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Washington, D.C.

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McNamara papers

Travel brief - W  
Feb. 6 - 21, 1973


  
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Folder 8 of 8

BONN

2/20/73

Remarks at the Friedrich Ebert Foundation

by

Robert S. McNamara  
President of the World Bank

Mr. Minister, Ladies and Gentlemen:

It is pleasant to be here, and to have the opportunity to tell you a bit about what we are doing in the World Bank.

The Bank, as you know, is a specialized agency of the United Nations -- a development agency. It is owned and governed by 122 member countries. The Federal Republic of Germany is, of course, one of those countries; and it has been making an important contribution over the years to what the Bank has been able to achieve. Both in our access to its capital markets -- and in its support for government appropriations by the developed countries to our soft-loan affiliate, the International Development Association -- it has been particularly cooperative. This is clear proof of the Federal Republic's resolve to exercise a responsible position of leadership in the international development community.

There are three principal points I would like to make this afternoon:

- . First, that the World Bank has been moving in new directions over the past five years.
- . Second, that the Bank has made these shifts in emphasis because the problems that confront the developing world have become more acute.
- . And finally, that given that situation, the developed nations must realize that it is in their

own interest -- as well as in the interest of the entire international community -- to make a greater effort to assist the roughly 100 countries and the two billion people of the developing world.

Let me begin with the changes we have instituted in the Bank.

Five years ago, toward the end of the United Nations' First Development Decade, it was evident that a mood of disillusionment threatened the efforts of the development community. A number of the developed countries were growing sceptical of the value of foreign assistance. There had been roughly 20 years of effort since the end of World War II. There was general agreement that the Marshall Plan had been a success in Europe, but far less agreement about the effectiveness of foreign assistance to the developing nations of Asia, Africa and Latin America.

There were the usual complaints about instances of waste or mismanagement or incompetence, but the disenchantment with foreign assistance went deeper than that. The question in the minds of many in the wealthy nations seemed to be whether foreign assistance -- even when it was well managed -- could do any good. Was it really a feasible objective? Did aid really work? Was it really necessary? Could a convincing case really be made for it?

The fundamental case for foreign assistance is, I believe, the moral one. It is the right thing to do. The whole of human history has recognized the principle -- at least in the

abstract -- that the rich and powerful have a moral obligation to assist the poor and weak. That is what the sense of community is all about -- any community: the community of the family, the community of the village, the community of the nation, the community of nations itself. It is obvious that the well-being of the community depends, in the end, on the well-being of the individuals of the community.

But moral principles -- if they are really sound, and this one is -- are also practical ways to proceed. Social justice is not simply an ideal: it is a sensible way of making life more livable for everyone.

I was interested in development long before coming to the World Bank, and in 1966 in Montreal, as the American Secretary of Defense, I had pointed out that development assistance was essential if all of us wanted to live in a world in which there were reasonable alternatives to the social tensions and civil chaos that the frustrations of poverty can generate.

When I came to the Bank in 1968 I was resolved that we would not accept the view that development assistance was of decreasing importance. The facts were clearly the other way round. Development assistance had become all the more urgent. The great danger was the loss of momentum. Most of the developing countries were making a huge effort. They were financing 85% of their own economic progress out of their own scarce resources. The difference between success and failure would depend on their access to the crucial 15% of outside capital.

Part of that 15% could come from private capital flows.

But a crucial residual amount of that foreign exchange had to come from economic aid. Without that aid, the capital required for achieving a reasonable rate of growth was out of reach; and the political and social stability that would make even private capital flows feasible was unlikely. Economic aid was an essential requirement for economic advance.

We decided that the Bank could play a greater part in providing that aid. A whole new set of goals were established and incorporated in a Five-Year Program. Our overall objective was to double the level of our operations in the five-year period, 1969-1973 over the previous five-year period. We planned to lend during the Five-Year Program some \$11.6 billion. If we were to succeed, it would mean not only that we had doubled the previous five-years of operations, but that we had approached the total amount lent during the first 23 years of the Bank's history. And we are succeeding. When the five years end next June 30, our commitments for the period should exceed \$12.5 billion.

But simply doubling the level of Bank operations was not our only goal. We did not merely want to do more in a quantitative sense. We wanted particularly to do more in a qualitative sense. And that called for our shifting our emphasis into both different sectors, and different geographical areas.

Because of the immense long-range importance of education in development, we decided to treble our lending in that sector -- and we have done so.

Because of the central need for agricultural sufficiency in any sound development strategy, we decided to quadruple our lending in that sector -- and we have done so.

But there was even a more decisive sector we were determined to emphasize: a sector the Bank had never had operations in before -- a controversial and difficult sector, but one which we believed had the greatest implications of all for the ultimate success or failure of all the other efforts in development -- the sector of population.

So we created a Population Projects Department, and almost immediately received far more requests for assistance from our member countries than our initial staff of experts could service. We deliberately began with projects in some of our smaller member countries in order to work within the limits of our experience and capabilities. But last year we approved major projects in two of our largest member countries: India and Indonesia.

The Indian population problem is, of course, immense: the nation's total population already is in excess of half a billion, and is growing by an additional million each month. To cope with the problem, the Indian Government has set up an organization of 80,000 persons to administer a program designed to serve 100 million couples. The Bank's project is designed to support that program with the experimentation and systems analysis required to make it effective.



In Indonesia -- already the world's fifth most populous country, and burdened with an annual growth rate of 2.5% -- the Bank has provided \$13 million to help finance a greatly expanded family planning program. The project includes the construction of 300 health centers; the training of thousands of field workers; the design of specialized public school curricula; and a comprehensive program of research and evaluation.

But the really significant point is this: if the Indonesian project succeeds -- and both we in the Bank and the government believe it will -- Indonesia's population by the end of the century, even though it will be twice as large as it is today, will be 50 million less than it otherwise would be.

In addition to the Population Projects Department, we have launched other initiatives within the Bank: wholly new departments for Industrial Projects, Urban Projects, and Tourism Projects; an Environmental Office; an Operations Evaluations Unit; and a new emphasis on comprehensive country economic reporting.

We have made geographical shifts in emphasis as well. In Africa, for example, we will more than treble our lending.

And for the group of our very poorest member countries -- countries with per capita incomes of less than \$100 -- we will quadruple our lending. In the period of the Five-Year Program we will have assisted these poorest countries with approximately 215 separate projects. The comparable figure for the previous 23 years of the Bank's operations -- from 1946 to 1968 -- was 158.

To meet the operational objectives of our Five-Year Program, we have had, of course, substantially to strengthen the World Bank both organizationally and financially. To expand our professional staff we have searched the world for the most qualified and experienced people available. But that has been less difficult than one might imagine. The Bank has become an exciting place to work, has aroused worldwide interest, and we are deluged with applications. As an example, last year our Young Professionals Program had 52 available openings. Despite the exceptionally high standards required, we received more than 2400 applications from 98 countries.

The Bank, then, is completing its Five-Year Program in a position of strength. Last year we committed \$3 billion, and we were thus the largest Development Agency in the world.

We are proud of that.

But that does not mean that we are complacent. How can anyone be complacent when he looks at the Developing World as it is today?

- . A developing world in which children under age five account for only 20% of the population, but for more than 60% of the deaths.
- . A developing world in which two-thirds of the children who have escaped death will live on, restricted in their growth by malnutrition - a malnutrition which stunts both bodies and minds alike.
- . A developing world in which there are 100 million more adult illiterates than there were 20 years ago.

- . A developing world, in short, in which death and disease are rampant, education and employment scarce, squalor and stagnation common, and opportunity and the realization of personal potential drastically limited.

And that brings me to the second point I wish to make -- and it is this. The Bank over the past five years has shifted emphasis in its planning and policies toward the more socially oriented aspects of economic development simply because the problems that confront most of the developing nations today are growing more acute.

The First Development Decade witnessed the achievement of the overall Gross National Product growth target of 5%. By historical standards it was impressive. But the difficulty is that it was also misleading.

That average figure of a 5% growth rate for all the developing countries conceals immense differences both between various countries and between groups and classes of people within individual countries.

The fact is that the GNP grew the least where it was needed the most -- in the poorest countries, with the largest aggregate population.

In the major oil-exporting countries with only 4% of the population of the developing countries the World Bank serves, GNP grew at a rate not of 5% but of 8.4%

But in the poorest countries, those with a per capita GNP of less than \$200 -- with an overwhelming 67% of the

population -- the overall GNP growth rate was only 3.9%

So the fact is that the achievement of the First Development Decade was extremely uneven among countries.

But the discrepancies do not end there. The plain truth is that a wholly unacceptable poverty exists throughout virtually all developing countries.

I am not speaking here merely of the poverty that exists in those countries, generally rather small, that simply have so few resources that even if their wealth were more equitably distributed among their populations, everyone would still remain very poor. These are the countries which the United Nations has designated as the "least developed": there are 25 of them with populations totalling 140 million, and special measures for assistance for them have been approved in the U.N.

What I am talking about here is the poverty of the lowest 30 to 40% of the population in all developing countries: that part of the population that simply has not benefited in any reasonably proportionate way from the economic progress their country as a whole may be making.

This poverty of the poorest 40% of the citizenry has simply not received the attention in the past that it so urgently deserves. That is why we in the Bank have been shifting our policy direction over the past five years. We are convinced that something must -- and can -- be done about this vast

culture of poverty: a poverty that feeds upon itself, grows like a cancer hidden from view, and is all but untouched by traditional economic strategies.

Our studies, for example, indicate that:

- . In 10 countries, with per capita incomes averaging \$145, the poorest 40% of the population receive a per capita income of only \$50.
- . In another 10 countries with per capita incomes averaging \$275, the poorest 40% of the population receive a per capita income of only \$80.

What we have to try to grasp is that we are talking about hundreds of millions of people. We are talking about 40% of entire populations. We are not talking about special cases nor exceptions to the rule. We are talking about vast multitudes of human beings whose essential dignity is being assaulted by conditions of poverty almost beyond the reach of our imagination.

Consider, for example, that of the some two billion persons living in the developing countries we serve, nearly two-thirds -- 1.3 billion -- are members of rural families, and of these there are some 900 million whose annual incomes average less than \$100.

We apply the word "poverty" to this situation. But can we begin to comprehend what the word really signifies here? We have used the word so often it has almost lost its value. The danger is not so much that we will forget that there are poor people in the developing countries -- but that we will

forget what the word poverty really means in their situation. It does not mean the absence of wealth. It does not mean the absence of comfort. It does not even mean the absence of convenience. What it does mean is the deprivation of fundamental human decency.

And it is a poverty of individual human beings that persists while their countries may well be developing in an overall statistical sense.

What all this implies is that it is not simply economic growth that is essential to development -- as it indeed is -- but that the balanced nature of that growth is just as essential.

Development strategies that stress economic growth to the exclusion of reasonable social equity are, in the end, self-defeating -- for they tend to exaggerate the extremes of privilege and deprivation rather than reduce them.

In my address to the Board of Governors of the World Bank last September in Washington, I dealt in detail with practical measures that can be taken to reconcile the apparent dilemma between rapid economic growth and expanded social equity.

I will not repeat the details here. But I do want to emphasize one fundamental aspect of the overall question.

And it brings me to my third point: the necessity for the developed nations to realize that it is in their own interest -- as well as in that of the entire international development community -- to make a greater effort to assist

the roughly 100 countries and two billion people of the developing world.

It is clear that no degree of outside assistance can solve the internal problems of social inequity in developing countries unless the governments of those countries themselves are willing to take the steps that are necessary.

But the evidence, by and large, is that most developing countries will take steps, once they fully realize the gravity of the situation. The Bank, and other development agencies, stand ready to offer technical assistance in helping these governments to design reasonable reforms where they are required.

But if we are to expect the developing nations to undertake these efforts -- efforts that often call for a great deal of political courage and leadership -- we have to understand that the affluent nations must themselves display more social equity toward the poor nations.

The developed countries in adopting the strategy for the Second Development Decade stated that the level of external aid to be provided in the form of Official Development Assistance should reach .7% of their GNP's by 1975. It now seems apparent (see the attached table) that only half that level will be reached by then. That leaves the second half of the decade available for a redoubled effort. If the wealthy nations are

serious about their responsibilities, they can use those five years to demonstrate it.

Was the .7% target too ambitious? Are the difficulties within the domestic economies of the developed countries such that it is unrealistic to assume they can afford this degree of assistance to international development?

Certainly not.

During the First Development Decade, the total GNP annual of the world increased by \$1,000 billion. That is an increase in income almost beyond comprehension.

But how was that growth in income distributed throughout the world?

Eighty percent of the increase went to countries where per capita incomes already average over \$1,000 -- and they contain only one-quarter of the world's population.

Only 6% of the increase went to countries where per capita incomes average \$200 or less -- but they contain more than 60% of the population.

The collective GNP of the developed countries in 1970 totaled roughly \$2,000 billion. In constant prices, it is projected to grow to at least \$3,000 billion by 1980.

What this means is that in order to raise the current ODA flows of .35% to the targeted .7%, the developed countries would need to devote only about 1.5% of the incremental amount



by which they themselves will grow richer during the decade.

The remaining 98.5% of their incremental income will provide them with more than sufficient funds to meet their domestic priorities.

Granted these facts, are we to say seriously that these wealthy countries cannot reach the ODA target of .7% of their combined GNP's?

And yet with the ODA objective only half achieved, the poorer nations have almost no hope of attaining the 6% growth target. That will condemn them to so slow an economic advance over the decade that hundreds of millions of individuals within these countries will be able to detect virtually no improvement whatever in their desperately low standards of living. Their per capita incomes will rise by no more than two dollars a year.

Projected to the end of the century -- only a generation away -- that means the people of the developed countries will be enjoying per capita incomes, in 1972 prices, of over \$8,000 a year, while these masses of the poor (who by that time will total over two and one-quarter billion) will on average receive less than \$200 per capita, and some 800 million of these will receive less than \$100.

The deficit in development assistance will penalize the poorest countries the most. But even for those developing

countries which are somewhat better off, a deficiency in ODA will cause serious economic and financial problems. It will force them to seek external finance from less desirable sources -- particularly sources demanding high rates of interest or early repayment. The danger of overreliance on such sources is well known: it adds significantly to short- and medium-term debt burdens by mortgaging larger proportions of export earnings, and, in the event of an unexpected decline in those earnings, it can cause severe strains on the whole of the economy.

Since the mid-1950's, publicly guaranteed debt in the developing world has been growing at 14% a year. It currently stands at about \$75 billion with debt service of \$7 billion. Debt service rose by 18% in 1970 and by 20% in 1971, twice the rate at which the export earnings, from which the debt must be serviced, have been growing. Such a relationship cannot continue indefinitely.

And yet with the prospect of a leveling off of ODA at far less than the targeted amount, and its partial replacement with financial assistance on harder terms, debt service ratios will inevitably rise. Debt financing has, of course, a continuing role in development. But it has its outer limits of prudence and these must be recognized by debtors and creditors alike.

As I noted last September at the Bank's Annual Meeting of the Board of Governors, given the shortfall in ODA, and the growing debt problem, it seems clear that the Bank should try

to continue to expand its operations. If we were to fail to make this effort, our developing member countries would be driven to an even greater dependence on higher-cost, shorter-maturity sources of external capital with the inevitable exacerbation of their debt-servicing burdens. They would have little choice, for without a reasonable flow of external finance they simply cannot meet even minimal development requirements.

For the Bank to relax in its resolve to do everything it feasibly can to assist in this situation would be to shirk our central responsibility: to recommend those policies, provide that technical assistance, and help finance those projects which will most effectively support our developing member countries' own struggle to advance the welfare of their people.

With careful planning and the support of our developed member countries, we are convinced that the Bank can obtain the necessary funds to continue to expand its operations during a Second Five-Year Program. And that is what we propose to do.

As an overall goal, for the period FY 1974-1978, we propose to increase our financial commitments to our developing member countries by an average of 11% a year, and to shift an increasing percentage of these commitments to International Development Association credits.

That is why the negotiations for the Fourth Replenishment of the International Development Association, which

are now getting underway, are so important. We in the Bank are confident that the Federal Republic will exercise the same strong support for the Fourth Replenishment, as it did for the Third.

With the cooperation of the political leadership in the wealthy countries, and the requisite public understanding and support that groups like yourselves can help mobilize, the development process can move forward with the momentum it so urgently requires.

It is, I think, fair to say that nothing going on in the last third of this century is more important to the course of the 21st Century -- for rich nations and poor nations alike -- than the international development effort.

Mr. Minister, ladies and gentlemen, you are helping that effort succeed.

We in the World Bank are proud to play a role in that process with you.

Thank you.

PROJECTED FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE  
MEASURED AS A PERCENT OF GROSS NATIONAL PRODUCT<sup>a</sup>

	1970	1971	1972	1973	1974	1975
Australia	.59	.52	.59	.59	.59	.60
Austria	.13	.06	.17	.19	.22	.25
Belgium	.48	.49	.54	.58	.62	.66
Canada	.42	.37	.48	.51	.55	.59
Denmark	.38	.43	.48	.53	.58	.64
France	.68	.68	.65	.65	.65	.65
Germany	.32	.34	.33	.36	.36	.38
Italy	.16	.17	.16	.16	.16	.16
Japan	.23	.23	.28	.32	.36	.40
Netherlands	.63	.60	.70	.74	.76	.78
Norway	.32	.33	.47	.56	.67	.75
Portugal	.61	.75	.45	.45	.45	.45
Sweden	.36	.45	.50	.56	.65	.71
Switzerland	.15	.12	.22	.26	.30	.32
United Kingdom	.37	.41	.41	.41	.45	.46
United States	.31	.32	.30	.28	.26	.24
TOTAL	.34	.35	.36	.36	.36	.37

<sup>a</sup> Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Figures for 1970 and 1971 are actual data. The projections for later years are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) for 1975.

*Bonn*

Tuesday, 20 February 1973

11.45 hrs

Arrival at Cologne/Bonn  
airport on flight LH 057

Present to meet the guests:

Dr Janssen,  
Ministry for Economic  
Cooperation

Dr Stedtfeld,  
German Executive Director,  
World Bank

Thereafter:

Proceed by car to Hotel  
"Am Tulpenfeld", Bonn

13.00 hrs

Talk and luncheon with  
Federal Minister  
Dr Eppler at Tulpenfeld  
restaurant

(Other Members of Dele-  
gation have luncheon with  
State Secretary Professor  
Dr Sohn at Tulpenfeld  
restaurant)

14.15 hrs	Proceed by car to Federal Ministry of Finance
14.30 hrs	Talk with the Federal Minister of Finance, Herr Helmut Schmidt
15.30 hrs	Leave by car for Hotel "Am Tulpenfeld"
16.15 hrs	Leave by car for Friedrich Ebert Foundation
16.30 hrs	Address by Mr. Robert S. McNamara on "A Plan of Action for Development", followed by a discussion
18.00 hrs	Leave by car for Hotel "Am Tulpenfeld"
19.25 hrs	Leave by car for Cologne, Dom-Hotel
20.00 hrs	Dinner in honor of Mr. Robert S. McNamara, given by Federal Minister Dr Eppler

Thereafter:

Informal talks with representatives of the German Federal Government, the German Bundestag and German industry and business

Return by car to Hotel "Am Tulpenfeld", Bonn



Wednesday, 21 February 1973

9.50 hrs	Proceed by car to Residence of the President of the Federal Republic of Germany
10.00 hrs	Courtesy visit to the President of the Federal Republic of Germany
10.25 hrs	Proceed by car to Federal Ministry for Economic Cooperation
10.30 hrs	Talk with Federal Minister Dr Eppler
11.25 hrs	Proceed by car to German Bundestag
11.30 hrs	Meeting with members of the Parliamentary Committee for Economic Cooperation
12.25 hrs	Leave by car for Hotel "Steigenberger", Bonn

- 12.30 hrs Luncheon in honor of  
Mr. Robert S. McNamara,  
given by Federal Minister  
Dr Eppler
- 13.45 hrs Leave by car for official  
Residence of the Chancellor  
of the Federal Republic  
of Germany
- 14.00 hrs Talk with the Federal  
Chancellor,  
Herr Willy Brandt
- 14.45 hrs Leave by helicopter for  
airport Frankfurt/Main
- 16.20 hrs Departure from airport  
Frankfurt/Main for London  
on flight PA 001

Partecipanti in Seminario in Bonn 2/20/73  
(Friedrich Ebert Stiftung)

BACHEM, Erich	Kreditanstalt für Wiederaufbau Mitglied des Vorstandes
BAUER, Dr. Walter	Shell AG
BÖRNSTEIN, Dr.	Ministerialdirektor im Bundesministerium für wirtschaftliche Zusammenarbeit
BRÖDER, Ernst,	Direktor Kreditanstalt für Wiederaufbau
DOHNANYI, Dr. v.	Bundesminister für Bildung und Wissenschaft
DUMKE, Ministerialdirektor,	Bundesministerium für wirt- schaftliche Zusammenarbeit
EHMKE, Professor Dr.	Bundesminister für Forschung und Technologie, Post- und Fernmeldewesen
EPPLER, Erhard, Dr.	Bundesminister für wirtschaftliche Zusammenarbeit
GEIGER, Helmut,	Rechtsanwalt, Präsident des deutschen Spar- kassen- und Giroverbandes e.V.
GOSSE, Redakteur	Vorwärts
GUSMANN, Dr. Georg	Handelsblatt
HAUB, Elisabeth	Wilhelm Schmitz-Scholl Tengelmann
HECK, Heinz	Frankfurter Allgemeine Zeitung
HEINE, Fritz	Vorstandsmitglied der Friedrich- Ebert-Stiftung
HESELBACH, Dr. h.c.	Vorsitzender des Vorstandes der Bank für Gemeinwirtschaft Präsident des Kuratoriums der Friedrich-Ebert-Stiftung
HILLENBRAND, Martin	Amerikanischer Botschafter
Dr. HAMMEL	Abteilungsleiter der Kreditanstalt für Wiederaufbau
HOFFMANN,	(Begleiter von Dr. Hesselbach)

JAHN,	Repräsentant der Commerzbank
KIEFER, Diplom-Ingenieur,	Vorsitzender des Vorstandes der E.M. Pfaff AG
KORF, Willy	Geschäftsführer der Korf Industrie- und Handels GmbH u. Co.
KRUKENBERG, Direktor	der Kreditanstalt für Wiederaufbau
LERCHBACHER,	Frankfurter Rundschau
LOHMANN, Dr.	Deutsche Gesellschaft für wirt- schaftliche Zusammenarbeit
MATTHÖFER, Hans	Parlamentarischer Staatssekretär im Bundesministerium für wirt- schaftliche Zusammenarbeit
MITTENDORFF, Dr.	Geschäftsführer der Deutschen Gesellschaft für wirtschaftliche Zusammenarbeit
OSTERHAUS, Guido	Regierungsdirektor im Bundesmini- sterium der Finanzen
PETERSEN,	Verleger, Neuer Vorwärts-Verlag
KIESLER, Herr	Deutsche Presseagentur - dpa )
ROHWEDDER, Dr.	Staatssekretär im Bundeswirtschafts- ministerium
SCHLAICH, VLR I,	Auswärtiges Amt
SCHORK, Erika	Süddeutsche Zeitung
SCHÜLER, Dr.	Staatssekretär im Bundesministerium für Finanzen
SOHN, Professor, Dr.,	Staatssekretär im Bundesministerium für wirtschaftliche Zusammenarbeit
THEILEN, Diplom-Volkswirt,	Mitglied des Vorstandes der Preussag AG
WEBER, Ulrich	Präsident der Bundesstelle für Entwicklung

WELBERGEN, I.C.

Vorsitzender des Vorstandes  
der Deutschen Shell AG

WULFF, Dr.

Mitglied des Deutschen Bundestages

PALMER,

Kölner Stadtanzeiger

MÜLLER, Roland

Bonner General-Anzeiger

SAHLMANN,

Begleiter von Bundesminister Eppler

MOLTRECHT

Begleiter von Bundesminister Eppler

N A U , Afred

Vorsitzender des Vorstandes  
der Friedrich-Ebert-Stiftung

GRUNDWALD, Dr.

Geschäftsführer der Friedrich-  
Ebert-Stiftung

Teilnehmerliste

am Abendessen des Herrn Bundesministers Dr.  
Erhard Eppler zu Ehren des Weltbankpräsidenten  
Herrn Robert S. McNamara

*Dinner 2/21/73*

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Gastgeber: Herr Bundesminister Dr. Erhard Eppler

Ausl. Gäste: Herr Robert S. McNamara, Präsident der Weltbank  
Herr William Clark, Direktor der Weltbank  
Sir Denis Rickett, Vizepräsident der Weltbank  
Herr Anders L. Jungh, Persönlicher Referent des  
Weltbankpräsidenten

Deutsche Gäste: Herr Egon Bahr, Bundesminister für besondere  
Aufgaben beim Bundeskanzler,  
(BKA)

Herr Helmut Schmidt, Bundesminister der  
Finanzen, (BMF)

Herr Dr. Hans Friderichs, Bundesminister für  
Wirtschaft (BMWi)

Herr Staatssekretär Dr, Paul Frank (AA)

Herr Bundesbankpräsident Dr. <sup>vize</sup> ~~Karl Klasen~~ <sup>Ottmar Emminger</sup>,  
(6 Frankfurt/M. 1, Taunusanlage 4-6)

Herr Parlamentarischer Staatssekretär  
Hans Matthöfer, (BMZ)

Herr Staatssekretär Prof. Dr. Karl-Heinz Sohn  
(BMZ)

Herr Dr. Fritz Stedtfeld, Deutscher Exekutiv-  
direktor der Weltbank

Herr Bischof D. Hermann Kunst, Bevollmächtigter  
des Rates der EKD am Sitz der  
BRD

Herr Prälat Wilhelm Wöste, Leiter des  
Kommissariates der deutschen  
Bischöfe - Kath. Büro Bonn -

Herr Dr. Hermann Jannsen, Vorsitzender des  
Beirats der Arbeitsgemein-  
schaft Entwicklungsländer  
(5 Köln, Oberländer Ufer  
84-88) (6 Ffm. KfW)

Herr Heinz-Oskar Vetter, Vorsitzender des  
Deutschen Gewerkschaftsbundes  
(4 Düsseldorf-Nord, Hans-  
Böckler-Str. 39)

Herr Prof. Albrecht Kruse-Rodenacker,  
Vorsitzender des Wissenschaftlichen  
Beirats (1 Berlin 12, Niebuhrstr. 77  
oder 7 Stuttgart, Institut für  
Sozialökonomie an der TU, Friedrich-  
str. 10)

Herr Dr. Franz-Heinrich Ulrich, Vorstandsmit-  
glied der Deutschen Bank, Vor-  
sitzender des Verwaltungsrats der  
DEG

*Dr. Fahn*  
Herr ~~Paul Lichtenberg~~, Mitglied des Vorstandes  
der Commerzbank AG (Hauptverwaltung  
Frankfurt, 6 Ffm. Postfach 2534)

Herr Jürgen Ponto, Vorstandsmitglied der  
Dresdner Bank AG, (6 Ffm. Gallus-  
anlage 7-8)

Herr Dr. h.c. Walter Hesselbach, Generaldirek-  
tor der Bank für Gemeinwirtschaft  
(6 Ffm. Ginnheimer Stadtweg 148)

Herr Prof. Dr. Theodor Dams, Präsident des  
Deutschen Forums für Entwicklungs-  
politik (53 Bonn, Herwarthstr. 16)

Herr Dr. h.c. Ludwig Poullain, Generaldirektor  
der Westdeutschen Landesbank und  
Girozentrale (44 Münster, Fried-  
richstr. 1)

Herr Rudolf Opitz, Mitglied des Deutschen Bundes-  
tages, FDP

Herr *Dr. Uwe Holtz, MdB (SPD)*

Herr *Dr. Jürgen Gerhard Todenhöfer, MdB, (CDU)*



Herr Ministerialrat Dr. Hans Janssen, BMZ

Herr Oberregierungsrat Herbert Sahlmann,  
Persönlicher Referent des Bundesministers für  
wirtschaftliche Zusammenarbeit

Herr J.W. Strobel, Pressereferent des  
Europabüros der Weltbank

Herr Helmut Geiger, Präsident des Deutschen  
Sparkassen- und Giroverbandes  
(53 Bonn, Buschstr. 32)

Herr Alwin Brück, MdB

Herr Dr. Klaus Lefringhausen

Herr Ministerialdirigent Dr. Moltrecht, BMZ

Herr Ministerialdirektor Dumke (BMZ)

Herr H. Erich Bachem, Vorstandsvorsitzender der  
Kreditanstalt für  
Wirtschaft

Housing  
 Joint Financing  
 Social Justice  
 Redefining of concepts.

B. De...  
 Sing...  
 Country Programming - exchange of views.  
 Problem w. ISL. Conf. *Germany*  
 One more problem? *1981*  
 etc..

Herr Ministerialrat Dr. Hans Janssen, BMD

Herr Oberregierungsrat Herbert Bahlmann,  
 Persönlicher Referent des Bundesministers für  
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Herr J.W. Strobel, Pressereferent des  
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 (33 Bonn, Buschstr. 32)

Herr Alwin Brück, MdB

Herr Dr. Klaus Jellinghausen

Herr Ministerialdirektor Dr. Moitzsch, BMD

Herr Ministerialdirektor Janka (BMD)

- ① How can an individual country influence social justice compared to ISL - how can they cooperate?
- ② Social justice exists in several spheres - discuss in concrete situations when development takes place. - How can the state to the maximum the political which exists?

Stand: 31. Januar 1973

*Mr Mc Namara met with this group 2/21/73*

## Ausschuß für wirtschaftliche Zusammenarbeit

(19. Ausschuß)

19 Mitglieder

Vorsitzender: Abg. Brück

SPD

Stellvertretender Vorsitzender: Abg.

CDU/CSU

Fraktion	Ordentliche Mitglieder	Stellvertretende Mitglieder
	Abgeordnete	Abgeordnete
SPD	Brück Bühling Collet Friedrich Dr. Holtz Kafka Müller (Bayreuth) Peiter Schluckebier	Batz Esters Huonker Lambinus Frau Dr. Riedel-Martiny Frau Schimschok Tönjes Wendt Zeitler
CDU/CSU	Josten Dr. Köhler (Wolfsburg) Rawe Roser Schedl Dr. Todenhöfer Wawrzak Frau Dr. Wolf Dr. Wulff	Dr. Aigner Dr. Blüm von Bockelberg Breidbach Gewandt Dr. Heck Graf Stauffenberg Susset Zink
FDP	Opitz	Zywietz

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: William Clark

SUBJECT: YOUR TALK WITH THE BUNDESTAG COMMITTEE

DATE: February 19, 1973

The Aid Committee of the Bundestag consists of about eighteen persons drawn from the three political parties. Many of them took part in the visit of German Parliamentarians to the Bank in 1971.

They will have been well briefed on recent events at the Bank, and have copies - in German - of the last annual report and your last speech. There will be simultaneous translation.

The object of this meeting is to acquaint the legislators with you and your general strategy for the Bank and development. If you could open with a few remarks, questions would follow.

*What type of remarks?*

According to Eppler and Bruck (the Chairman of the Committee and an old English speaking friend of mine - S.P.D. i.e. Brandt's party), the questioning is likely to be friendly and information-seeking. Bruck thought the following questions might arise:-

1. Is the U.S. influence over-great? e.g. in stopping loans to Chile, and in producing a too conservative approach to social development.
2. How will IDA survive the pressures on it deriving from high interest rates around the world; the increasing demand from e.g. Indonesia and Indo-China; the debt problem of the L.D.C's.
3. What effect will dollar devaluation have on Bank/IDA, and on Third World.
4. Some enquiries about the nature of your "social development" theories, about which they seemed puzzled. (This may have been cleared up by reading your

*Obtain notes re Chile*

Mr. Robert S. McNamara

February 19, 1973

speeches, which I left, but also I think this should provide the substance of your opening remarks.)

5. There are bound to be questions on Indo-China, and a lurking fear that the Bank may be "used" by the U.S. for its own ends. Eppler has said that he will not visit South Vietnam till he can also visit North Vietnam; also that he will not authorise German funds for Indo-China as lump sums unless he can be sure how they will be used.
6. There may be some questions on the link. This is not understood. The vague feeling of Eppler and his Left colleagues is that the link would lessen dependence on the dollar. This view is probably not shared by the Christian Democrats, but I sense that all parties in Germany want to feel that the Bank is their Bank as much as it is an American bank. Hence the Vice President worries etc.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 17, 1973

FROM: William Clark

SUBJECT: ERHARD EPPLER'S AIMS

There is no doubt that your visit is part of Eppler's current political strategy by which he hopes to get elected Landpräsident (Governor) of Baden Wurtemberg, and from that spring board become Foreign Minister, and perhaps Brandt's successor.

But there is something in it for us. Eppler has publicly identified with the Bank and your policies as the correct policies for Germany to follow. As the leader of the Young Left this has demanded some courage by him in a country where the 'Bank as Imperialist' has had a vogue amongst the young.

He wishes to use you to further his aims which are:

- i. A larger German ODA
- ii. More use of multilateral aid, less use of aid to get trade advantages.
- iii. His chosen multilateral instrument is the Bank, against the claims of the FED & EIB, where (he has said) the French predominate in a neo-colonialist way.
- iv. Aid to be used for social ends not just economic growth. Especially income distribution.
- v. To get a link between Aid and SDR's. (unthought out.)

He therefore wishes you:

- i. To stress in your speech and Press Conference that you have a plan of action for dealing with the crying needs of the Third World. That this plan calls for more ODA and Germany and others are falling down on this.

Mr. Robert S. McNamara

February 17, 1973

- ii. To sell the Chancellor and Finance Minister on more ODA preferably through a link
- iii. In general to help him to change the German aid programme from a Schiller-mercantilist programme to an Eppler-socialist programme.

How far should we go? Eppler seems to me to have won his battles with the Finance Ministry and Economics Ministry, he has the support of Brandt. I guess Scheel is more European, and I am sure the Frankfurt Bankers are less socialist.

So we can expect that the new Executive Director, Herr Jansson (to replace Stedtfelt in July/August) will be part of the Scandinavian Socialist bloc in the board and will be so instructed. This can be useful to us. But we need to avoid isolating ourselves from the Wilfred Guths by being too much enthusiasts for Eppler's wing of the party. Yet I suspect that Germany as a whole is moving leftwards and that the conservative voices of vom Hofe and Hannemann are no longer influential. Guth himself is less conservative than Abs.

I showed the draft speech to Eppler and he minuted "This would certainly be a very impressive and helpful speech". Later Jansson suggested that he would like to make the latter part more like the "Plan of Action" chapter in your last Governor's speech. If you agree I could do just this.

They have sent over a translator <sup>to London</sup> who will pick up the speech when it is fairly final and translate it. It can be modified up till Tuesday and will then be released, if you agree, in English and German.

I would advise using it as a basis for your talk to the Friedrich Ebert Stiftung, which should last (says Eppler) "not more than thirty minutes and not less than fifteen".

I have suggested the discussion afterwards should be off the record, even if one or two of the senior columnists are there as guests.

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 17, 1973

FROM: William Clark

SUBJECT: YOUR CONVERSATIONS WITH PRESIDENT  
AND CHANCELLOR

*Discusses with Eppler*

- 1. Arrangements + types of questions after special
- 2. " " " " " " " " " " " "
- 3. Reasons for 1. The President.  
not breaking  
a) priority to his  
b) answer to full monetary questions in view of James' remarks
- 4. 2nd questions in Vietnam, where his daughter is working as a nurse.  
+ pts for Parlin.
- 5. Pts for Pres  
6. " " Brandt  
x.g. set to DRV

1. The President.  
It will be brief and fairly formal. He has been briefed on your views on economic growth and social justice and will probably express warm approval. He may wish to ask you quite personally about the future in Vietnam, where his daughter is working as a nurse.

2. Chancellor Brandt.  
Eppler will take you to his office alone, and tell Brandt how the conversations have gone so far.

*If project in Tanzania  
what you Eppler  
and Brandt  
views*

Brandt is likely to talk about his relations with East Germany and express hope that East and West Germany can do some aid projects jointly. (I suspect this is an Eppler ploy.) He hopes this may be done under some multilateral wing and would prefer the Bank to the EEC. In this international East-West context he may sound you out on reconstruction in Vietnam. He will say how much he hopes to strengthen links with the Bank, by keeping open capital markets and supporting IDA. He may ask about the Link. about to be done in C 20 a long-run trip that will not affect the RFF.

He has been briefed to raise the matter of a German Vice President for the Bank.

The Eppler office hopes you will not be too complimentary about the German aid effort - especially its shortfall on ODA which "Germans do not fully realize!"



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 17, 1973

FROM: William Clark

SUBJECT: PRESS CONFERENCE IN BONN

Mr. Eppler was most anxious that you should have a short Press Conference in the Bundespressehaus. His reason for this was that he wishes the German public to know something about you as a personality and as a strategist for the Bank. He was aware of the dangers of the Press Conference drifting on to Vietnam (past and future) or the monetary problems. He had proposals for stopping this by briefing the Chairman who will introduce you and by giving copies of your speech to the Press as the agenda.

The Press Corps in Bonn is a very powerful body, with influence throughout Europe and they would be useful in spreading your message widely. The chances of its being a 'bad' Press Conference are relatively small and clearly it is tremendously in Eppler's interest to make it work to our mutual advantage.

However, I stuck to your ruling that there would be no Press Conference till you had given personal permission. They hope to have your answer first thing Monday morning to arrange the Press Conference for Wednesday morning.

I hope you will agree to do it, as it could help understanding of the Bank in Europe, as well as Eppler who needs support in giving German policy a marked turn towards the Bank.

*Sir Denis Rickett*

February 16, 1973

Mr. McNamara:

The attached addendum to the briefing notes for your meeting with Mr. Eppler has been prepared on the advice that the subject has been singled out as an item of major interest to him.

cc: Sir Denis Rickett ✓

*RA*

John H. Adler

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February 16, 1973.

ADDENDUM ON GERMAN STAFF FOR THE WORLD BANK  
GROUP FOR MR. MCNAMARA'S MEETING WITH MINISTER EPPLER \*

1. The number of German nationals on the professional staff of the Bank Group (IBRD/IDA and IFC) increased from 72 in October 1969 to 94 in January 1973; but their proportion of the total professional staff has declined from 6.6% to 5.5% in the same period. German nationals are the fourth largest group of professional staff after the U.S. (25.7%), U.K. (12.8%), and France (6.0%) (Attachment 1).
2. Analysis of Bank Group professional staff by level of responsibility shows that 9 German nationals (for names and titles see Attachment 2) now hold positions at levels of Department Head and above (X level) and 25 German nationals hold lower managerial or other senior staff positions (A and B levels). Among X level staff, Germans represent 7.3% of the total, compared with 4.9% for French, 13.8% for U.K., and 42.3% for U.S. nationals. As a percentage of total A and B level staff, German nationals are 5.7%, French nationals were 5.0%, U.K. nationals 19.2%, and U.S. nationals 28.5% (Attachment 1).
3. Since November 1969, the Bank Group has recruited 43 German nationals, and 19 have left the organization --5 so far in FY73, compared with 5 in FY72, 6 in FY71, and 3 in FY70 (Attachment 3). The following are the reasons for the resignations of the 19 German nationals:
  - more attractive opportunities (financially and in terms of responsibility) in German private and public organizations (8)

---

\* All data and explanations provided by Personnel Department

- inadequate performance and encouraged to leave the Bank Group (6)
- return for family and personal reasons (education of children, care of parents, etc.,) (2)
- transferred to other international organizations, such as IMF and UN (2)
- retirement (1)

4. It is becoming increasingly difficult to attract and recruit qualified Europeans, including Germans.

- Bank salaries are not especially attractive to Germans. In order to recruit Germans, entrance salaries now cluster around the 50th percentile of the salary range in a grade, while normally entrance salaries should be in the lower 30% of the range. This problem will become even more acute as a result of the recent US dollar devaluation
- Several German candidates did not accept offers of employment by the Bank in the past year because of our inability to meet their salary demands which exceeded internally equitable salary offers by \$2,000 to \$5,000.
- Staff benefits and working conditions in the Bank are not always as attractive as those in many German private and public organizations (specific items can be: free insurance coverage, non-contributory pension plan, employee participation in the management of the organization, flexible work week, etc. ) which further exacerbates the compensation problem.
- growing opportunities in bilateral aid agencies, multi-national firms and German corporations with international operations for qualified professionals interested in such work.
- excellent opportunities for qualified engineers, analysts, economists, etc., in the domestic labor market in Germany.

IBRD/IDA & IFC - NATIONALITY DISTRIBUTION OF PROFESSIONAL STAFF BY LEVEL

		<u>31 October 1969</u>		<u>31 January 1973</u>	
		<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
X Level	Germany	6	6.3%	9	7.3%
	France	4	4.2%	6	4.9%
	United Kingdom	23	24.2%	17	13.8%
	United States	33	34.7%	52	42.3%
	TOTAL	95	100.0%	123	100.0%
A & B Level	Germany	18	7.2%	25	5.7%
	France	15	6.0%	22	5.0%
	United Kingdom	46	18.5%	85	19.2%
	United States	91	36.5%	126	28.5%
	TOTAL	249	100.0%	442	100.0%
C Level & Below	Germany	48	6.4%	59	5.4%
	France	51	6.8%	74	6.7%
	United Kingdom	97	13.0%	115	10.4%
	United States	187	25.1%	252	22.9%
	TOTAL	745	100.0%	1101	100.0%
Unclassified (Reg. Pos. No.)	Germany			1	
	France			1	
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	United States			11	
TOTAL	Germany	72	6.6%	94	5.5%
	France	70	6.4%	103	6.0%
	United Kingdom	166	15.2%	219	12.8%
	United States	311	28.6%	441	25.7%
	PROFESSIONAL	1089	100.0%	1715	100.0%

## GERMAN NATIONALS IN "X LEVEL" POSITIONS

<u>Name</u>	<u>Position Title</u>	<u>October 1969</u>	<u>January 1973</u>
von Hoffman	Vice President, IFC	X	X
Blobel	Chief, Resident Mission, Bangkok.		X
Fuchs	Director, Industrial Projects Dept	X	X
Gabriel	Controller	X	X
Hartwich	Director, EMENA Country Prog. Dept		X
Koch	Director, Tourism Projects Dept.	X	
Kreuter	Deputy Director, IFC Investment Dept.		X
Thalwitz	Director, W.Africa Projects Dept		X
Wapenhans	Director, EMENA, Projects Dept.	X	X
Wiese	Director, LAC Country Prog. Dept.	X	X
	TOTAL NUMBER	6	9

P & B/Personnel  
2/15/1973

## BANK GROUP : RECRUITMENT AND DEPARTURES OF GERMAN NATIONALS

	<u>Econ-</u> <u>omists</u>	<u>Loan &amp;</u> <u>Opns.</u> <u>Officers</u>	<u>Finan</u> <u>-cial</u> <u>Analysts</u>	<u>Tech-</u> <u>nical</u> <u>Splts.</u>	<u>Others</u>	<u>TOTAL</u>
On duty 10/30/69	22	15	3	11	21	72
Recruited rest of FY70	6	4	1	2	1	14
Left rest of FY70	-	1	1	1	-	3
On duty 6/30/70	28	18	3	12	22	83
Recruited FY71	2	-	1	1	4	8
Left FY71	1	2	-	2	1	6
On duty 6/30/71	29	16	4	11	25	85
Recruited FY72	1	2	-	-	8	11
Left FY72	1	1	-	1	2	5
On duty 6/30/72	29	17	4	10	31	91
Recruited so far FY73	2	2	-	3	3	10
Left so far FY73	2	2	-	-	3	7
On duty 1/31/73	29	17	4	13	31	94 <u>a/</u>

a/ Of 94 German nationals, 83 are in IBRD/IDA, 11 in IFC. In addition to these 94, 1 individual is on sabbatical leave and 1 is on leave without pay; since these individuals are expected to return to regular positions, FY73 departures are overstated by 2.

P & B/Personnel  
2/15/73

2726  
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Hartwich	Director, EMENA Country Prog. Dept		X
Koch	Director, Tourism Projects Dept.	X	
Reuter	Deputy Director, IFC Investment Dept.		X
Thalwitz	Director, W.Africa Projects Dept		X
Wapenhans	Director, EMENA, Projects Dept.	X	X
Wiese	Director, LAC Country Prog. Dept.	X	X
	TOTAL NUMBER	6	9

P & B/Personnel  
2/15/1973

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P & B/Personnel  
2/15/73



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EXecutive 3 6360 • Cable Address - INTBAFRAD

February 15, 1973

Sir Denis Rickett  
c/o IBRD London Office  
New Zealand House, 15th Floor  
Haymarket  
London S.W.1, England

Dear Denis:

This is in reply to your telephone call of Tuesday. I trust that your information about the new rates as they gradually emerge is just about as good as ours here, therefore I will not list the new exchange rates but I refer you to the footnote to the attached Table.

What is of immediate relevance for IDA discussions, especially with the Germans, are the 2nd and 3rd columns in the attached Table. The 1st column is identical with the 1st column in the "Comparative Indicator Table" which is attached to the notice of the meeting which I am also enclosing. (The address of Lancaster House will be corrected before it goes out.) As the result of the exchange rate adjustments the share in the combined Part I GNP goes up sharply for Japan and to a lesser extent for Germany and France, while the shares of the US and of the UK are substantially reduced.

On the other hand, it may be argued, both in Germany and in the UK, that as a result of the realignment the share in IDA procurement of Japan, which has recently increased quite substantially, may be expected to be reduced (N.B. that it rose to 19.6% of identified foreign procurement on IDA credits in FY72), while that of the UK is much lower (15.7%) now, compared with more than 20% in FY67 to FY69.

In a broader context, the currency realignments will affect the LDCs, which according to my guess and that of the people in the Fund with whom I spoke will move down with the dollar and sterling (with a few exceptions, Brazil presumably being one of them) as follows:

- (a) In the short run their export earnings will probably buy less because they will remain quoted in dollars and sterling. In the long run the devaluation may help them because the cost of production of synthetic substitutes (fibers, plastics versus non-ferrous metals) will go up;

February 15, 1973

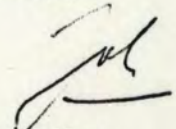
- (b) Their imports of investment goods are likely to cost more to the extent that they will continue to buy them from Continental Europe and Japan; and
- (c) Effect on debt and debt service: total debt and debt service expressed in dollars will go up because of the increase, in dollar terms, of debt contracted in Yen, DM, francs and other "hard" currencies. The effect of the '71 devaluation was estimated at 5%. On that basis the debt and debt service of the LDCs may be expected to increase by 7% to 8% as the result of the new currency realignment. These are, of course, order of magnitude guesses only.

I also enclose as requested two copies of the statement of Secretary Shultz; you may want to give one to McNamara. On the same subject, I just came back from the SID lunch at which Peter Flanigan spoke. He was supposed to speak about "US International Economic Policy in Relation to the Developing Countries," which I thought meant that he would speak about US aid; actually, he said very little about aid but spent most of his time talking about the US balance of payments. He mentioned aid as one of the "causes" of the US balance of payments deficit but fortunately was forced by a question to correct that statement since virtually all US bilateral aid is tied. The thrust of his remarks was that the US could not afford aid while remaining in a balance of payments deficit. When he was questioned he modified his position by saying that he did not mean the present level of aid, but that the possibility of an increase in aid depended on a correction in the US balance of payments.

There was a very brief reference to IDA which "as you all know, the Administration has supported." In response to a question about the increased cost of oil imports, he referred to the increased revenues of the oil countries and added with a grin "if you want to know where the money goes, I suggest you follow Bob McNamara's travel schedule." You may want to pass that on to Bob. We will have a note on Flanigan's talk ready for him and you when you return.

See you next week.

Sincerely,



John H. Adler

JHA/mwm

Enclosures

Sir Denis Rickett

- 3 -

February 15, 1973

P.S.--I just received from Controller's Department an estimate of the increase in commitment authority resulting from the dollar devaluation. My guess is that about 40% of the increase in commitment authority of IDA of \$327 million, or approximately \$140 million, is available immediately simply because the value of notes held or to be received by IDA in currencies which have not devalued are already worth more in terms of devalued dollars. The remaining \$180 million may require action--legislative or administrative--to make maintenance of value payments.

The dollar devaluation will also have a bearing on the calculations of para. 20 in the IDA amounts paper. The new 1975 GNP estimate is \$3448 billion (as compared with \$3280 billion before). The GNP percentage (.035%) of IDA contributions would now be \$1207 million (as compared with \$1140 million). We may want to circulate a note on that at the London meeting.

SHARES OF PART I COUNTRIES IN TOTAL PART I GNP

(Percentages)

Part I Countries	1970 GNP	1970 GNP	Estimated
	at 1972 Exchange Rates	at Est. 1973 Exch. Rates <sup>a/</sup>	1975 GNP at Est. 1973 Exch. Rates <sup>a/</sup>
Australia	1.8	2.0	1.9
Austria	.8	.8	.8
Belgium	1.3	1.4	1.4
Canada	3.9	3.7	3.9
Denmark	.8	.8	.8
Finland	.5	.5	.5
France	7.6	8.1	8.7
Germany	10.1	10.6	10.6
Iceland			
Italy	4.8	4.7	4.9
Japan	11.0	12.3	15.3
Kuwait	.1	.1	.2
Luxembourg			
Netherlands	1.7	1.8	1.8
Norway	.6	.6	.6
S. Africa	.7	.8	.9
Sweden	1.6	1.6	1.6
United Kingdom	5.9	5.4	5.0
United States	<u>46.8</u>	<u>44.7</u>	<u>41.0</u>
TOTAL	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

a/ The following assumptions have been made regarding the effects of the currency adjustments:

- (a) Australia, Austria, Belgium, Denmark, France, Germany, Kuwait, Netherlands, Norway, and South Africa maintain the value of their currencies in terms of gold;
- (b) Japan revalues its currency 5% in terms of gold,
- (c) The U.K. maintains the immediate pre-US dollar devaluation value of sterling (£1 = \$2.38).
- (d) Canada maintains the immediate pre-devaluation parity with the US\$ (Can.\$1 approximately equal to US\$1);
- (e) Finland, Italy, and Sweden adopt exchange rates for their currencies between that of the US\$ and other European currencies (5% devaluation in terms of gold);
- (f) Iceland maintains the value of its currency at the December 1972 level.



INTERNATIONAL DEVELOPMENT ASSOCIATIONEstimated Additional Committing Authority In Terms ofLegal Tender Dollars of 1973 <sup>1/</sup>

(US\$ equivalents - millions)

Holdings of members' currencies  
representing undisbursed portion  
of payments and receivables of  
contributions to First, Second  
and Third Replenishments -

	Expressed in US\$		Increase
	<u>of 1972</u>	<u>of 1973</u>	<u>(+11.11111)</u>
Holdings as at January 31, 1973:			
Cash and investments (from all replenishments)	156.2	173.6	17.4
Notes deposited for:			
First Replenishment	72.0	80.0	8.0
Second Replenishment	599.7	666.3	66.6
Third Replenishment	861.9	957.7	95.8
Receivables from Third Replenishment (including not yet due)	1,266.4	1,407.1	140.7
	<u>2,956.2</u>	<u>3,284.7</u>	<u>328.5</u>
Less - Disbursed 2/1 - 2/12/73	<u>9.9</u>	<u>11.0</u>	<u>1.1</u>
Estimated holdings at close of business 2/12/73 (see Schedule 2)	<u><u>2,946.3</u></u>	<u><u>3,273.7</u></u>	<u><u>327.4</u></u>

<sup>1/</sup> Based on the new value of US\$ 42.222222  
equals one fine ounce of gold.

Controller's  
February 14, 1973

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February 9, 1973

BRIEFING PAPER

GERMANY

The German Ministry for Economic Cooperation has submitted a list of subjects that may be discussed by Mr. McNamara and Minister Eppler (attached). The following information may be of use for those discussions.

I. General Exchange of Views on Questions of Development Policies

1. Crucial points for development policy in the coming years

(a) trends in monetary policies (special drawing rights, link)

Provision for the allocation of Special Drawing Rights (SDRs) was made in the amendment to the Fund's Articles of Agreement which became effective on July 28, 1969. There have so far been three SDR allocations -- on January 1, of 1970, 1971 and 1972 -- aggregating SDR 9.3 billion (US \$10.1 billion equivalent), of which about 67% has been allocated to IDA Part I members. The Staff of the IMF explored with its members the possibility of an allocation of SDR 3 billion for calendar years 1973/74, with an "interim link" in which the developed countries (excluding the United States) would transfer their allocations to the Bank to be used for development purposes. The response to the informal staff initiative was negative. The idea of a link in this form was not pursued further when it was decided that no allocation would be made on January 1, 1973 because of the opposition of

some major countries, including Germany, which argued that there was already an excess of international liquidity.

The development policy concept for the Second Development Decade, which was adopted by the German Government in February 1971, states that Germany "will continue its efforts in the International Monetary Fund (IMF) to achieve adequate participation by the developing countries in the creation of additional reserves. However, it does not regard it as advisable to establish a link between the creation of Special Drawing Rights and the financing of development aid". At UNCTAD III, Professor Schiller stated that he was "firmly convinced that the Special Drawing Rights must become the backbone of a reshaped monetary system.... However, we must not use this instrument to create more liquidity than necessary for the growth of world trade. We all must keep in mind the dangers of inflation. As regards the allocation of additional Special Drawing Rights my Government agrees that the developing countries should get their fair share. Obviously, any increase in their share can only be achieved at the expense of the industrial countries. My Government is prepared to accept these consequences". This position -- apprehension about

the inflationary effects of SDRs, and increased allocations of SDRs to LDCs at the expense of the developed countries -- still remains the official German position expressed by Mr. Schleiminger, the German Executive Director for the Fund.

In a conversation with Mr. Adler in October 1972, however, Mr. Jansen (of the Ministry for Economic Cooperation) said that the German Government was convinced that the "link" was inevitable, and that the only question which was still being discussed was the timing of a German endorsement of the "link". Mr. Jansen added that Germany definitely would be opposed to a "link" that transferred resources directly to LDCs -- a position that seemed to have been endorsed by Germany at UNCTAD -- but would strongly favor an allocation of SDRs to IDA and the regional banks.

The reservations expressed against a "link" arrangement by elements in the German Government, particularly the financial authorities, are based on that country's traditional concern with inflation. It is argued by opponents of the "link" that since the objective of a "link" arrangement is to increase development spending, rather than to build-up reserves as in the case of a standard allocation, this sort of arrangement is more

expansionary than the allocation of the same amount of SDRs to countries across the board. Even though this is true, the draft of a Report by the IMF Staff,<sup>1/</sup> which is to be submitted to the IMF Board shortly, states that "the amounts potentially involved, though varying somewhat according to country, would in general constitute an infinitesimal part of the aggregate demand for the products of the countries concerned: for example, a developmental allocation of \$1 billion, spent in its entirety on the exports of developed countries, would be unlikely to add more than 1 per mille to the demand for the output of any one of them".

According to the IMF Staff the present status of thinking regarding the "link" is as follows: some kind of special treatment for LDCs in SDR allocations is likely; although neither the IMF Board, nor the Committee of 20, have focused on this issue, the best guess is that the outcome of the "link" discussions will be some form of direct allocation to LDCs in addition to the amounts determined by their present quotas and that the international financial institutions (IFIs) are also likely to get a share of SDR allocations. It is quite certain that any "link" allocation would initially increase IDA resources

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<sup>1/</sup> IMF, "Allocation of SDRs and Financing of Economic Development," Draft 1/19/73.

by some amount and would not be a substitute for the present system of contributions to IDA. Moreover, it is virtually certain that any "link" arrangement would not become effective until 1976 at the earliest.

In recent discussions, the IMF Staff has enquired about what use the Bank would make of resources that may be available to it as the result of a "link". On the basis of preliminary analyses undertaken by the Bank Staff, it seems that the Bank could consider committing part of the resources on intermediate terms, and part on IDA terms, if the terms on which it receives "link" resources are appropriate. It would be desirable at this stage, particularly in order to secure the widest possible support for a "link" arrangement which provides resources to IFIs, to avoid saying that the Bank would commit all "link" resources on intermediate terms.

(b) trends in trade policies

The growing importance of regional groupings of developed countries is a key feature of contemporary trade. In 1970, three major trading areas -- the EEC, the United States and Japan -- accounted for 47% of world trade; if the three new members of the EEC were added, then these three areas accounted for about 55% of world trade in that year.

The decisions made by policy makers in the regional groupings, and in other developed countries, on such questions as direct and indirect support to agriculture and weak industrial sectors, allocation of research and development expenditures, and policies regarding the relatively backward areas within the developed countries, can have a major impact on the economics of the LDCs. It is, therefore of crucial importance to the developing countries that the economic groupings pursue liberal trade policies towards the outside world.

In his UNCTAD III address, Mr. Schiller stated that: "Aid by trade continues to be one of the most effective means of development policy. The Federal Republic of Germany has endeavored to open its borders especially in favor of the developing countries. ...The developing countries' total export surplus in their trade with the Federal Republic has reached an amount of 27 billion Deutschmarks over (the) 12 years (since 1960)". In addition, Mr. Schiller suggested

- (a) that industrial countries import more manufactures and semi-manufactures' from the developing countries, and complement the trade measures by an appropriate domestic policy promoting structural change;
- (b) that generalized and non-reciprocal preferences for the developing countries be further extended, and indicated that the Federal Republic was prepared to help in achieving this;

- (c) that special importance be attached to the problems of developing countries in the European Community's trade negotiations covering industrial and agricultural products;
- (d) that trade policy not be confined solely to the dismantling of tariffs and non-tariff barriers, but should include assistance to developing countries in such areas as marketing, market research, and industrial design, in order to enable them to produce those products which meet the demands of industrial markets;
- (e) that trade barriers in the fields of primary commodities should be removed, and that although the Federal Government participates in international commodity agreements (mostly recently on cocoa), it is better to develop markets than to organize prices.

2. Development Strategy

- (a) As seen by the World Bank:

The analysis in Mr. McNamara's 1972 UNCTAD and Annual Meeting speeches provide the background to the Bank's view about the developing world: 1.1 billion, or 64%, of the population of the Bank's LDC members have a per capita GNP of less than \$200; in the 1960s, the per capita income of these countries increased at only 1.5% annually while that of other developing countries increased at rates between



2.4% and 4.2% respectively; by the end of the century, the population of developing countries will be over 2.25 billion and over one-third of them will have a per capita GNP of less than \$100.

(b) As seen by the Federal Ministry for Economic Cooperation:

The general directions of German development policy in the Second Development Decade can be ascertained from official documents:<sup>1/</sup> The Federal Government supports in principle the qualitative and quantitative objectives that have been laid down internationally for the Second Development Decade.

- The Federal Government wants close and flexible cooperation between state and non-state development assistance.
- In the future, development policy decisions are to be taken more than previously on the basis of country-related aid programs.
- The scarcity of available funds will necessitate the concentrated application of the instruments of development policy in individual countries, sectors and regions. The terms and conditions of official assistance are to be made more flexible and favorable (30 years maturity, 10 years grace period, 2% interest rate).

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<sup>1/</sup> The principal sources of information used here are: Development Policy Concept of the Federal Republic of Germany for the Second Development Decade which was adopted by the Federal Government on February 11, 1971; and Memorandum of Germany, DAC Annual Aid Review 1972, May 26, 1972.

- It is intended to grant the least developed countries more assistance than in the past.
- The following sectors will be of particular importance -- fighting unemployment and underemployment mainly through the promotion of labor-intensive projects and the promotion of youth and volunteer services; setting up labor and environment-oriented education systems; effecting structural improvements in rural regions; expanding and diversifying the industrial sector; strengthening the planning and organizational capacity of the developing countries; extending direct aid to improve living conditions (family planning, health and nutritional aid).

(c) Possibility of realization:

Mr. McNamara in his 1972 Annual Meeting speech stated that "the time for significantly greater social and economic equity both among nations and within nations has indeed come. ...It seems to me that the character of our entire era will be defined by the shape of our response".

(d) Growth, income distribution, employment:

The experience of the 1960s indicates that the achievement of overall growth targets does not necessarily assure an improvement in the conditions of life of the poorest 40% of the population of developing countries.

Studies done by the Bank, for example, indicate that: in 10 countries, with per capita incomes averaging \$145, the poorest 40% of the population receive a per capita income of only \$50; in another 10 countries with per capita income averaging \$275, the poorest 40% of the population receive a per capita income of only \$80. Of the more than 600 million persons living on the Indian subcontinent, some 200 million subsist on incomes that average less than \$40 a year.

As Mr. McNamara noted in his 1972 Annual Meeting speech: "Given the intimate link between poverty and massive unemployment, unemployment and underemployment must be attacked head-on".

(e) Sector priorities:

The Bank Group's five-year program for the period FY69-73 includes the objective of tripling lending for education to \$470 million, and the much more ambitious objective of quadrupling lending for agriculture to a total of \$2,480 million; the goal for lending for education has been surpassed, and that for lending for agriculture will probably be met by the end of the fiscal year.

The changing sector composition of Bank Group lending is reflected in other ways than the rapid growth in

lending to education and agriculture. Transportation loans and credits will amount to about one-fourth of FY69-73 lending, compared with one-third in FY64-68. Lending for power projects will fall to 20% from nearly 30% in the earlier period. Loans and credits have been prepared and approved for the first time for population and tourism projects.

The Bank's focus in agriculture lending has been turned more and more to small farmers. Between FY68 and FY72 the proportion of projects in which the participating farmers held fewer than 5 ha. rose from 17% to 50%; during the same period the proportion of projects in which participating farmers held over 1,000 ha. fell from 17% to 4%. At the same time, the inclusion of non-agricultural components in agriculture projects (e.g. health facilities, markets, research, schools, and water supply) has increased as the problems of agricultural development have been seen in wider perspective.

(f) Regional priorities:

The objectives of the five-year program for the period FY69-73 include a doubling of lending to Latin America and a threefold increase to Africa. Lending to Latin America in FY64-68 was \$1,550 million, in FY69-73 it will probably exceed \$3,500 million; lending to Africa

in FY64-68 was \$780 million, and there are excellent prospects that at least \$2,400 million will be committed in FY69-73.

The five-year period FY69-73 saw also a major geographic extension in the Bank Group lending operations. Loans and credits were granted, on average, to 63 developing countries a year compared to an average of 34 in FY64-68. There has also been a major growth in the number and proportion of both small operations and operations in small and poor countries. Despite the impact of inflation, the number of commitments up to \$5 million will be 174% higher in FY69-73 than in FY64-68, while the total number of commitments will increase by 130%. Lending operations in the poorest member countries have increased more rapidly than in other countries; the number of operations in the poorest countries (those with per capita GNP up to \$120) will more than triple in FY69-73, and the number in Least Developed Countries will exactly triple. The following table provides details:

IBRD & IDA: NUMBER OF LENDING OPERATIONS  
IN POOREST AND LEAST DEVELOPED COUNTRIES

	FY64	FY65	FY66	FY67	FY68	FY69	FY70	FY71	FY72	Est. FY73	Total FY64-68	Total FY69-73
Poorest Countries <sup>a/</sup>	13	13	16	7	14	30	36	35	47	48	63	196
Least Developed Countries <sup>b/</sup>	4	3	7	4	11	16	12	17	21	22	29	88
Poorest as % Total Operations	26%	25%	33%	12%	23%	27%	30%	27%	34%	32%	22%	30%
Least Developed as % Total	8%	6%	15%	7%	18%	14%	10%	13%	15%	15% <sup>c/</sup>	10%	14%

a/ Poorest countries are those with GNP per capita up to \$120 according to 1972 World Bank Atlas (28 member countries).

b/ Least Developed Countries are those named by the UN General Assembly, 21 of which are members (Afghanistan, Botswana, Burundi, Chad, Dahomey, Ethiopia, Guinea, Haiti, Laos, Lesotho, Malawi, Mali, Nepal, Niger, Rwanda, Somalia, Sudan, Tanzania, Uganda, Upper Volta, Yemen A.R.) and 4 are not members (Bhutan, Maldives, Sikkim, Western Samoa).

c/ The 15% of IDA lending in the Least Developed Countries in FY73 will require 25% of IDA staff time.

(g) Relationship between bilateral and multilateral aid:

The Bank Group, particularly through its chairing of and membership in Consortia and Consultative Groups, cooperates closely with other multilateral institutions and bilateral lending agencies. Germany is a member of all the Consortia and Consultative Groups chaired by the Bank (except the Philippines Group in which it participates as an observer). Germany is a very strong supporter of these aid coordination groups and their objectives and has shown

responsiveness to the Bank's guidance on country aid requirements.

(h) Importance of the World Bank Group for German development policy taking into account the Common Market, regional banks, and UNDP

The World Bank Group is the oldest and most experienced international development financing organization. Its efforts on behalf of the poorest and least developed countries are widely recognized and are consonant with one of the major principle of German development policy in the Second Development Decade. As indicated above (g), the activities of the Bank as Chairman of Consortia and Consultative Groups have been found to be of considerable use to the German aid agencies.

3. Methods of realization

(a) Creation of employment

In his 1972 Annual Meeting speech Mr. McNamara indicated that the Bank would assist in financing projects designed to create jobs. He indicated that it will be necessary to organize rural and urban public works -- the building of market roads; construction of low-cost simple housing; reforestation programs; expansion of irrigation and drainage facilities; highway maintenance, and similar low-skill, labor-intensive, and economically useful projects.

In the preparation and appraisal of projects, their effect on employment and income distribution have become matters of major analytic and operational concern for the Bank Staff.

(b) Assistance for the poorest strata of the population by restructuring public spending

In his 1972 Annual Meeting speech Mr McNamara stated that "Governments can best begin to shift public expenditure towards those who need it the most by initiating surveys on the effects of their current patterns of disbursements... The Bank will assist in such surveys and, based on them, will help design programs, to be financed by it and others, which will improve the distribution of public services."

The Bank is currently assisting in surveys which are being undertaken in Korea, Thailand, Uganda, Ethiopia, Costa Rica, Nicaragua, Malaysia, Iran, and Tunisia.

(c) Preferences for bidders from developing countries in international procurement

The Bank provides a maximum of a 15% margin of preference to local bidders. This policy was reviewed last year by the Board and no change was suggested.

(d) Comments of the World Bank on the findings of the Club of Rome

A Report by a special Task Force of the World Bank on the "Limits of Growth" was published in September 1972.



(e) Possibility of a Pearson Report for the developing countries

It is our understanding that the United Nations Committee on Development Planning (formerly headed by Mr. Tinbergen) is to prepare a report or reports on developments in the seventies. The Bank has agreed to cooperate fully with this Committee. At present, therefore, the Bank takes a wait-and-see attitude regarding the need for another Report of the Pearson type on developing countries. (The preceding is based on a Presidents Council discussion some time ago; it may be outdated).

II IBRD Financial Program

1. Lending and Borrowing Policy of the World Bank

In February 1972, the Bank's Executive Directors approved an [indicative] FY74-78 lending program for IBRD which totals \$13,950 million. This would lead to a rate of growth of 9.7% per annum in dollar amounts from the expected FY69-73 commitments to countries of \$8,770 million. This level of lending implies FY74-78 disbursements of \$9,810 million, almost double the figure for the previous five years.

To support this lending program, the Bank will need to borrow approximately \$11,500 million in FY74-78 (\$6,570 million net). Except for a line of credit which has already been obtained from the Bank of Japan (¥135 billion -- \$438 million equivalent) very little new borrowing from governments in FY74-78 is anticipated, though outstanding issues are expected to be rolled over as they mature. The bulk of the new funds required by the Bank's operations will have to be raised by public issues and private placements in the world's capital markets. Issues and placements in the German capital market accounted for approximately 30% of the

Bank's gross and net market borrowing in the last five years, but the proportion declined to around 20% toward the end of the period. If a similar proportion is assumed for the period FY74-78, borrowings in the German capital market would be of the order of \$290 million per year (DM 940 million) on average. This compares with an average of \$185 million for the previous five-year period.

The Bank's borrowing program in FY74 will depend on the outcome of a review of financial policy which is currently being prepared for submission to the Executive Directors in the spring. It appears likely that in addition to rolling over making private placements with the Bundesbank and Deutsche Girozentrale which total \$187 million (DM 600 million) the Bank may wish to make two long-term bond issues of around DM 250 million each in the course of the fiscal year.

2. Fourth IDA Replenishment

See separate briefing note provided by Sir Denis Rickett.

3. Special IFC Problems

Mr. Gaud is not aware of any "special IFC problems" which Minister Eppler may want to raise. He understands from Mr. Stedtfeld that the paper on IFC policy is being taken very seriously in Bonn; it is therefore possible that Mr. Eppler may want to talk about it.

III Intensification of Cooperation with the World Bank

1. Capital aid (joint financing)

The Bank has had a good working relationship with KfW and the responsible ministries over the years which, since 1960, has led to eight co-financing operations with official German aid of almost \$100 million (\$50 million of which went to the Indus Basin Project in 1960 and 1964). Most recently Germany participated in the Tunisia-Tourism and Korea-Fourth Railways projects, approved last September and November, respectively. Virtually all German co-financing with official aid has been in parallel with Bank or IDA funds. Terms of the German funds have varied. Standard terms have recently been 30 years, 2-1/2%, but the overriding principle has been to tailor the terms to the individual operation. German aid has increasingly become untied over the past five years, but this process is not yet complete.

German commercial supplier credits have also been associated with a number of projects for which the Bank organized joint financing, all but one in the power sector (Mexico, Brazil, Colombia).

Bank staff frequently visit Frankfurt and Bonn for mutual exchange of information and a continuous dialogue is being maintained, particularly to identify opportunities for co-financing. Prospects for co-financing with Germany in the short term appear good. Presently 8-10 projects scheduled for FY73 and 74 are being seriously discussed for parallel financing by Germany.

Cooperation with KfW, in particular, has been good and the pattern of our co-financing now appears to be jelling: a co-lenders agreement worked out in connection with the Tunisia-Tourism Project is considered by KfW as a model for further co-financing with the Bank Group. However, if the change in responsibility for German foreign aid leads to tighter control over KfW by Bonn, working out individual co-financing arrangements may become more time consuming. Past experience suggests that coordination has worked best when the Bank and KfW have been in direct contact from an early stage and least well when individual ministries have interposed themselves. [Source: Mr. Wittusen].

## 2. Technical Aid

The Bank frequently arranges for bilateral technical assistance in connection with Bank/IDA projects and would certainly welcome German bilateral technical assistance in larger amounts than it has hitherto been able to obtain. Our records do not produce systematic information on the amount of project related bilateral assistance but recent examples involving German technical assistance include a road project in Rwanda, for which about \$500,000 of German bilateral assistance is being provided, and a related \$1.1 million four-year highway maintenance program financed by the UNDP, with the Bank as executing agency and German consultants as the subcontractors. An agreement in principle has been reached for a similar German bilateral technical assistance contribution to an IDA financed road project in Burundi. In Afghanistan, technical assistance to the Agriculture and Cottage Industries Bank financed by part of an IDA credit is being

supplied by a German consultant firm. The German ED's office, however, characterizes participation of German bilateral assistance and of German consultants in Bank/IDA projects as "meager" and a quick check of recent operations suggests that this is probably correct. The Bank, of course, is aware that Germany has recently substantially increased its contribution to the UNDP and, as we rely heavily on the UNDP for financing technical assistance of the preinvestment type, this German support for UNDP, albeit indirectly, augments technical assistance available to the Bank. [Source: Mr. Michael Hoffman].

### 3. German Foundation for Developing Countries

There has been considerable contact between the two institutions: Mr. Kamarck visited the Stiftung last May and Mr. Frost and Mr. Esche, a top official, had extensive discussions in Dakar at the end of January.

The German Ministry of Economic Cooperation asked the Stiftung to organize a course in agricultural project analysis for Ministry officials and technicians, and lacking the capacity to do this, the Stiftung requested EDI to give the course. Mr. Gittinger of EDI has, therefore, been committed to give this course in Bonn in March, all out-of-pocket expenses being reimbursed by the Stiftung.

The Stiftung undertakes training at all levels, from that of senior officials from developing countries down to vocational training. It has done little or nothing in training in the field of project preparation and analysis. However, it is being pressed by the Ministry of

Economic Cooperation to go into project training and, if it does so, may call on EDI for assistance with teaching materials, and joint teaching of courses given for officials of developing countries at the Stiftung's headquarters in Berlin. In this case, the extent of the cooperation feasible will depend on the ruling constraint of staff availability: if EDI's 1973/74 budget gives it staff only for its minimum program, EDI will not have staff available for Berlin.

EDI has reconnoitered the possibility of the Stiftung's helping in EDI's overseas program. They may have constraints in providing finance for programs outside of Germany and they have, at present, no project analysis training capacity to contribute. [Source: Mr. Kamarck].

#### 4. Research Project

As a general policy the Bank favors collaboration on projects concerned with the problems of developing countries, and looks forward to initiatives by German research institutions.

#### IV German Staff for the World Bank Group (e.g. Vice President)

The number of German nationals on the professional staff of the Bank Group doubled between the end of April 1968 and the end of December 1972 (from 40 to 82), and represented more than 5% of the total professional staff. At present 7 German nationals are members of the Bank's senior staff (department heads and above), 22 are in lower managerial or other senior posts (grades A and B), and the remainder are in "working level" professional posts.

Subjects for the Discussion between  
Minister Eppler and President McNamara

I. General Exchange of Views on Questions of Developing Policies

1. Crucial points for developing policy in the coming years
  - trends in monetary policies (special drawing rights, link)
  - trends in trade policies
2. Development strategy as seen
  - by the World Bank
  - by the Federal Ministry of Economic Cooperation
  - possibility of realization
  - growth, income distribution, employment
  - sector priorities
  - regional priorities
  - relationship between bilateral and multilateral aid
  - importance of the World Bank Group for the German development policy taking into account / Common Market, regional banks and UNDP the
3. Methods of realization
  - creation of employment
  - assistance for the poorest strata of the population by restructuring of public spending
  - preferences for bidders from developing countries in international procurement
4. Comments of the World Bank on the findings of the Club of Rome
5. Possibility of a Pearson Report for the developing countries

II. IBRD Financial Program

1. Lending and borrowing policy of the World Bank
2. Fourth IDA-Replenishment
3. Special IFC-problems

III. Intensification of Cooperation with the World Bank

1. Capital aid (joint financing)
2. Technical aid
3. German Foundation for Developing Countries

III. Intensification of Cooperation with the World Bank (cont'd)

4. Research projects

IV. German Staff for the World Bank Group (e.g. Vice President)



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February 8, 1973

BRIEFING PAPER

GERMANY

1. Germany's GNP

In 1970 Germany's GNP amounted to \$186.4 billion and represented 9.4% of the total GNP of Part I countries; by 1975, Germany's GNP in money terms would be about \$325 billion and represent 10% of the total GNP of Part I countries.

2. Aid Performance

Total flows from Germany increased by 28% (22% in DMarks) in 1971 to a level of \$1,807 million or .83% of GNP as compared with \$1,409 million, or .76% of GNP in 1970<sup>a/</sup>. Total ODA increased by 23% (16% in DMarks) in 1971 to a level of \$734 million or .34% of GNP, as compared with \$599 million or .32% of GNP in 1970. It thus remained significantly below the .70% of GNP target. Multilateral flows as a percentage of ODA increased from 22% in 1970 to 28% in 1971, thus exceeding the target level recommended by the Pearson Commission (at the unsatisfactory total level). Private flows increased by 34% between 1970 and 1971, principally due to a strong upswing in government - guaranteed export credits (Table I).

In February 1971, the German Government adopted the Development Policy Concept of the Federal Republic of Germany for the Second Development Decade, which indicated support in principle for both the qualitative and quantitative objectives that have been laid down internationally for the Second Development Decade.

Regarding the ODA target, the German Government's 1971 Development

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a/ These figures do not include grants from private voluntary agencies, for which information is available only for 1970 and 1971. If these grants are included, total flows from Germany were \$1,487 million (.80% GNP) in 1970 and \$1,915 million (.88% GNP) in 1971.

Policy Concept refers to the Policy Statement of October 1969 in which the Government stated that it would endeavor to attain the aim envisaged in the Pearson Report for a public share in development aid of 0.7% of GNP by an average annual increase rate of 11%, and adds that "the Federal Government ..... will try to attain this target as early as possible".

According to present medium-term aid planning appropriations (in DMarks) for the Ministry for Economic Cooperation are to increase by an annual average rate of about 8% until 1975. This means that given the projected 7.5% rate of growth of GNP there will be only a small increase of ODA to GNP in this period -- our current estimates are that ODA would be .38% of GNP by 1975 and .50% by 1980.

In the 1971 Development Policy Concept, the German Government also committed itself to the provision of at least 20% of its ODA through multilateral institutions -- a target that was exceeded in each of the years 1969 - 1971. At UNCTAD III, the German Government announced that the standard terms for its development loans would be 30 years maturity, including a grace period of 10 years, and an interest rate of 2 per cent.

The German Government has also decided to increase the volume of its capital assistance to the least developed countries, and to provide it on IDA terms. Technical assistance to these countries is also to be expanded, and special attention is to be given to promoting education and training and to extending the infrastructure for planning and organization.

In December 1972, a reorganization of the German development aid administration was announced, which had the effect of transferring responsibility for bilateral and multilateral capital aid (and hence for relations with the Bank Group, with the exception of questions connected with IBRD bond issues which is expected to remain with the Ministry of Finance) from the Economics Ministry to the Ministry for Economic Cooperation. There are indications that the German

Executive Director, will be from the Ministry for Economic Cooperation.

3. Germany's Balance of Payments and International Reserves Positions

According to preliminary estimates, in 1972 Germany had a surplus in its trade balance of about \$6.3 billion, which was about the same size as the U.S. trade deficit (\$6.9 billion), and equivalent to 59% of imports in 1972. In addition, contrary to earlier forecasts which expected a deficit in Germany's current account as a result of cyclical factors, there was in fact a surplus of some \$500 million.

As of the end of 1972, Germany's international reserves amounted to \$23.4 billion, as compared with the previous peak level of \$12.2 billion at the end of the third quarter of 1969, and Japan's end 1972 reserves level of \$18.4 billion; as a result of the massive inflow of dollars in the first days of February they have certainly increased since then.

4. Attitude to IDA

Germany has made all its contributions to IDA in cash. In the Second Replenishment period, Germany made an advance contribution of \$39 million, equal to one-third of its total contribution. Germany accepted a 9.7% (\$234 million) share of the Third Replenishment. At the 1971 Annual Meeting, Mr. Schiller indicated that Germany would make an advance contribution equal to the first installment (\$72.3 million).

During the course of the Third Replenishment discussions, Mr. Schiller proposed at a meeting of EEC Finance Ministers an annual level of \$500 million. Later, however, the German delegation at the Vienna meeting indicated that it would participate in an annual replenishment of \$800 million.

At present, there are no firm indications of the annual IDA 4 replenishment level that will be supported by Germany. At the Paris meeting of IDA Deputies, Mr Mueller-Enders stated that the annual level of the Replenishment should be "both reasonable and realistic". In a meeting with Sir Denis Rickett

in Bonn in early December prior to the Paris meeting, Mr Jansen of the Ministry for Economic Cooperation indicated a timetable which was to be followed by the German Government in arriving at a position regarding the annual level of the Replenishment: discussions were to be held in the Ministry for Economic Cooperation in the first half of January to be followed by discussions with the Ministry of Finance; by late February or early March the German delegation would have a clearer statement of its position. Regarding the German contribution to the Fourth Replenishment, Mr. Jansen stated that "it would be impossible to support a replenishment at the level of \$1800 million or a replenishment of \$1500 million with an increase in the German share to 12% (from the IDA 3 level of 9.76%) in 1960 dollars".

Germany will play a pivotal role in the IDA 4 discussions. The United States has asked for a reduction in its share (40% in IDA 3) of the Replenishment principally on balance of payments grounds; the United Kingdom has asked for a reduction in its share (12.97% in IDA 3) on the grounds that it exceeds its share (6%) in the total GNP of Part I countries, and is reported to have asked Germany to increase its share (in a meeting in July 1972 between Mr. Eppler and Mr. Wood, the U.K. Aid Minister). There are strong indications that Japan will increase its share (6% in IDA 3), though it is not clear how high it will go.

Germany should be asked to support a high level of Replenishment (say \$1500 million) at an early stage, and to exert its efforts to keep the reductions in the shares of the United States and the United Kingdom to a minimum. Not only does Germany have one of the highest levels of per capita income among Part I countries -- in 1970 it was lower only than that of the United States, Kuwait, Canada, Sweden and Denmark, but it is also in a very strong balance of payments position.

Of all the multilateral development financing institutions, IDA is best suited to meeting the needs of the poorest and least developed countries --

a major objective of the new development policy of the German Government.

5. Capital Market Prospects

As of June 30, 1972 the Bank had raised a total of \$3.2 billion equivalent, of which \$2.5 billion was in private placements mostly with the Bundesbank. Part of these funds are denominated in U.S. dollars. Of this total, \$1.8 billion was outstanding, of which \$766 million was in private placements with the Bundesbank,

In FY1973, we had two public issues totalling DM450 million (\$140 million) and three rollovers of private placement of DM463 million (\$144 million - of which DM438 million were with the Bundesbank). The Bank also repaid three maturing borrowings, two from the Girozentrale of DM25 million..(\$8 million) each and one from the Genossenschaftskasse of DM37 million (\$11 million), because the cost of rolling them over and the maturity offered were considered unattractive. The same may apply to a further Girozentrale maturity of DM50 million in June 1973.

In FY74 borrowings from the Bundesbank and the Girozentrale totalling \$187 million mature and presumably will be rolled over. As for market borrowings it is still too early to say how much we may want to borrow in Germany; but it now appears that we may want to have two public issues DM250 million each.

6. IBRD Capital Subscription Increase

Germany's subscription of \$84.3 million to the special increase of the IBRD capital stock became effective on June 2, 1971 and 9% was released in four installments in convertible form.

7. Balance of Payment Effect of IBRD and IDA operations

Through the end of FY 1972, IBRD operations have had a small (\$23 million) positive effect, IDA operations had a small (\$7 million) negative effect on Germany's balance of payments. The largest negative effects of Bank Group operations, however, were in FY1969 and 1972 when Germany experienced significant

surpluses in its balance of payments, and IBRD bond issues of approximately \$400 million equivalent in each of these years were therefore an equilibrating element, considered eminently desirable by the German authorities.

TABLE 1: GERMANY: FLOW OF DEVELOPMENT FINANCE BY CALENDAR YEAR  
(US \$ millions)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971 <sup>a/</sup>
<b>Official Development Assistance</b>												
- Bilateral	164	292	300	359	434	419	373	436	447	452	466	530
- Multilateral	59	74	105	30	25	37	46	72	110	128	132	205
- TOTAL	223	366	405	389	460	456	419	509	557	579	599	735
- Multilateral As % ODA	26.5%	20.2%	25.9%	7.7%	5.4%	8.1%	11.0%	14.1%	19.7%	22.1%	22.0%	27.9%
- As % GNP	.31%	.44%	.45%	.41%	.44%	.40%	.34%	.41%	.41%	.38%	.32%	.34%
<b>Other Official</b>												
- Bilateral	86	40	64	51	-21	13	77	44	38	16	80	144
- Multilateral	42	212	-3	-5	-15	2	-10	-6		-68	53	20
- TOTAL	128	252	61	46	-36	15	67	38	38	-52	133	164
<b>Total Official</b>	351	618	466	435	424	471	486	547	595	527	731	899
<b>Private</b>												
- Bilateral	273	232	143	175	227	189	308	603	774	1140	615	793
- Multilateral	4	-3		11	57	75	-6	-5	294	361	63	116
<b>TOTAL NET DISBURSEMENTS</b>	628	847	609	621	706	735	788	1145	1664	2028	1409	1807
- As % GNP	.87%	1.02%	.68%	.65%	.67%	.64%	.64%	.92%	1.23%	1.32%	.76%	.83%
- Multilateral As % Total	16.7%	33.4%	16.7%	5.8%	9.5%	15.5%	3.8%	5.3%	24.3%	20.8%	18.0%	15.3%
- IBRD/IDA % Multilateral	60.0%	81.3%	14.7%	36.1%		73.6%	36.7%	26.2%	75.5%	39.9%	72.6%	49.8%

a/ Provisional.

Source: DAC

TABLE II: ESTIMATED EFFECT OF IBRD AND IDA OPERATIONS ON  
GERMANY'S BALANCE OF PAYMENTS THROUGH FY72  
(US \$ millions; Fiscal Years)

	Through 1964	1965	1966	1967	1968	1969	1970	1971	1972
<b>IBRD EFFECT</b>									
<b>Current Account</b>									
Procurement of Goods <sup>a/</sup>	716	76	70	71	72	91	106	113	139
Interest to German Bondholders <sup>b/</sup>	132	29	34	35	35	42	70	83	97
Interest to German Loanholders <sup>b/</sup>	3	1							
Issuance Costs of DM Bonds	1	1							
Less: IBRD Investment Income in Germany	3								
Equals: Balance on Current Account	<u>849</u>	<u>107</u>	<u>104</u>	<u>107</u>	<u>106</u>	<u>140</u>	<u>176</u>	<u>197</u>	<u>236</u>
<b>Capital Account</b>									
Less: Germany's 1% Subscription	11		2					1	1 <sup>c/</sup>
Germany's 9% Subscription	95			3	3	4	10	2	12 <sup>c/</sup>
Net IBRD Bonds Sales <sup>d/</sup>	708	90	-8	-26	21	393	118	142	402
Net IBRD Loan Sales <sup>d/</sup>	9		-1	-1		6	-1	-5	-4
Equals: Balance on Capital Account	<u>-823</u>	<u>-90</u>	<u>7</u>	<u>24</u>	<u>-24</u>	<u>-403</u>	<u>-127</u>	<u>-140</u>	<u>-411</u>
Balance on Current + Long-term Capital Account	<u>26</u>	<u>17</u>	<u>111</u>	<u>131</u>	<u>82</u>	<u>-263</u>	<u>49</u>	<u>57</u>	<u>-175</u>
<b>IDA EFFECT</b>									
<b>Current Account</b>									
Procurement of Goods <sup>a/</sup>	8	28	39	50	50	37	15	35	27
Less: Investment Income							3	4	
Equals: Balance on Current Account	<u>8</u>	<u>28</u>	<u>39</u>	<u>50</u>	<u>50</u>	<u>37</u>	<u>12</u>	<u>31</u>	<u>27</u>
<b>Capital Account</b>									
Germany's Contributions to IDA	43	10	24	24	24	39	39	39	72
Equals: Balance on Capital Account	<u>-43</u>	<u>-10</u>	<u>-24</u>	<u>-24</u>	<u>-24</u>	<u>-39</u>	<u>-39</u>	<u>-39</u>	<u>-72</u>
Balance on Current + Long-term Capital Account	<u>-34</u>	<u>18</u>	<u>15</u>	<u>26</u>	<u>26</u>	<u>-3</u>	<u>-27</u>	<u>-8</u>	<u>-45</u>
<b>COMBINED IBRD/IDA EFFECT</b>									
Current Account	857	135	143	157	156	177	188	228	263
Capital Account	-866	-100	-17	-	-48	-442	-166	-179	-483
Balance on Current + Long-term Capital Account	<u>-8</u>	<u>35</u>	<u>126</u>	<u>157</u>	<u>108</u>	<u>-266</u>	<u>22</u>	<u>49</u>	<u>-220</u>

<sup>a/</sup> includes procurement specifically identifiable as originating in Germany and the same proportion of procurement not identifiable by country of origin.

<sup>b/</sup> Includes interest on US dollar bonds and on loans other than in DMarks.

<sup>c/</sup> 1972 figures reflect adjustments resulting from US dollar devaluation.

<sup>d/</sup> Includes US dollars and also loans in other than DMarks. 1970 and 1972 figures include \$90 million and \$211 million equivalents respectively, representing translation adjustments of DMark bond issues.



Subjects for the Discussion between  
Minister Eppler and President McNamara

I. General Exchange of Views on Questions of Developing Policies

1. Crucial points for developing policy in the coming years
  - trends in monetary policies (special drawing rights, link)
  - trends in trade policies
2. Development strategy as seen
  - by the World Bank
  - by the Federal Ministry of Economic Cooperation
  - possibility of realization
  - growth, income distribution, employment
  - sector priorities
  - regional priorities
  - relationship between bilateral and multilateral aid
  - importance of the World Bank Group for the German development policy taking into account the Common Market.
  - regional banks and UNDP
3. Methods of realization
  - creation of employment
  - assistance for the poorest strata of the population by restructuring of public spending
  - preferences for bidders from developing countries in international procurement
4. Comments of the World Bank on the findings of the Club of Rome
5. Possibility of a Pearson Report for the developing countries

II. IBRD Financial Program

1. Lending and borrowing policy of the World Bank
2. Fourth IDA - Replenishment
3. Special IFC problems

III. Intensification of Cooperation with the World Bank

1. Capital aid (joint financing)
2. Technical aid
3. German Foundation for Developing Countries
4. Research projects

IV. German Staff for the World Bank Group (e.g. Vice President)



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Routing slip B. Chadenet to Robert McNamara

**Subject / Title**  
Morale of German Nationals

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IDA/RPL/73-4

February 15, 1973

IDA FOURTH REPLENISHMENT

TABLE ON COMPARATIVE INDICATORS FOR  
PART I AND SELECTED OTHER COUNTRIES

The attached Table showing relative GNP estimates in comparison with overall aid performance and contributions to IDA for Part I and selected other countries was prepared at the request of the Australian Delegation.

Attachment:

COMPARATIVE INDICATORS FOR PART I AND SELECTED OTHER COUNTRIES  
(Percentages)

	AID FLOWS 1971 <sup>b/</sup>			THIRD IDA REPLENISHMENT	
	GNP Shares <sup>a/</sup>	Off.Dev. Assist. as % GNP	Share in Total Off.Dev.Assist. from DAC Countries	Shares in Total Part I Contributions	Shares in Contributions by Countries
<b><u>PART I COUNTRIES</u></b>					
Australia	1.8	.52	2.65	2.00	1.96
Austria	.8	.06	.13	.68	.67
Belgium	1.3	.49	1.91	1.70	1.66
Canada	3.9	.37	4.47	6.26	6.12
Denmark	.8	.43	.97	1.10	1.08
Finland	.5	b/	b/	.51	.50
France	7.6	.68	14.48	6.26	6.12
Germany	10.1	.34	9.62	9.76	9.54
Iceland	-	b/	b/	.02	.02
Italy	4.8	.17	2.27	4.03	3.94
Japan	11.0	.23	6.69	6.00	5.87
Kuwait	.1	b/	b/	.45	.44
Luxembourg		b/	b/	.05	.05
Netherlands	1.7	.60	2.83	2.82	2.76
Norway	.6	.33	.55	1.00	.98
South Africa	.7	b/	b/	.13	.12
Sweden	1.6	.45	2.10	4.25	4.16
United Kingdom	5.9	.42	7.35	12.97	12.69
United States	46.8	.32	43.57	40.01	39.15
<b>TOTAL PART I COUNTRIES</b>	<b>100.0</b>	<b>.35<sup>b/</sup></b>	<b>99.63</b>	<b>100.00</b>	<b>97.83</b>
<b><u>PART II COUNTRIES</u></b>					
Ireland		b/	b/		.16
Spain		b/	b/		.35 <sup>c/</sup>
Yugoslavia		b/	b/		.16
Other		b/	b/		.08
<b><u>NON-MEMBERS</u></b>					
New Zealand		b/	b/		.14
Switzerland		.12	.37		1.30
<b>GRAND TOTAL COUNTRIES</b>			<b>100.00</b>		<b>100.00</b>

<sup>a/</sup> Shares in total 1970 GNP of Part I Countries at 1972 exchange rates

<sup>b/</sup> The source for data on aid flows is the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development. Of the Part I Countries, Finland, Iceland, Kuwait, Luxembourg and South Africa are not members of the DAC, and hence comparable aid flow figures are not available for them. Switzerland is a member of the DAC.

<sup>c/</sup> Including release, in convertible form, of \$6,393,000 (in 1960 dollars) of the remainder of the 90% of Spain's initial subscription to the Association.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 7, 1973

FROM: Denis Rickett

*D.R.*SUBJECT: Briefs for Discussions with the UK and German Governments on the Fourth Replenishment of IDA

Attached below are briefs for the discussions with the UK and German Governments on the Fourth Replenishment of IDA.

2. These discussions will be particularly opportune coming as they do not long before the second meeting of the Deputies in London on March 13th. The line taken by the British and the German representatives may well have an important effect on the outcome of the meeting.

3. The meeting will have served its purpose if it helps to keep the interest of governments focussed on the issue and if some progress is made in building up support for a replenishment of IDA as close as possible to the target figure of \$1500 million.

4. At present the prospects of doing this are not good. We are likely to get further support from the Netherlands Government. The Canadians also may be helpful particularly after your discussion with the Canadian Ministers in the first week in March. But there is not much prospect of concerted action by the Nordic group. Denmark and Norway are friendly but Sweden is holding back until the Board discussion on IDA lending policies has taken place, and Finland (not very important anyway) is in financial difficulties. No particular support can be expected from the French and very little from the Belgians and the Italians.

5. The United States will either reserve its position as they did in Paris or may even, as Mr. Volcker suggested at your luncheon, say that they are not prepared to recommend to Congress a figure as high as has been suggested.

6. A great deal, therefore, may turn on the attitude of the British and German Governments. If they would take a positive line, supported by the Canadians and the Dutch, it is possible that the Japanese, the Norwegians and the Danes might be encouraged to join them. This might have some influence on the United States.

7. Unfortunately, both the British and the Germans are inclined to hang back on the level of the replenishment because of preoccupations about their share. The British have told us that they are afraid that if they support a level for the replenishment higher than that ultimately agreed upon, this may prejudice their claim to a reduction in the UK share. Similarly, the Germans told us in Bonn that if we were asking them to support not only a figure of \$1500 million but also an increase in the German share, this would be impossible.

February 7, 1973

8. In both cases I suggest that our object should be to persuade the British and the Germans to support a high level for the replenishment adding, if they wish, that this is subject to their being satisfied with the decision about their share. I think you could point out to both the British and the Germans that what is eventually decided about their share is not likely in practice to be much influenced by the line which they take now on the level of replenishment. Whatever they say, if the decision is eventually in favor of a high figure, the British claim to a reduction in their share will be strengthened and the Germans will be in a better position to resist any considerable increase in their share. The converse is also true.

9. In speaking to the British, you might remind them that if they are concerned about their balance of payments they should be in favor of a high total whatever, within limits, their share is. This is because the UK share in IDA procurement is still not far below 20%.

10. In discussion with the Germans, I would myself doubt whether it would be wise to press them too hard at this stage to increase their share, except on the assumption that the level of replenishment will be much lower than the target figure of \$1500 million. The strongest argument for an increase in the German contribution to IDA is the fact that their total ODA performance is not very good (.34% of GNP). On the other hand, this is about the average for the DAC countries, and they plan to increase their ODA by an average annual rate of 11%. We estimate that on this basis their ODA percentage would be .38 by 1975 and .50 by 1980, still well short of the 0.7% target recommended in the strategy for the Second Development Decade.

11. They may, however, point out that at 28% the percentage of their aid going through multilateral institutions is well above the target level of 20%.

12. The Germans have so far resisted pressure from the British to increase their share. We understand that M. Giscard d'Estaing is likely to suggest to Herr Schmidt that there should be an increase in the German share. It seems fairly clear that this will be done to discourage the Germans from coming out in favor of too high a level for the total replenishment. If so, we do not want to play into the hands of the French on this.

cc: Mr. Adler

3.A

CURRENCY CHANGES AND THE FOURTH  
IDA REPLENISHMENT

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Two questions affecting IDA IV arise as a result of the currency changes this week:-

- (i) Should the negotiating target be revised upwards by the full amount of the devaluation of the dollar;
- (ii) What will the effect of the changes be on the willingness of the various contributors?

On the first point the alternatives are either:

- (a) To continue to ask for \$1500 million recognizing that this is equivalent to \$1350 million in predevaluation dollars,  
or
- (b) To increase the target by 11% to \$1650 million.

The answer to the second question is that since for the majority of the Part I countries their currencies have appreciated against the dollar by some 11%, the payment of any given amount in



dollars will be that much easier than before. It is true that the appreciation of their currency against the dollar will ultimately lead to some worsening of their balance of payments. For the present, however, this should be outweighed by the fact that any given amount of their currency is now worth 11% more in dollars.

The main exceptions to this are the US and the UK and to some extent also the Italians.

In the long run the devaluation of the dollar should strengthen the US balance of payments. In the immediate future, however, they will have to make further maintenance-of-value payments to IDA on our existing dollar holdings, and if we raised the target from \$1500 million to \$1650 million they would say that this merely makes the target more unrealistic than ever.

For the British any given sum in dollars is now approximately 5% cheaper in sterling. They might not, therefore, be happy if we wrote up the target by 11%, the full extent of the dollar depreciation.

Finally, the Japanese will have to put up fewer yen to meet any given dollar amount and this should make them a more

willing contributor. They may well urge, however, that the floating upwards of the yen is bound to affect their balance of payments adversely and that in any event they should be under less pressure from the United States to correct the imbalance in other ways - e.g. by exporting capital.

CONCLUSION

If the point is raised we might say:-

- (a) That we have not had time yet to assess fully the implications of the new exchange rates for the IDA negotiations;
- (b) That the immediate consequence would be that the amounts previously discussed would have to be raised by 11% to make them the same in new dollars as in the old;
- (c) That for the majority of the contributors whose currencies have appreciated against the dollar this should not in itself lead to any change in their position;
- (d) Some important donors, however, especially the US and perhaps also the UK may be in a different position. It will be for them

to say how the changes which have taken place will affect their attitude to the amount both of the total and of their share in the replenishment.

## OFFICE MEMORANDUM

(Ph) ~~Amos Lyundji~~ PARTS

2) Amos Lyundji

Feb 7

TO: Mr. Lars J. Lind, Information and Public  
Affairs

FROM: J. H. Williams, Senior Operations Adviser

SUBJECT: GERMANY - Relations with KfW

DATE: February 6, 1973

I invited Regions to comment on a passage in Mr. Strobl's year-end note on the Bank Group's relations with Germany which said that: "Another criticism comes from the Kreditanstalt, Frankfurt, where division chiefs are joining in some sort of an opposition movement to Bank practice which often calls for last-minute financial participation without giving the Germans a chance to participate in project evaluation and planning from the beginning."

There seem to have been only two cases over the last year or so that could have given any real grounds for resentment, and neither is likely to repeat itself. The first was the tourism project in Tunisia, where the possibility of KfW joint financing with the Bank and IDA was indeed broached only after our appraisal mission had found out that previous estimates of the financing required had been much too low; KfW certainly felt at the time that we had deliberately put them au pied du mur. In the end, however, the arrangements worked out pretty smoothly. The second case is that of the Shashe mining project in Botswana where, ironically perhaps, it was KfW that took the position at an early stage not to proceed with their part of the project until they had been able to study the Bank's appraisal of the project as a whole. They then reproached us with causing delays on their side because our appraisal report was not ready when expected. Since, however, KfW was at the same time under heavy and conflicting pressures about the project from within Germany, it is possible that some of the anxiety generated thereby spilled over into the relationship with the Bank. As I said already, I do not see the Shashe situation repeating itself.

It is always possible that some individuals on one side or another may find themselves at cross-purposes from time to time, but I have the impression that Bank staff who work with KfW are generally rather well aware of the need for good relations. There is probably no great problem when KfW is acting as a principal and we are in direct contact with them, but difficulties are likely to arise when information for KfW passes through Bonn, particularly when it concerns projects on which Bonn is taking the initiative to bring KfW into the act. Again, I think we may be, at least in part, the victims of resentments generated elsewhere in the system and it is difficult to see what we can do. I attach a pertinent extract from a memorandum by Mr. Hartwich on this facet of the question.

Attachment.

cc: Mr. J. Burke Knapp, Senior Vice President, Operations  
✓ Mr. Bernard Chadenet, Vice President  
Mr. Gerald Alter, Regional Vice President  
Mr. Bernard R. Bell, Regional Vice President  
Mr. Munir P. Benjenk, Regional Vice President  
Mr. I. P. M. Cargill, Regional Vice President  
Mr. Roger Chaufourrier, Regional Vice President

Let me add a few general comments on the cooperation with KfW. I have discussed this subject over the years with KfW personnel officially and privately. I believe that the relationship has been a good one; it has been only over the last twelve months or so that KfW staff up to the Management level (excluding Mr. Bachem) have voiced some complaints. As far as projects in the EMENA Region are concerned, this might have something to do with one or two of the personalities in the KfW with whom we work; but it also might have more generally to do with the somewhat strained relationship between KfW and the German Ministries. The latter have to some extent been trying recently to keep KfW on a shorter leash, and maybe as a kind of compensation KfW has become more sensitive and does not want to appear to be a satellite of ours in co-financing operations but play a full role of their own. KfW's relationship with the Government, by the way, might become even more strict now since responsibility for German bilateral aid has been transferred from the Ministry of Economics to the Ministry of Economic Cooperation. (I understand it has not yet been decided whether the Finance Ministry, the Ministry of Economics or the Ministry of Economic Cooperation will be responsible for multi-lateral aid). But to come back to our relations with KfW, I do not believe that the criticism reported by Mr. Strobl of the Paris Office is a very serious matter as long as we keep KfW well informed. I do not know, of course, whether there have been problems with other Regions. I have never heard similar complaints from German Government officials about the cooperation with the Bank Group in co-financing; they rather tend to say that we are in too direct contact with KfW and should rather use "official channels".

Some KfW staff have said recently that the procedures for co-financing operations have to be clarified and improved. I do not think that it is possible to institutionalize these matters very much since every case differs from the other to quite an extent. However, a few points of reference can be established to ensure that communications and information flow as smoothly as possible:

1. Formal periodic exchanges thru mutual visits, at Consultative Group Meetings, etc., are useful but cannot be relied upon solely. The intervals between these occasions are often too long and the actual cases often come up in the meantime.
2. A good way to give a possible co-financer a chance to find out about a potential joint project, to indicate his interest and to keep him informed about the status of the project are our Monthly Operational Summary and the Semi-Monthly Report to the Executive Directors. (I understand that KfW receives these).
3. The main point is that the organizational unit in the Bank in charge of the respective operation, i.e. the Program Division, should be fully aware of its responsibility for maintaining contact and seeing to it that financing partners are kept adequately informed.
4. The Executive Director concerned (unless he instructs otherwise) should be kept informed as a matter of routine and receive copies of all communications except those on purely technical matters.