2,



Note re Swiss Participation in IDA

Although Switzerland is not a member of the World Bank Group, it contributed to both the Second and Third Replenishments of IDA by providing interest free loans up to a share a little over 1% in each of these replenishments. In the case of the Fourth Replenishment, Switzerland intended to make a further loan, equivalent at the time the Fourth Replenishment was negotiated to about 1.5% of the replenishment. This loan was rejected by the Swiss voters in a referendum in June 1976. In the circumstances, the Swiss Government felt they could not contribute in any way to the Fifth Replenishment which was then under negotiation and on which agreement was reached in March 1977.

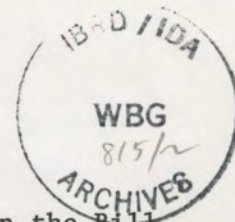
The Bank has, however, continued to have consultations with the Swiss authorities to explore possibilities of renewing in some way Switzerland's association with IDA so that Switzerland could find a means of participating in some form in IDA replenishments. The Swiss authorities, although sympathetic to IDA, find themselves in a difficult position in view of the relatively recent referendum vote. Bob McNamara is concerned about the failure of the Swiss to participate in IDA, and he and his associates have heard frequent expressions of unhappiness from the Finance Ministers of many of the OECD contributors about Switzerland's non-participation, particularly in view of the need for a substantial re-arrangement of shares in the Sixth Replenishment and the important role which a Swiss contribution could play. McNamara has reported these concerns to the Swiss authorities. He has reason to believe that a direct communication from the German Foreign Minister to his Swiss counterpart could be very influential in helping the Swiss authorities reopen this question with their Parliament and arrive at a positive decision on participating in some form in IDA6. He has asked, therefore, whether Minister Matthoefer could convey this message to his colleague, Dr. Genscher.

# OFFICE MEMORANDUM

815 12 125

TO: Mr. Robert S. McNamara  
FROM: J. Burke Knapp  
SUBJECT: Bill Young Amendment

DATE: September 25, 1979



I have now read the transcript of the House debate on the Bill Young amendment and note that he has repeatedly demanded a statement of just how his amendment would violate the Articles of Agreement of the Bank and IDA. He never seems to get a direct reply.

I am aware of the responses that refer to the Charter's ban on political activity and the provision forbidding restrictions on Bank assets. I am afraid that the first argument may not be very persuasive with Bill Young and Co., and the second is hardly relevant.

Is not the real point as follows:

9/25  
The Bank (and IDA) <sup>WERE</sup> will set up as a multilateral institution receiving a pool of funds from divers sources with their administration entrusted to a Board with carefully arranged provisions on voting power. If the United States places restrictions on the use of the funds that it contributes to this common pool, it is in effect asserting the unilateral veto in the administration of these funds and is negating the multilateral voting power arrangements.

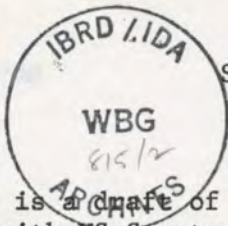
JBKnapp:isk  
(Dictated but not read)

The World Bank

*Made will  
now  
include  
2nd part*

Mr. McNamara

September 12, 1979



Bob:

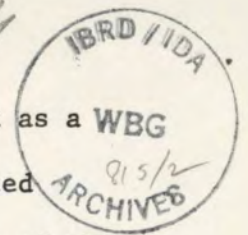
Attached is a ~~draft~~ <sup>ADRAFTS</sup> of a briefing paper for your meeting with US Senators. The figures are subject to check. Lester, Moeen, and Duke have copies, and I will incorporate their comments. The paper is designed to provide background material and points that you might wish to make. Clearly, you would not want to read this material at a breakfast meeting with US Senators. However, with certain deletions and stylistic changes, I think it would be useful to get this kind of presentation in the hands of Congress. Perhaps an open letter to the New York Times or Washington Post would work. Right now, Congress does not believe we will reject the funds. Second, they don't know the implications of the restrictive amendments. Nor have they faced up to the implications of a change in the Bank's Charter which would politicize the Bank. All Congress has heard is some rather vague comment about the loss of US influence and prestige in multi-national institutions. They don't understand what that means, nor do they understand what are the alternatives.

*7/12*

Congress is preoccupied with two Issues:  
1) Will we accept the funds; 2) Do we intend to make loans to Viet Nam. The paper is designed to clearly answer the first question in the negative and to reframe and put into context the second question. If the Senate remains pre-occupied with the second question, as the House has framed it, we will lose the vote. We must change their perception of the issue.

Gene Rotberg *Gene*

895/2/24



Let me be very frank and blunt about this matter. We cannot as a WBG matter of law accept restricted funds. We will not accept restricted funds. The point has been made over and over again. The President of the United States, in a letter to the Hon. Thomas P. O'Neill dated June 21, 1977, summarized the issue quite clearly:

"The entire IDA V Agreement, negotiated over a period of two years among twenty-three donor countries, will have to be renegotiated unless the United States contributes its full \$800 million share to the first installment. The agreement was given global attention in the communique which I, along with my colleagues from six other nations, issued at the conclusion of the Summit meeting in London in early April. It is a major element in overall North-South relations, and was endorsed as such at the recent Conference on International Economic Cooperation in Paris. Any disruption of IDA V would trigger an extremely serious breach in relations between the United States and the developing countries, and would adversely affect relations between the United States and other donor countries as well."

The President continued:

"Specifying that US funds could not be used for loans to these countries by the multilateral development institutions would in all probability make it impossible for these institutions to accept our funds. It would, in effect, jeopardize continued US participation in the banks."

On July 5, 1977 in a letter to Secretary of the Treasury, Michael Blumenthal, I wrote:

"The question arises, therefore, whether IDA could accept a United States commitment to the Fifth Replenishment and the Bank and IFC could accept United States subscriptions to their capital stock if they were made subject to such conditions or others of similar effect.

"The answer is that IDA, the Bank and IFC could not accept the funds, so conditioned...."

The Vice President and General Counsel of the Bank, Aaron Broches, by legal memorandum dated August 29, 1977 in reply to the US Executive Director to the World Bank, Edward Fried, concluded:

"In my view the institutions [the World Bank and its affiliates IDA and IFC] could not accept the funds so conditioned...."

In a letter to the Hon. Clarence D. Long, Chairman, Subcommittee on Foreign Operations, Committee on Appropriations, House of Representatives, the Comptroller General of the United States stated the following:

"The resolutions cited above set forth conditions concerning the acceptance of subscriptions or contributions, and do not provide for the acceptance of contributions or subscriptions which impose conditions on the respective institutions' use of the funds. Thus, each of the institutions which have written to us indicate that it could not accept contributions or subscriptions so conditioned. We could have no basis to question the interpretations placed on the resolutions by the institutions involved."

Again, on September 29, 1977, Mr. Broches, in a memorandum addressed to Mr. Fried, stated the following:

"This question involves the interpretation of the constituent instruments of the institutions. The power of interpretation is vested in the Executive Directors of the institutions, subject to an appeal to the Board of Governors (IBRD, Art. IX, IDA, Art. X). While the Executive Directors have considerable latitude in the exercise of their powers of interpretation they may not use it so as to in effect amend the Articles of Agreement. In my opinion, stated in my memorandum of even date to you, the Executive Directors could not properly as a matter of law adopt interpretive decisions which would permit these institutions to accept US contributions subject to conditions as proposed in H.R. 7797."

The General Counsel of the United States Treasury, Mr. Robert H. Mundheim, in a memorandum to the Secretary of the Treasury dated September 29, 1977, also addressed this issue:

"The General Counsels of the IBRD and IDA and of the IDB have expressed their opinions that acceptance of funds subject to such conditions would violate the terms of the relevant resolutions and would be inconsistent with the Charters of their institutions.<sup>3/</sup> In the light of these opinions it is hard to conceive that these institutions would be able to accept such funds. Indeed, the two General Counsels have expressed the view that it would not be proper as a matter of law for the Executive Directors of the IBRD, IDA or IDB to adopt an interpretative resolution which would permit these institutions to accept such funds.

"I concur in the conclusions of the General Counsels that the relevant resolutions and the Charters of the three institutions do not permit the institutions to accept US funds subject to the conditions referred to above."

3/ Footnote omitted.

The Secretary of the Treasury, in a letter to Members of the House of Representatives dated September 29, 1977, concluded as follows:

"The international development banks could not accept US funds so conditioned. The World Bank and the Inter-American Development Bank have conveyed to us their legal opinions to that end. The General Counsel of the Treasury Department has informed me that he concurs with their conclusions. Moreover, the Comptroller General has stated that he would have no basis to question their interpretations."

A Joint Statement dated September 29, 1977, by former Secretaries of the Treasury Robert B. Anderson, Joseph W. Barr, John B. Connally, Douglas Dillon, Henry H. Fowler, David M. Kennedy, George P. Shultz, William E. Simon and John W. Snyder stated:

"The restrictive amendments contained in the House version of this bill would effectively end US participation in the Banks. The charters of these multilateral institutions simply would not permit them to accept funds so conditioned by individual members."

On September 29, 1977, the President of the United States in answer to a question at a Press Conference made the point again:

"This is an unprecedented encroachment on the independence of the World Bank and it would mean that our contribution to the World Bank could not be made."

On November 16, 1977, the Library of Congress Congressional Research Service wrote to the House Banking, Finance and Urban Affairs Committee with respect to this same matter:

"For the above-stated reasons, it would seem that a strong argument can be made that the lending institutions may not, consistent with the Charters and Board of Governors resolutions, accept subscriptions and contributions from countries which contain conditions or restrictions similar to those contained in H.R. 7797.

"In addition to the above, it may also be argued that the Charters or Articles of Agreement of IBRD, IDA, IFC and IDB constitute binding international treaty obligations of the United States.<sup>9/</sup> Article 26 of the Vienna Convention on the Law of Treaties provides that 'every treaty in force is binding upon the parties to it and must be performed by them in good faith.'

"Article 27 of the Vienna Convention <sup>10/</sup> then provides that 'a party may not invoke the provisions of its internal law as justification for its failure to perform a treaty.'

"Thus, the sections of H.R. 7797 referred to above, if enacted, would appear to have violated the respective Charters, thereby placing the United States in breach of its treaty obligations under international law."

<sup>9/</sup> <sup>10/</sup> Footnotes omitted.

Again, in July 1978, the former Secretaries of the Treasury made the point in an open statement:

"Unfortunately, it is possible that amendments may be offered again this year which would earmark U.S. contributions to the banks in a way which will prohibit their use for loans for certain countries and certain commodities. If such restrictive amendments were to be adopted, they would effectively end U.S. participation in the banks. The Charters of these multilateral institutions do not permit the banks to accept funds so conditioned by individual members."

Again, as recently as August 20, 1979, the American Bar Association commented on this matter:

"BE IT RESOLVED, that the American Bar Association opposes unilateral restrictions on contributions for subscriptions to the World Bank and other international development banks which are inconsistent with their Charters."

I do not know what else can be said on this subject. We cannot and will not accept restricted funds.

I do not want to leave you with the impression that, quite apart from the legal constraints, it would be appropriate, as a matter of public policy, to "politicize" the Bank in the manner suggested by the House of Representatives. Today the restrictions are directed at Viet Nam, Cuba the Central African Empire, Laos, Cambodia, Angola. Tomorrow it will be palm oil and soybean oil. And on the next occasion the restrictions might well apply to all oil-exporting countries - that has already been suggested - then countries of the left, or right, whose governments are not now in favor and whose peoples, therefore, are not deemed appropriate beneficiaries of development assistance. And every member country of the World Bank would,



understandably, seek to impose similar restrictions. The Bank would be limited to lending, as a practical matter, only to those countries and only for those projects, which all of its member countries had seen fit to offer unqualified political support. Economic growth prospects, development priorities, rates of return, need, absorptive capacity, creditworthiness, the existence of developmental programs - the basic standards for multinational development lending - would no longer be relevant considerations.

Those who founded the Bank knew of the corrosive effect of politicization of the development process and insulated the Bank from such considerations. They were farsighted. The World Bank (the Bank's so-called hard lending facility), in the fiscal year which ended on June 30, 1979 lent \$7.0 billion to developing countries. IDA, which lends on concessionary terms, lent \$3.0 billion - a ten-fold increase in each institution over the levels a decade ago. The fact is we were able to obtain the necessary world-wide financing for that lending program and for IDA credits because economic considerations alone determined whether a loan or credit should be made, not the political interests of one or another member. I ask you to consider whether that growth could have been financed in major capital markets throughout the world - in Germany, Japan, Switzerland, from OPEC, and through government replenishments - if each donor or each country who permitted us access to their markets imposed conditions of the kind imposed by the House of Representatives. The World Bank has outstanding obligations placed with OPEC of over \$4 billion; \$3.5 billion from Japan; over \$7 billion from Germany, \$4.0 billion from Switzerland - all without any restrictions as to where and for what purpose the resources would be

utilized. I assure you as you must appreciate that all of these countries have constituencies and political reasons for supporting or denying support to a variety of developing countries. Consider for a moment the willingness of other countries to provide financial support - burden sharing - if their contributions and markets could be used only for loans to countries not objectionable to the U.S. I suggest that the result would be that we would not have to worry about obtaining the resources world-wide to finance the Bank or IDA - there would be few developing countries which had the unanimous political support of the providers of the Bank's and IDA's resources.

The point was made by Fred Bergsten, Assistant Secretary for International Affairs, in a letter to Congressman Obey dated June 22, 1977:

"A requirement that contributions from a member cannot be used in certain countries or to finance loans for certain commodities would be totally inconsistent with the multilateral framework within which these institutions operate. Such earmarking would set a bad precedent. If the U.S. were to earmark funds, other countries would undoubtedly follow the same practice. This would eventually lead to a complete breakdown of the international cooperative character of the development banks."

But, apart from these policy considerations, what does it all mean if we cannot accept restricted funds? It means, to begin with, that \$800 million is lost to the poorest 2 billion people of the world in \_\_\_\_\_ countries now receiving IDA credits. That is absolutely clear. Further, since the Fifth IDA Replenishment involves not just the United States, but reflects an agreement reached amongst 26 donor countries, the failure of the United States to appropriate funds ~~consistent with the Bank's Articles~~, without restriction, means that all other donors to <sup>the</sup> IDA Agreement will be relieved of their obligations and no further IDA credits can be made.

Permit me to read to you from the report of the  
IDA5 Agreement:

"In this case, however, one donor country (the United States) has said that because of its internal legislative procedures it finds it inappropriate to deposit such a notification unless it has obtained an appropriation for the amount involved and that it will seek separate appropriations in three equal instalments for each of the years of the replenishment period. In that connection, the United States Administration points out that this new situation should not affect the timely carrying out of the Replenishment in accordance with its terms because, while it cannot bind its Congress, it will request an appropriation for each of the three instalments of its contribution which, according to the new budgetary procedures of the United States Congress, it expects would be acted upon by the Congress no later than September 30 in the year involved, starting with September 30, 1977, and this would permit a United States commitment no later than October 8 in the year concerned."

The definitive IDA<sup>5</sup> resolution, recognizing the United States share constituted 31 % of the total replenishment established a "trigger-point" for the continuation of IDA credits. The definitive resolution provided:

"Unless Instruments of Commitment as referred to in paragraph 27 of the Report covering in the aggregate at least 80% of the second instalment (the second one-third of the total Replenishment) and 80% of the third instalment (the final one-third of the total Replenishment) are deposited, respectively, IDA shall not enter into new credits, disbursements for which would be drawn from the said second instalment or third instalment, respectively, of the contributions of contributing governments."

Thus, the restrictions imposed by the House of Representatives would deprive the Bank not only of the United States' share of IDA5, but also would serve to relieve the other donors of all of their obligations to provide \$ 1.6 billion under the terms of the Agreement. Considering the fact that this agreement was hammered out over a two-year period, as a careful burden-sharing agreement, it would seem a folly, an impropriety and unfair to relieve donors of their international commitments

through the kind of restriction passed by the House.

It would be folly because it relieves other countries of their substantial obligations; it would be improper because other nations, in good faith, made agreements under the assumption that the United States would not impose conditions which made the acceptance of the funds impossible; most important, it would be unfair to the 2 billion human beings who have a per capita income of less than \$300 a year, a caloric consumption of 900 calories a day, a mortality rate 40 times ours, and who look to institutions such as ours for hope and a way to become productive. The blunt fact is that under the circumstances, were the restrictions now passed by the House signed into law, commencing October 1, IDA, the largest single institution in the world providing concessionary funds, would have to cease future operations. I have no option but to cease making loans, as IDA commitments after that date simply could not be funded. We would, in short, go out of business except for disbursements on old loans under previous IDA replenishments. That would be the real tragedy.

Nor is that the end of it. It is unthinkable that the IDA6 negotiations with donor governments, which contemplate a replenishment of about \$12 billion for funding commitments for the three-year period commencing <sup>July 1980</sup> \_\_\_\_\_ would be successfully concluded. Governments cannot be expected to agree to an IDA6 replenishment knowing that subsequent U.S. appropriation for the replenishment would in all likelihood be subject to restrictions which would prevent IDA from accepting the funds. There is no point in governments agreeing to make commitments for IDA6 subject to the legislative process, if one of the participants conditions the appropriation ~~in a manner which, as a legal matter,~~ prevents

IDA from being able to accept or use the funds.

Nor is this matter confined only to IDA. The House of Representatives also restricted its appropriation for the subscription by the United States of its shares in the Bank. \$1.02 billion was sought by the Administration, that was rejected. Only \$156.4 million was appropriated by the House (of which <sup>out</sup> \$15.64 <sup>million</sup> was to be paid-in and \$140.76 <sup>million</sup> represented by "callable capital") which, as you know, has never been called (it provides in effect a guarantee for bondholders) and cannot be called for use in our lending operations or for administrative expenses. But even that drastically reduced amount was conditioned by country specific restrictions. These funds however cannot be accepted in payment for the United States subscription. The United States cannot therefore subscribe to the Bank's selective capital increase. And it will lose straight-out its veto power (20% voting power) over changes in the Bank's Articles because it won't have the necessary voting power. But, more important, the House's actions are a precursor of the Congressional reaction on the future General Capital Increase of the World Bank. In that connection, Governments are now considering and indeed voting on an increase of the World Bank capital of \$40 billion, of which the U.S. share is \$8 billion, of which \$600 million would be paid-in over a number of years commencing in the early 1980's. Those subscriptions cannot be accepted conditionally. If they are not made - the capital cannot be increased without a 75% vote of the <sup>Bank's</sup> ~~Board's~~ members - the Bank will immediately have to drastically cut its lending program, as the Bank's outstanding loans may not exceed its subscribed capital and reserves.

It is difficult to over-emphasize the implications of a cessation of IDA lending and the reduction of Bank lending. Obviously, the U.S. role in international development would be dealt a most severe blow. The U.S. participation in multi-national development banks would no longer be credible. The destruction of an international development institution with objective economic criteria will be welcomed by those who wish us little good will. At the most basic level, however, the fact is that two billion people in the world look to these resources in the form of economic projects to provide for agricultural development, schooling, safe water and jobs. These resources would be lost to them. That is far sadder than the loss of U.S. "influence" in an international body. Their productivity and growth would diminish. They would lose hope. Assuredly they will seek resources elsewhere. I would suggest that they will enter into political relationships which ultimately will be counterproductive to the best interests of the United States. I would ask you to consider the reaction of all Latin America which would be deprived of multi-national resources because of an amendment which would restrict our lending, for example, to Cuba - a country to whom we cannot lend as they are not members of the Bank!

} ? GMIT

Against all of this I am almost embarrassed to note the effect of a cessation of IDA lending and the substantial reduction of Bank lending on the exports of goods and services financed by the World Bank from U.S. suppliers who would suffer from such a constraint in our activities. The fact is that U.S. companies to date have received from the Bank and IDA almost \$7.0 billion for goods and services

on Bank financed projects. (We have detail back-up by industry sector and state on this and a statement showing the "leverage" effect on the U.S. economy for each dollar provided by the U.S. to the Bank).

And all of this because of an attempt to politicize in a highly improper way this institution. The greater pity is that the Bank is not now making loans to Viet Nam. I must confess that, as I have reflected on these matters, I have concluded that the reasons why these restrictions were imposed were not only to limit aid to Viet Nam and Cuba or Angola or Laos. The sponsors know that we cannot accept these funds. The suggestion has already been made that the Bank simply alter its character by changing our Charter. Indeed, in a letter dated October 11, 1977, to Members of the House of Representatives, Congressman Moore and Mathis, who supported the restrictive amendments, recognized <sup>the OPTION.</sup> quite clearly the danger to the Bank. They noted that:

"Depending on the particular development institution three-fifths to three-quarters of a bank's membership voting in the affirmative, but together holding between three-fourths and 85 percent of the total voting power, is all that is necessary to amend most of these charters. Certainly, any banking facing a realistic prospect of collapse would take such action." (Emphasis added)

The United States, of course, has but 22% of the votes. I can assure the Congress that it will not be necessary to obtain the remaining votes to change the character of the Bank. The House action, alone, if adopted, will do it.

I might conclude by noting here that the reason we are not making loans to Viet Nam, is not because of the current controversy surrounding this amendment. We are not making loans to Viet Nam, and to many other countries, because Viet Nam and these other countries are not now in

a position to productively employ the resources we might make available. We will make loans when a country can effectively use them and we will not make them when they cannot effectively use them. Obviously, when a country lacks an economic program, we don't extend IDA credits or make Bank loans. That is the situation in Viet Nam now. I add, however, that when or if those conditions change, we will start lending again. Or at least, I will recommend that loans or credits be extended and then, and only then, will the Bank's member governments - the U.S. has a 22% vote - decide by majority vote on a specific project before them whether the country can effectively use the resources and whether that project should be financed at that time. Over the years, that is the only standard that makes sense for an international development institution. /



815/2/23

## OFFICE MEMORANDUM

TO: Mr. I.P.M. Cargill

FROM: J. Burke Knapp *JBK*

SUBJECT: Romanian Participation in IDA 6

DATE: September 10, 1979



In long discussions with the Romanian authorities in Bucharest on September 7 we clarified the various issues that they must consider in connection with the above subject and they will try to be ready to declare themselves by the time of the Deputies meeting in Belgrade on September 29. They want to make their pledge to IDA 6 in US dollars; they have not yet decided the amount of the pledge and they are still considering whether the dollars that they pledge should be tied to IDA procurement in Romania. A further report on my visit follows.

\*\*\*\*\*

I had a long session in the morning of September 7 with Dr. Bituleanu, the Deputy Minister of Finance, accompanied by Mr. Ion Ratoi, the Vice President of the Romanian Investment Bank, and Mr. Mada of the Ministry of Finance. They announced that Romania had decided in principle to participate in IDA 6 but they wanted to discuss the amount and the "modalities".

7/13 On the amount, Dr. Bituleanu said they thought that the figure of \$20 million was too high and he wanted to ask my view on the alternative figures of \$5 million, \$8 million and \$10 million.

I explained that any contribution from Romania was purely voluntary and that therefore I was not there to negotiate a figure. However, as their friendly adviser I would give them my opinion of what might seem fitting for Romania in relation to other countries.

I said that we had originally thought that they might consider \$20 million to match the contribution of Yugoslavia, which after all had already contributed \$21 million through its earlier membership subscription and special contributions. But I acknowledged that the Romanian economy was somewhat smaller (perhaps 75 percent of Yugoslavia). I said that we had proposed figures of \$15 million to Greece and \$7 million to Portugal, although I pointed out that we had no confirmation of these figures. On the basis of reasonable comparisons I suggested that a figure for Romania of between \$15 million and \$20 million might be regarded as reasonable, and said that Mr. McNamara had informed me that his impression was that they were considering \$17 million. I emphasized that the financial commitment was quite insignificant and that the decision on a figure was really a political question.

Bituleanu responded that they would give further consideration to the issue. Note that I ignored his invitation to discuss figures of \$5 million - \$10 million, and he never came back to the subject. On the proposed new method for calculating the Romanian subscription at only a

few hundred thousand dollars while at the same time assuring them their full rights in voting power, they accepted our proposal after a long discussion. They seemed particularly pleased that no down payment in convertible currency would be required.

As to the currency of their pledge, they have problems. We had proposed a pledge in lei with the exchange rate of RL12 to the dollar if the lei were freely convertible, and RL18 to the dollar if the lei were tied to procurement in Romania. They agreed that these exchange rates were appropriate but said that they would rather exercise the option to make their pledge in dollars. (Bituleanu "let the cat out of the bag" when he said they were wondering what would happen if they should change the "commercial" exchange rate from RL18 to RL15.) I explained that a dollar option had been proposed for IDA 6 mainly to meet the very different situation of Brazil and Argentina (where pledges in local currency would be inappropriate). I further mentioned that there had been some objection among the Deputies at Brussels to making pledges in dollars as distinct from SDR's. However, I ended by saying that if the dollar option was finally adopted by the Deputies a Romanian pledge in dollars would be acceptable. If the dollar option is rejected by the Deputies I am sure that SDR's will be acceptable to the Romanians.

We then embarked upon an extensive discussion of whether the Romanian funds should be freely convertible or tied to Romanian exports. I reiterated at some length my view that it would be in their best interest to refrain from tying their funds to the payment of Romanian exports. I emphasized that all other contributions to IDA 6 would be freely convertible and that it would detract from the political credit that they would obtain from their contribution if they should tie their funds. I then argued at some length (on the basis of the attached table which I had sent to them for the purposes of our discussion) that they would have to redeem their pledge much faster if they insisted on tying their funds.

They did not question the validity of the estimates in the table but still seemed frightened at the prospect of making their pledge in convertible form. They seemed obsessed with their foreign exchange budget and almost impervious to my argument that they would be much better off foreign exchange-wise in the earlier years by permitting drawings on the Romanian pledge in convertible currencies as part of the pro rata pool, and receiving payment in convertible currencies for IDA procurement in Romania. (Mada later told me that they felt it would be very difficult to explain this simple point to other authorities in Romania involved in the IDA decision - another way of putting it is that the Ministry of Finance people may be frightened of the consequences that would ensue if, by some chance, in any particular year, IDA procurement in Romania should fall short of the pro rata drawings upon them under the pool.) They are to consider this matter further and I fear that in the end they will still insist upon tying.

In the middle of the foregoing discussion Bituleanu, obviously seeking a method for stretching out their payments under a tied arrangement, asked whether IDA could not use the Romanian funds to pay for 50 percent of the cost of items procured by IDA in Romania, with the remaining 50 percent to be covered by IDA's other resources. Or if not 50 percent, some other percentage. I rejected any such fractional proposal out of hand and said that it just was not possible. Please note, however, that I was not on very strong ground here since in fact we are supposed to accept contributions "in usable form" defined (see footnote on page 20 of our present draft report on the Sixth Replenishment) as resources for which there is "a reasonable expectation that they will be fully used for procurement in that country during the respective replenishment disbursement period". On this basis, and using our estimates in the second column of the attached table, the Romanian funds would be used up over the 10-year disbursement period even if the funds pledged by Romania were available to cover only 61.5 percent of the cost of IDA procurement in Romania. Indeed, if we used FY79 instead of FY77 - 79 as the basis for our procurement estimates, even a 50-50 deal would result in using the Romanian funds up over a period of 7 years. Moreover, it should be noted that all these estimates assume a Romanian contribution of \$20 million. If in fact it were only \$15 million - \$17 million, under a 50-50 deal and using a FY77 - 79 base for calculating future Romanian procurement, the Romanian pledge would be used up in 8-10 years.

Nonetheless, on general policy grounds I do not believe that we should compromise with the Romanians on this point and ask your support for this position. If they should challenge us on the basis of calculations such as those above (and I am not sure that they will) we could just say that we need to have a margin for error in determining what would be "usable" and that no fractional scheme would give us sufficient confidence.

Finally, I should note that during our morning's discussion I made the point, coming out of our exchanges with the Latin American countries, that a Romanian contribution to IDA would be a plus rather than a minus in terms of maintaining their access to loans from the World Bank. They accepted this point and said in this connection that they were making representations to the major stockholders of the Bank urging that in the forthcoming debate in the Bank Board on lending to middle income countries they should take a positive view regarding the continuance of such lending.

\*\*\*\*\*

In the afternoon on September 7 I had a meeting with the Romanian Minister of Finance, Paul Niculescu-Mizil, who was accompanied by the team from the morning talks. I thanked him for Romania's decision to participate in IDA 6 and said I thought we had cleared up all the points except for the amount of the Romanian pledge and the manner in which IDA would utilize it.

On the amount I rehearsed the discussion in the morning and again referred to Mr. McNamara's impression that a figure of \$17 million was under consideration. The Minister did not respond directly but said that they had

September 10, 1979

to consider how much to put through multilateral as distinct from bilateral channels. He said that so far their aid to developing countries had been bilateral, that they had refused to provide money for this purpose through COMECON and that they would have to explain (to whom?) why they made an exception for IDA. I said that they should point out that they were putting \$2 million a year into IDA and receiving \$200 million a year from the Bank; he responded laughingly that they expected more than \$200 million a year from the Bank.

I then outlined briefly to the Minister the reasons why I thought Romania should make its funds available in freely convertible form and not tie them to Romanian exports. He said only that they would study this matter further. Although I know that he had been fully briefed for his talk with me he did not raise the proposal for a 50-50 deal.

I concluded by referring to the forthcoming IDA Deputies' meetings and said that the time had now come to do business on this matter and that Romania should designate a Deputy rather than an Observer for these meetings. Even on this point the Minister was uncommunicative but I am not sure he grasped the distinction immediately and I believe we may expect a full-fledged Deputy from Romania at the IDA meetings in Belgrade and Dubrovnik.

Attachment

cc: Messrs. ✓ McNamara  
Benjenk  
Vibert  
D.R. Clarke  
Scott  
Perch

JBKnapp:isk

Estimated Rate of Drawings on a Possible  
Romanian Participation of \$20 million Equivalent  
in a Sixth Replenishment of \$12.5 Billion Equivalent

<u>Fiscal Year</u>	<u>Alternative (a)<sup>1/</sup></u> (in \$ millions equivalent)	<u>Alternative (b)<sup>2/</sup></u>
1981	0.2	0.3
1982	1.0	1.6
1983	2.6	4.2
1984	4.0	6.5
1985	4.0	6.5
1986	3.0	0.9
1987	2.0	-
1988	1.4	-
1989	1.0	-
1990	<u>0.8</u>	<u>-</u>
Total	20.0	20.0

<sup>1/</sup> These figures represent Romania's pro rata share (0.16 percent) in the estimated drawings by IDA on the total amount of funds to be provided by donor countries to the Sixth Replenishment--they assume no change in exchange rates.

<sup>2/</sup> These figures assume that procurement in Romania will continue at 0.26 percent of total IDA procurement out of Sixth Replenishment resources; as shown by the data in the following table, this has been the average percentage during the period, July 1, 1976 - June 30, 1979.

<u>Fiscal Year</u>	<u>Total IDA Procurement</u> (in \$ millions equivalent)	<u>Procurement in Romania</u>
1977	1298	2.63
1978	1062	1.82
1979	<u>1222</u>	<u>4.94</u>
Total	3582	9.39

The estimates for 1981 - 1990 also assume no change in the leu-dollar exchange rate.