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THE WORLD BANK
Washington, D.C.

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Washington DC 20433
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McNamara Papers

Chronological file (incoming)
1971 (Jul. - Dec.)

The World Bank Group
Archives



1771537

A1995-258 Other #: 1

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President's papers - Robert S. McNamara Chronological files (incoming) - Chrons 07

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



489/3/34 ^{R. H. A.}

OFFICE OF THE PRESIDENT

December 29, 1971

Nawabzada A.M. Raza,
H.Q.A., H.K. S.Pk.
Ambassador of Pakistan
Embassy of Pakistan
2315 Massachusetts Ave., N.W.
Washington, D.C. 20008



Dear Mr. Ambassador:

In response to your letter of December 23, 1971 which we received on December 27, we have today sent the attached cables to the Government of Pakistan, PICIC and 19 commercial banks. The action we have taken means that we are immediately suspending, for the time being and pending further consultation with your Government, any disbursements or further processing of contracts with respect to Bank loans and IDA credits extended for beneficiaries in East Pakistan (there are no IFC investments in that area), except with respect to certain payments under outstanding letters of credit against which the Bank or IDA have issued unqualified or qualified agreements to reimburse. With respect to these, the situation is as follows:

1. In the case of unqualified agreements to reimburse, we are obligated to disburse notwithstanding any suspension or cancellation. The amount outstanding on East Pakistan projects is about \$36,000; no new unqualified agreements have been issued for several months.
2. In the case of qualified agreements to reimburse (the amount outstanding on East Pakistan projects is about \$9 million), we are obligated to disburse with respect to any payments made by the commercial banks concerned before we have formally suspended disbursements. We have now cabled all commercial banks with which the Bank or IDA have entered into qualified agreements to reimburse and advised them of the suspension. We do not know the amount of payments already made by commercial banks under these letters of credit but expect to receive the final reimbursement requests shortly; at present we have in hand requests for reimbursements of \$31,400 in this category which will be paid in the next few days.

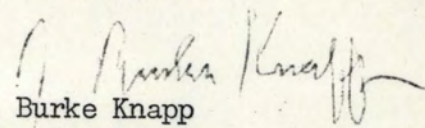
489/3/30

WV

We desire to enter into consultations with the Government of Pakistan as soon as possible regarding the status of outstanding contracts and arrangements with suppliers, contractors and consultants with respect to work or services already performed.

Sincerely yours,

J. Burke Knapp
Vice-President



Attachments

Cleared w/& bc: Mr. Broches, Mr. Cargill (Attachments distributed separately)

- bc: ✓ Mr. McNamara (o/r) "
- Mr. Aldewereld "
- Mr. Gabriel "
- Mr. Rotberg "
- Mr. Sella "
- Mr. Votaw "
- Mr. Wiehen "

JBKnapp/MHWiehen/PSella/lgl

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WBG ARCHIVES

BOMBAY HOUSE,
FORT, BOMBAY, I

20th December, 1971

489/3/33



Dear Mr. McNamara,

I realise that as an international public servant it is necessary for you to remain totally aloof from international politics, outside the field of Aid, and that it is perhaps not right for me to write the attached letter to you. I am sure, however, that as an American, as well as in your capacity as President of the World Bank, you cannot be totally unconcerned with the relations between the United States, the world's greatest fountain head of aid funds, and other countries for the development and rehabilitation of which the World Bank has done so much to assist.

In the circumstances, I hope you will forgive me for not resisting the temptation to write to you as I have done, along with other American friends and acquaintances.

With kind regards, and all good wishes for Christmas and the New Year,

Yours sincerely,

(J. R. D. Tata)

Mr. Robert S. McNamara
President
International Bank for Reconstruction & Development
WASHINGTON D.C.

President has seen

BOMBAY HOUSE,
FORT, BOMBAY, I

15th December, 1971

Dear Mr. Menamara,

I am sure you have been following developments in the Indian Sub-Continent with concern. We all know that war is always an unmitigated tragedy, for, apart from the loss of life, the human suffering, and the waste of resources, war embitters relations between countries and their people for a generation or more. This is perhaps unavoidable, but what surely can, and should, be avoided is the poisoning of relations with other countries not directly involved in the conflict, and particularly those with whom close bonds of friendship and cooperation have been long established.

I am writing to you today because this is happening in a most grievous way at this moment between India and the USA, to whom India has been tied not only by bonds of friendship and a common political philosophy, but also for us by bonds of gratitude for all the help America gave in abundance since we achieved Independence. We remember also her support to our cause during our struggle for freedom.

Although there have, at times, been differences between our two countries on world political issues and events, and, on occasion, one side may have been irked by the stand taken by the other, the relationship has throughout been one of mutual friendship and respect. Indians have recognised the incredible material achievements of the US and the sacrifices it made in World War II and in helping the world to recover from it. Americans have, I think, recognised the immensity of India's problems, the privations of its people, and the great efforts made to alleviate them. Americans have also appreciated the fact that India is the world's largest democracy, with a Constitution inspired by your own and devoted to the same basic ideals.

Innumerable Indians like myself, who are uncompromisingly dedicated to the cause of freedom and democracy, and unalterably opposed to tyranny and totalitarianism, are conscious that without the USA freedom might have vanished from much of the earth.

You will therefore appreciate the dismay with which we have viewed the tremendous harm done to the relations between our two countries by the attitude officially adopted by the US Government in the last few days in regard to the Indo-Pakistan war.

That, amidst the confusion of events, claims and counter-claims on both sides as to the nature and timing of military activities, the US Government should prefer to believe that the war started because of military intervention by Indian troops on the borders of East Pakistan, rather than by the sudden massive air raids on Indian aerodromes made by the Pakistan Air Force in a pre-emptive attempt to destroy the Indian Air Force, is something that we would disagree with, but could understand.

That the US Government should find itself more in sympathy with Pakistan in its bloody repression of over half its people, which drove ten million of them to flee from their homes and seek refuge in India, than with India which gave them that refuge and now fights in support of their liberation from one of the most brutal tyrannies ever inflicted on a people, is much harder to understand and accept.

But the US Government goes much further. Ignoring the horrors perpetrated in East Bengal over a period of eight months which preceded and caused the war, it publicly accuses India of aggression, and shares with Communist China alone, the honour of openly attacking us in the U.N. and bringing pressure to bear on us by a naval presence in our waters. This, predictably, has had an appalling impact on an embattled people in the middle of a war which, to them, is a wholly just one and in which their very survival is at stake.

The universal reaction in Government, in Parliament, in the Press, and in every organised group in the country, has been swift, unanimous and disastrous for Indo-American relations. From being a friend and supporter, America has, in the eyes of all, become an enemy, second only to Pakistan and on a par with Communist China. As a result, the cause of Indo-American friendship and cooperation is today in jeopardy, to the grievous detriment of both countries. In fact, in the

present context, the loss to America seems to me the greater of the two, for in return it can only obtain, or retain, the friendship and support of a discredited and soon to be defeated military dictatorship, while it will have driven India even further towards an understanding with another country.

It is not for me to criticise the American Government's judgement of events and the conclusions they may reach on such judgement, however erroneous they may seem to me, but, because there is so much about America and its people which I love and admire, I feel entitled to utter to you and other American friends a cry of anguish and sorrow. There is already, I believe, a considerable body of public opinion in the United States which does not approve of the stand taken by the American Government. Perhaps nowhere in the world is public opinion more potent in influencing governmental policies than in the United States.

If you believe, as I do, that Indo-American understanding and friendship is a great force for good in this strife-torn world which should not be wantonly cast away; if you feel, as I do, that the alienation of the goodwill and affection of over five hundred million people is an appalling price to pay for whatever debating points the US Government may want to score against India by openly taking sides in this war, I plead with you to use your influence to help prevent the further deterioration of a situation which is already fraught with the gravest consequences and may soon pass the point of no return. This, I suggest, would require at least that the US Government remain neutral as other countries have done in supporting a call for a cease fire.

The war may probably end quite soon, and there is little time, if any is left at all, to influence its aftermath so far as relations between our two countries are concerned. If therefore you decide, as I hope you will, to take some action in the matter, I would urge that it be without delay.

With kind regards, and warm wishes for Christmas and the New Year,

Yours sincerely,



(J. R. D. Tata)

Mr. Robert S. McNamara
Washington D. C.

Bob -

This is a deliberately one-sided statement to serve as a basis for discussion

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489/3/31
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I am increasingly concerned about the thought of circulating the documents about any Indian projects for Board approval, and I feel that we should not be influenced in our decisions by the position of the U.S. or any other government. Whatever decision we take we should take it as if the U.S. had not made the announcements which appeared over the weekend.

We may speculate about the course of this war all the way from a very early cease-fire as a result of a U.N. General Assembly resolution to the possibility of a long drawn, indecisive campaign. Whatever individual opinions may be on this question, it is clear that the Bank is faced with a situation of great uncertainty. The events of the past week raise doubts which cannot be ignored. If India is successful in establishing Bangla Desh, it will almost certainly fall to India in the first instance to turn it into a viable political entity, with immense implications for India in respect of the diversion of administrative and financial resources. While Bangla Desh maybe a solution to some problems in the long term, its impact on India is bound to require a major reassessment of India's own economic plan. Furthermore, the position is further complicated by the uncertainty which now will surround the provision of aid to India; even the special aid we are expecting to get to meet the costs of the refugees maybe much reduced, without any certainty that the refugee problem will itself be resolved. In such a situation it can at least be questioned whether a prudent financial institution would enter upon very large lending operations.

If we are to compare this situation with the one we faced last March with respect to Pakistan, we would not proceed with further loan considerations. In the case of Pakistan we had negotiated a loan to the Karache Electric Supply Corporation and stopped circulation of the documents to the Board. We could have been quite confident, had we made that loan, that the project would have proceeded as planned until the recent hostilities broke out. Furthermore, we cancelled various missions which were designed to lead to the preparation of further projects for Pakistan. Today, the degree of uncertainty is much greater and I find it difficult to support a more forthcoming policy with regard to India.

I am not concerned about the suggestion that we would be open to the charge that we would be following the dictates of the U.S. In the case of Pakistan the position which we took, in fact, and the expression of our views were entirely contrary to the actions and policies of the U.S. government. What is more, as L. K. Jha said to you, the Bank's standing and your own personal standing in India are high enough for them to accept your advice on what is best for the institution and what is best for India. I cannot believe that it would do the institution any good to present the Board with an issue that might be highly divisive and would almost certainly put the U.S. in a position in which it would have to take yet another unwelcome decision. To do this at a time when the IDA bill is pending and when we need the support of the U.S., seems to me to be inviting trouble, not only for the Bank, but also for India.

I have drafted a paragraph for possible inclusion in the President's report and it is attached. I take no pride in this draft but it will serve to focus attention in discussions with you and Burke. Nonetheless, I find this device unsatisfactory. I suspect that legally it has no validity and that we would, if pressed, have to reach a decision under the terms of the general conditions of lending. Perhaps we are not talking about legality, but then I think a paragraph along these lines is less than helpful. It will advertise that at some time in the future we are going to reach a decision on a matter which may be no clearer than it is now. While it might mollify the 5:30 club, it would not save us from damage in our relationships with the U.S. government. Further, it would attract attention now and later to the Bank's handling of a problem which is much better dealt with in private.

The papers for this project were ready for distribution to Executive Directors for the meeting of December 21. Shortly after they were ready hostilities broke out between India and Pakistan. After some consideration, I decided not to hold up the distribution or to postpone the discussion. Some time will necessarily elapse before the loan can be declared effective. In addition to the usual conditions of effectiveness I would recommend that the loan not be declared effective unless there are good prospects in the circumstances prevailing at that time, that the project will be able to proceed as planned and that no untoward interpretation could be placed on the Bank's action in making the loan.

489/3/32

The President

The processing of this project, in preparation for presentation to the Executive Directors at their meeting on December 21, had been completed by the end of last week, at which time hostilities broke out between India and Pakistan. If the Directors approve the project, I recommend that the Bank be required to determine at the time the credit is to become effective that:

President

1. The financial position of the Government of India is such as to insure that the resources which that Government is to contribute to the project will be available and that the project continues to justify the expenditure of such resources.

The required

2. The project can be completed in accordance with the plan presented to the Board and will achieve the developmental objectives on the basis of which the Board approved it.

Essential Data

3. The project is not related, either directly or indirectly, to military operations which may be underway at that time.



RMcN
12/8/71



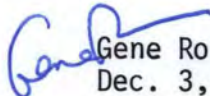
Mr. McNamara

Attached is the formal request for approval of our borrowing from the Bank of Montreal. The Bank of Canada has no objection and favors the loan. I have also spoken to the Assistant Deputy Minister of the Department of Finance, who advised me that he favors the issue and will so recommend to Minister Benson.

The documentation and Board papers will be prepared and distributed in time for the Board Meeting of December 14.

. . .

Note: You will recall that the Bank of Montreal offered us an option of 7-1/8% payable quarterly or 7-1/4% payable annually. The latter proposal is 8 basis points more favorable to us than the former. The cost to us would be 7.11.


Gene Rotberg
Dec. 3, 1971

Attachment

489/3/30

December 3, 1971

The Honorable
Edgar John Benson
Minister of Finance
Department of Finance
Ottawa 4, Ontario
Canada

Dear Mr. Minister:

The International Bank for Reconstruction and Development proposes to borrow from the Bank of Montreal an aggregate amount not exceeding Canadian \$50,000,000.

The Government of Canada is hereby requested, in accordance with Section 1(b) of Article IV of the Bank's Articles of Agreement, to approve this borrowing by the Bank in the markets of Canada. The Government of Canada is further requested to agree, pursuant to the same provision of the Articles of Agreement, that the proceeds of such borrowing may be exchanged for the currency of any other member of the Bank without restriction.

Sincerely yours,

(Signed) Robert S. McNamara

Robert S. McNamara

cc: Department of Finance
International Programs Division

Canadian International Development Agency
Multilateral Institutions Division

OFFICE MEMORANDUM

489/3/29

TO: The President

DATE: November 22, 1971

FROM: D.J. Mitchell

SUBJECT: India

D.J. Mitchell

H. 4200



I have seen the suggestions by Mr. Wieczorowski and Mr. Knight in their memoranda of November 16 and 17 respectively. Since my own ideas on what we should aim to get from the discussion on November 30 may be different from theirs, I should tell you what they are.

2. Negatively -

(a) I think that it would be a mistake if these country discussions were to be seen as in any sense a substitute or specific preparation for consortium meetings, so I am against discussion of future lending programmes or of the respective roles of bilateral and multilateral aid;

(b) I would much prefer that these discussions should not take place at regular Board meetings, for this implies a degree of formality which I regard as inappropriate.

3. Positively -

I am looking for an informal exchange of views, in the atmosphere of a seminar, on the development process in one country and only incidentally on its financing. This could best be launched not with more paper but by an extended presentation by the staff which would give us their personal insight into this process and its problems. The overall programme, sectoral priorities, factors affecting performance (including administrative constraints), the scope for private foreign investment and relations with the Bank at working level - these are some of the subjects I would hope to learn more about. Incidentally, my list does not include international competitive bidding as it applies to Indian contracts, not because I under-rate the importance of the subject but because it has already been aired (in the recent discussion on the transport sector as well as on a number of individual projects), and I know that it is being studied by the staff.

4. If the discussion takes the form I advocate it would naturally follow that Dr. Sen would be free to contribute.

5. My approach may well be less formal and precise and therefore less ambitious than Mr. Wieczorowski's; but this is deliberate, because I believe that we should

(a) move carefully into this new area of Board activity;

(b) regard the primary purpose as to equip ourselves - executive directors, management and staff - better to deal with specific lending operations as they arise.

President has seen

OFFICE MEMORANDUM

489/3/28

TO: Sir Denis Rickett, Mr. Broches, Mr. Merriam

DATE: November 18, 1971

FROM: L. Nurick LN

SUBJECT: IDA Third Replenishment; United States



Attached is a copy of a letter dated October 19, 1971 which Secretary Connally wrote (after some persuasion I gather) to Senator Fulbright at the time when the Proxmire amendment to the IDA authorization bill was being discussed in the Senate.

An interesting aspect of the letter is the last sentence which makes clear that if an appropriation is not enacted the United States would be in violation of an international agreement.

Attachment



THE SECRETARY OF THE TREASURY
WASHINGTON

OCT 19 1971

Dear Mr. Chairman:

I understand that an amendment may be proposed to legislation to authorize contributions to the International Development Association, the Inter-American Development Bank, and the Asian Development Bank to make United States agreement to pay these contributions contingent upon enactment of appropriations. This amendment would impair our ability to assume the legal obligation to make contributions authorized by Congress and could vitiate United States participation in the proposed replenishments of these institutions.

In multilateral replenishments each country's contribution is dependent upon that of each other country. It is on this basis that agreed burden-sharing levels are negotiated, and burden sharing is one of the principal benefits of our participation in multilateral institutions. If the United States is not legally committed to its \$960 million share of the IDA replenishment, other countries will not be obliged to put up their share of \$1.4 billion. The same is true in the IDB where our contribution is \$1 billion against a Latin share of \$500 million.

It is undeniable that an appropriation is essential before any funds can be made available to the international institutions. Our long standing procedure fully recognizes the importance of the usual role of the Appropriations Committee and the appropriations process. I believe these roles should be continued and intensified. The Congress can certainly decide not to appropriate funds in a given year. But it is appropriate that such action only be taken if the reasons for doing so justify a position inconsistent with an international agreement.

Sincerely yours,

The Honorable
J. W. Fulbright, Chairman
Committee on Foreign Relations
United States Senate
Washington, D. C. 20510

OFFICE MEMORANDUM

409/3/27
323-6894

TO: Mr. Robert S. McNamara

DATE: October 21, 1971

FROM: R. A. Clarke

SUBJECT: Mr. Nural Islam

H-4200



Mr. Nural Islam explained to me the status of the Pakistan Institute of Development Economics and the facts of his own employment in the following terms:-

- (i) The Institute was established under an autonomous charter by the Government of Pakistan as an independent organization to conduct basic research on the problems of economic development. It is financed largely by a grant from the Government of Pakistan "with no strings attached" but also by the Ford Foundation and, to a small extent, by the Population Council. The Executive Board of the Institute is appointed by the Government to ensure that public funds are not wasted, but this is the only formal connection with Government. The Institute is in virtually the same position as a grant-aided university.
- (ii) As Director of the Institute, Mr. Nural Islam was in no sense a Government employee. The Institute's rules and regulations regarding the appointment and termination of staff and their conditions of service are very different from those of the Government--for instance, the Institute has no provision for payment of pensions. Mr. Nural Islam's contract of employment was with the Executive Board in accordance with the Institute's terms and conditions of employment.
- (iii) There is no requirement whatsoever that a staff member of the Institute must obtain permission before accepting alternative employment within two years of leaving the Institute's service.

Mr. Nural Islam is, however, aware of such a requirement introduced by the Government for civil servants under martial law in (he believes) 1969 in connection with a purge of civil servants. Under this regulation a civil servant screened out under allegations of corruption is required to obtain Government approval before taking up employment in the private sector within two years of his termination.

2. I have obtained confirmation of the autonomous character of the organization and the fact that its employees are not Government employees from Mr. Wouter Tims, who has had direct experience with the Institute before joining the Bank. The autonomy of the Institute is also confirmed in publications available in the Bank, although these are not explicit on the status of the Institute's employees. I have been unable to obtain from within the Bank any confirmation of the two-year embargo on former Government employees seeking alternative employment.



CANADIAN INTERNATIONAL DEVELOPMENT AGENCY
AGENCE CANADIENNE DE DÉVELOPPEMENT INTERNATIONAL

OTTAWA 4

October 19, 1971.

OCT 26 REC'D

10/26 To MR. GERIN - Lajoie
Paul I have just received
489/3/26
IBRD IIDA
WBG

PRESIDENT
PRÉSIDENT

Mr. Robert McNamara,
President,
I.B.R.D.,
1818 H. Street N.W.,
Washington, D.C. 20433.

Dear Bob:

This letter and am replying tonight because starting with the exception of two days I will not be back in the office until...

I agree the purpose of the meeting should be to identify the main issues in education in relation to development.

I also agree that if possible I.D.C. representatives should assist in...

As one of the persons who joined in urging consideration of a "Bellagio-type" meeting on education, you may have a special interest in my response to the information which I have received from the first planning meeting. My suggestions to David Bell, a copy of which is attached to this letter, have been kept brief and require to be interpreted in the light of the discussion of the first planning meeting convened by the Ford and Rockefeller Foundations on September 21.

As Mr. Duncan Ballantine was a participant in the planning meeting, he could set forth for you the context in which my recommendations for further planning should be viewed.

I should like to emphasize my view that "Bellagio One on Education" be taken, in the first instance, as an opportunity to identify main issues in education in relation to development. These issues should be defined in a way that will help to free us from too much reliance upon specified educational methodologies or undue fondness for certain types of programs.

I should very much appreciate having your reactions to the ideas I have set out in my letter to Dave. I am leaving tonight for India and Pakistan and will be back in my office on November 8.

Sincerely,

Paul Gérin-Lajoie

ENCL.

planning the conference. I question however whether we can avoid discussing pedagogical processes + the articulation of structural systems. I concur in your recommendation #3. Please excuse this handwritten note - I am without a secretary. Best wishes, Paul



CANADIAN INTERNATIONAL DEVELOPMENT AGENCY
AGENCE CANADIENNE DE DÉVELOPPEMENT INTERNATIONAL
OTTAWA 4

October 19, 1971

PRESIDENT
PRÉSIDENT

Mr. David Bell
Ford Foundation
320 East 43rd Street
New York, N. Y. 10017

Dear David:

I am pleased that the planning for a Bellagio-type meeting on education has commenced so auspiciously. Following the planning meeting in New York on September 21 a detailed report was submitted to me. Since then, extensive discussion has taken place among some of my collaborators and myself. I wish to apprise you of my reactions in the hope that they may have some bearing on subsequent planning. My comments will be as brief as possible, touching only upon major policy issues. I would welcome your response to the ideas offered here and hope that we may agree on some key points to be explored in greater detail at a subsequent planning meeting.

RECOMMENDATION ONE

I believe that representatives from developing countries should be involved in planning the projected conference. Since there were no representatives from developing countries at the meeting of September 21, I would urge that at least one more such meeting should be held with these representatives in attendance. I assume that one of the purposes of our planning is to establish a focus for the discussions at Bellagio. I do not think that any such focus should merely reflect the "donor's strategy" for applying educational techniques to development. When I look at it in this light, it becomes imperative that representatives from developing countries should be given a real opportunity to contribute to our preparatory work. I would think that some such person as Senteza Kajubi, National Institute of Education, Uganda, would be an effective contributor to planning.

It also occurs to me that if it has already been accepted in principle that distinguished representatives of the developing countries should participate at Bellagio, both at the highest policy level of discussion and in technical sessions, the selection of these participants is itself a part of the planning process. I do not think that such a selection can be effectively made without the help of persons from the developing countries.

RECOMMENDATION TWO

The Bellagio meeting on education should aim at developing some common view of donors and recipients which will emphasize the centrality of learning in all other aspects of development. Learning systems in their broad relation to certain objectives of development, rather than the narrower matter of techniques or programs of education, should be acknowledged as the central issue. On the technical side, we might give particular emphasis to identifying those "learning systems" that can be used to meet the wide range of demand for educational opportunities that is an integral part of the development process. This approach seems to me to have more merit than one that might suggest that our attention is centered narrowly on pedagogical processes or the development of properly articulated institutional systems.

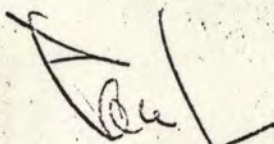
RECOMMENDATION THREE

The Bellagio meeting should isolate essential questions by means of which heads of agencies and officials of developing countries can examine ways in which they may cooperate in shaping programs to meet learning needs. I know that a detailed program or set of priorities for educational aid cannot emerge from a three day discussion. However, I am satisfied that we can at least identify certain of the basic questions that should be asked and answered in shaping assistance requests and responses. Even this much would provide us with a somewhat surer framework in which to work either as agency heads or as government leaders.

I hope that these observations will make some contribution toward establishing the ground-work for the proposed conference. I would appreciate having your thoughts on the issue I have raised. I have written to Bob McNamara enclosing a copy of my letter to you and asking, similarly, for his reactions. I realize that time is a factor in our planning. I am leaving almost immediately for India and Pakistan and will not be back in my office until the 8th of November. However, I will be ready to take the matter up immediately following my return.

Best regards.

Yours Sincerely,

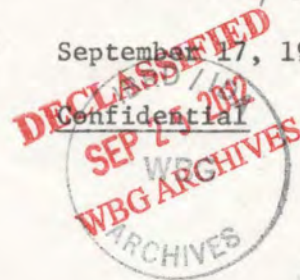

Paul Gérin-Lajoie

OFFICE MEMORANDUM

489/3/25

TO: Mr. Robert S. McNamara
FROM: M. Shoaib
SUBJECT: Recruitment of Mr. Nurul Islam

DATE: September 17, 1971



After a great deal of thought, I have come to the conclusion that I should objectively record my views on the dilemma facing us regarding Mr. Nurul Islam.

Mr. Nurul Islam, whom I know well, is an able economist who enjoys a high reputation and his personal competence and suitability are not at issue here. Further, the right of the Bank to recruit whomsoever it chooses is also not in doubt.

I do, however, seriously question the wisdom of immediately proceeding with the appointment of Mr. Nurul Islam.

In the first place, I believe we were wrong in negotiating with a public sector employee of a member government without the knowledge of his employer. And the Pakistan Institute of Development Economics undoubtedly is in the public sector. In my view this initial error on our part has put us in the wrong and restricts our freedom for subsequent action.

I tried to meet with Mr. Nurul Islam when he was in the Bank in June in order to discuss with him how best we could sort out the situation. Unfortunately, he chose not to meet me. After briefly mentioning the matter to you and to Mr. Knapp, I asked Mr. Clarke to advise Mr. Osman Ali in writing of our intention to appoint Mr. Nurul Islam as Director of the Development Research Center and to await his reply before issuing a formal letter of appointment. A copy of Mr. Clarke's memorandum, which I approved before its issue, and Mr. Osman Ali's responses of July 12, August 6 and 11 are attached. As you see, the Government of Pakistan does not agree to this appointment.

Legally, I think we can proceed with the appointment if we so desire, but I strongly recommend that we do not do so. In the first place, it is a difficult decision at any time to act in defiance of the express objections of a member government, particularly when the government concerned has a long standing and close relationship with the Bank. The present is, in my view, a singularly inopportune time to do so in the case of Pakistan where memories of the recent "leak" are still so vivid. This episode undoubtedly imposed a severe strain on our relations with the government and to proceed with the appointment of Mr. Nurul Islam to a senior position at this time would, in my considered judgment, exacerbate our relations still further.

I am also concerned that by going ahead with this appointment we would give at least the appearance of disregarding the objections of the Government of Pakistan in circumstances when we would accept the objections of the Government

President has seen

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of the United States. We do not confirm an offer of appointment to an American national (whether a government employee or not) without receiving from the government a favorable determination of his loyalty to the United States. The fact that such clearance has, in recent years at least, never been withheld is beside the point. I believe, a few other member governments also seek to impose clearance requirements, although less far-reaching than those of the United States. If this apparent discrimination were to be brought into the open, as it probably would be if we go ahead with Mr. Nurul Islam's appointment, there is a very serious risk indeed that other countries would seek to emulate the United States, and not necessarily with the same objectivity, at the very time when we are looking into the possibility of ending such clearance procedures altogether.

Particularly in the light of the preceding paragraph, I do not believe we can stand on the technicality that Mr. Nurul Islam may not now be a public servant. Even this is not known for a fact for there is no evidence that his services have in fact been terminated by the Institute of Development Economics. On a check by Mr. Clarke, Mr. Nurul Islam admits that he has received no communication from his employers since the cable he forwarded to us with his letter of July 7 (attached).

We are in danger of being criticized whether we go ahead with the appointment or not. I do think, however, that the balance of advantage is heavily in favor of my view which is that we take no action to appoint Mr. Nurul Islam at this time, but rather that we take a suitable opportunity to try and reach an understanding with the Government. I had hoped it would have been possible for me to broach this subject with Mr. M. M. Ahmed during the Annual Meetings but, as you may know, Mr. Ahmed has been hospitalized after being assaulted, and I am doubtful if he will be coming at that time. I suggest, therefore, that we let matters lie until you, Mr. Knapp or Mr. Chenery or I can discuss the problem with Mr. M. M. Ahmed here or Peter Cargill or Gregh Votaw does so in the field.

I can certainly sympathize with the predicament in which Mr. Nurul Islam may find himself and am aware that by delaying we shall run the risk of losing his services. It is possible that, on the strength of our verbal soundings to join the staff on January 1 next, he may have turned down alternative offers of employment. If so, we should try to compensate him financially, if that becomes necessary. In the meantime, I do not think we should use his services, even as a consultant.

Enc.

cc: Mr. Knapp
Mr. Broches
Mr. Chenery
Mr. Clarke

Copy for Office of the President

489/3/24



Dear Dr. Davies:

Thank you for your letter of August 18 transmitting the final report of the third meeting of the ACC Functional Group on the Human Environment, and the third draft of the consolidated paper on the U.N. System and the Human Environment.

I found the consolidated report to be a comprehensive overview of both the activities currently in progress and those planned or envisioned. As a survey of the technical resources available and knowledge existing in each of the specialized agencies for dealing with problems of the human environment, it should prove to be a useful document. I have no objection whatever to your forwarding a copy of the document to Mr. Strong.

The document as presently drafted is entirely silent on the environmental activities of the World Bank Group. Enclosed is a short factual statement about those activities which I suggest might be included in the introductory part of the Annex, where it would find its place alongside the other agency descriptions.

You ask whether I feel that the Functional Group could go further with proposals for future arrangements than is suggested by the technical level meetings. On this issue, I would wish to reserve judgment for the present.

I would be pleased to receive the suggested agenda for the October 19 meeting, if you should decide to hold it, and perhaps at that time may have some further views to offer.

With kind regards,

Sincerely,

Robert S. McNamara

Enc.

Dr. D. A. Davies
Secretary-General
World Meteorological Organization
Geneva, Switzerland

JALee/RHDemuth:tf

SUGGESTED NARRATIVE DESCRIPTION

In 1970, the World Bank Group announced that it was taking steps to ensure that projects receiving Bank Group financing would "... not have seriously adverse, ecological consequences or, if they are likely to have such consequences, that measures are taken to avoid or mitigate them." An Office of the Environmental Adviser was established and commenced operations toward the end of the year. The current activities of this office include: (1) examination of projects under preparation for Bank Group financing with a view to detecting and identifying their impact on the human environment, and on the health and well-being of peoples affected by their presence or operation, and recommending relevant remedies where necessary; (2) developing means to institutionalize environmental and related health/socio-cultural considerations as a routine aspect of project development within the Bank Group, including preparation of appropriate environment/health checklists relevant to several sectors of the Bank Group activities; and (3) coordination of policies and practices in this area within the Bank Group and with other multilateral and bilateral lending institutions.

In addition to conducting the necessary studies to identify the nature and scope of environmental problems and providing for their prevention or mitigation, the Office of the Environmental Adviser also provides surveillance over on-going projects to assess the adequacy of environmental and health protection measures. It also assists borrowers and member countries in their efforts to better understand environmental problems and their correction.

Some ancillary activities have included: consulting with the governments of member countries, at their request, on environmental matters and on ways and means to develop appropriate curricula and training for environmental disciplines; cooperating with U.N. agencies and others in the development of methodologies for identifying and quantifying social costs attributable to development projects; and establishing necessary operational linkages with international bodies important in the Bank Group's environmental endeavours.

September 10, 1971

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Files

I.P.M. Cargill

EAST PAKISTAN

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September 11, 1971

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Mr. Maurice Williams, the Deputy Administrator of AID, called on Mr. McNamara on September 7. Mr. Knapp and I were present.

Williams repeated to Mr. McNamara the account of his recent visit to Pakistan which is recorded in my memorandum of September 7. At this meeting he was a good deal more explicit than he had been in his conversation with me. He made the proposal that the Bank should call a meeting of the Pakistan Consortium to discuss primarily Pakistan's external debt problem for the next few months. He suggested as a possible second item on the agenda a discussion of the current food problem in East Pakistan at which somebody in the U.N. might be asked to make a statement.

After some discussion Mr. McNamara agreed to consider this proposal provided that the main members of the Consortium were willing to attend a meeting for the limited purposes outlined by Mr. Williams; and provided that a meeting of the Indian Consortium could be held at the same time--or at least that the intention to hold such a meeting could be known at this time--to consider the refugee problem in India. He instructed me to make enquiries of the Consortium members whether they would be willing to attend and I have done this.

IPMCargill:cmc

cc Mr. Knapp



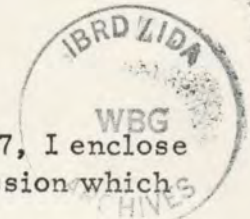
M. M. AHMAD
H.Q.A., S.Pk., C.S.P.,
Economic Adviser to the
President

No. PS/EAP/1758(S)/71.

Government of Pakistan
PRESIDENT'S SECRETARIAT
ECONOMIC COORDINATION AND
EXTERNAL ASSISTANCE DIVISION

Islamabad, July 27, 1971.

489/3/19



Dear Mr. McNamara,

In continuation of my telegram dated July 27, I enclose our preliminary comments on the report of the Bank Mission which visited Pakistan in June 1971.

As you would recall the purpose of this Mission was to review the economic situation and prospects of Pakistan as a prelude to the next meeting of Consortium which I was told could be held in the latter half of July 1971. The Mission, however, seems to have decided unilaterally to restrict its own terms of reference to certain aspects of the political and economic situation in East Pakistan. As a result the nature and scope of this report is entirely different from the usual Bank Reports and it does not appear to serve the purpose with which the World Bank as a development institution is really concerned. We are also surprised that this report, which does not contain any policy recommendations concerning the World Bank should have been circulated to all the Executive Directors, rather than the Executive Directors of the Consortium countries.

The Mission appears to have based its findings substantially on hearsay evidence and personal observations with no attempt to record in its report the views of officials or authorities whose actions and motives are so freely discussed. The report reads more like a journalistic record rather than a professional document expected from an institution like the World Bank.

Worst of all, the report seems biased and imbalanced in its judgements. It is full of sweeping language to support negative conclusions but very guarded in relation to anything that appears to be favourable.

The report is also unconstructive and contains few suggestions to improve the situation within the given constraints. But it does go out of its way to make two unwarranted suggestions: first that arrangements should be made to reduce the visibility of the Army and second that the present military Governor of East Pakistan should be replaced by a civilian.

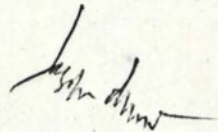
It is unfortunate that such a report should have been written and even more so that an earlier and more damaging version should have fallen into the hands of the press. The newspaper stories that have appeared so far would certainly strengthen the Indian campaign to press for the suspension of economic assistance to Pakistan and to aggravate our present difficulties.

cont'd.....

I hope it will still be possible for the Bank to take some steps to redress the damage caused to Pakistan's economic and political interests by this unfortunate document and to prevent further strains in Pakistan's relations with the World Bank.

With regards and best wishes,

Yours sincerely,



(M. M. Ahmad)

Mr. Robert S. McNamara,
President,
International Bank for Reconstruction
and Development,
1818 H Street,
Washington, D. C.

GOVERNMENT OF PAKISTAN
ECONOMIC COORDINATION
&
EXTERNAL ASSISTANCE DIVISION

.....

Subject: Report of the World Bank Mission of
June 1971 on East Pakistan.

The report issued by the South Asia Department of the IBRD date-lined July 8, 1971, is concerned exclusively with the situation in East Pakistan. This represents a unilateral decision of the Mission to restrict its own terms of reference. In inviting the Mission, our intention was to give the World Bank staff an opportunity to assess the economic situation and prospects of the country, including East Pakistan, as a preliminary to convening a meeting of the Consortium to discuss aid requirements and debt re-arrangements. No such purpose is served by this report. Given the close complementarity of the economy of the two regions, a discussion of the problems of West Pakistan was required, if for no other reason than to determine the ways in which assistance could be rendered for rehabilitation of East Pakistan.

2. The report is almost entirely based on personal observations during a limited period of time. No official source has been quoted for any of the information recorded. The use of hearsay evidence is justified by the unconvincing statement in para (iii) of the foreword that "some treatment of these matters is necessary in order to round out a description of the situation in East Pakistan". The report is entirely one-sided and shows no evidence that the Mission sought to obtain or to record the views of the authorities whose actions and motives are questioned.

3. Statements are made which involve speculative assumptions about continued insurgent activity, especially in the border areas. There is

no indication of how these assumptions have been arrived at nor any reference to the complicity of Indian authorities in aiding and abetting such activities by providing sanctuary, training and arms to insurgents. An international institution while feeling free to castigate one member government is silent on the actions of another member government which directly contributes to the difficulties that are being described.

4. The Mission has also tried to guess at the thinking and attitudes of various elements in the population, as evident from frequent references to the psychological impact of the conflict. The authorities are claimed to have "little understanding" of the complexity of the problem of economic revival (para ii of Foreword). Managerial staff and labour are said to be "probably intimidated by the continuous presence and actions of the Army" (para 13). Provincial government officials are "functioning perfunctorily at best", (para 14). Reference is made to "general loss of confidence which affects both trading and financial relationships" (para 39). The "position of Pakistani banks remains depressed" (para 42). Contracting firms are not only "thoroughly demoralized and afraid" but with few exceptions are "unwilling to even think" of returning to work (para 53). Most college and university professors are alleged to be "demoralized and afraid" (para 54). These statements imply knowledge of thoughts and motivations which can only be guessed at and are incapable of proof.

5. The apparently biased nature of the report is indicated by the sweeping language used in formulating negative findings and highly guarded language used in stating anything favourable. Thus, "all districts remained very far from normal" (para 15); all farmers have lost times in the fields and all farm operations have been delayed (para 16). There is found to be "no evidence to support the

budgetary estimates" (para 62); the rupee resources in prospects for East Pakistan would be "totally inadequate" to meet the needs of the situation (para 65). There is "absence of any forces that might be relied upon to generate a strong momentum towards normalisation", (para 66); there is "complete dislocation of the communication system" and almost complete absence of movement of people, and of exchange of goods between regions and sectors anywhere within the province" (para 70). Finally it is stated that "it may also be too late to prevent starvation in all areas of the province" (para 73). On the other hand, possibilities of improvements are dismissed as not being supported by any "concrete evidence" that they "were about to happen" (para v of Foreword). The claim of the navy that it can operate Chittagong port with less than the required complement of labour is qualified as being "probably true to some extent" (para 27).

6. Although an intended trip to the cyclone disaster area was cancelled (as stated in para ii of the Foreword) some provocative statements have been made about this area which can only create hostile reactions among countries which made a generous effort to help us cope with the unprecedented natural disaster. It is alleged that "jeeps and LCTs intended for relief work in the cyclone affected areas were also commandeered" (para 4). Population is reported to have "doubled in areas of Pattaekhali and other parts of the coastal region where the food situation is already critical and there is serious doubt that even the normal population can be supplied with adequate foodgrains over the coming months" (para 6). People "are already going hungry" (para 20).

7. After stating that specific suggestions in the area of measures affecting the general atmosphere of the province are outside the Mission's competence, the Mission's report proceeds nevertheless in the very next sentence to make two suggestions: (i) "that any

interim programme would have to include, as essential elements, arrangements that would reduce the visibility of the Army so as to reduce a major source of fear among people" (para 72); (ii) "that progress in the latter direction might be facilitated by the Central Government posting a high level administrator in East Pakistan to serve, during the interim period as the head of the Civil administration" (thereby proposing that the present Governor of East Pakistan should be changed). Recommendations of this type are hardly within the competence of a technical Bank mission.

8. At the end of the report, the Mission concludes that it is "unable to suggest concretely by what programmes and measures the Government could be most helpful in stimulating the economic recovery in the province" (para 77). This is an unconstructive approach in concluding a report the terms of which are clearly not those set by the Government.

9. The fundamental problem with this report is its unrealistic and biased approach. It proceeded from the assumption that everything in East Pakistan should have been 'normal', although it was known to the Mission that economic activity had come to a standstill in East Pakistan from early March, and the process of recovery after such large scale upheaval could only be gradual. By the first week of June when the Mission visited Pakistan various sub-sectors had revived partially. Since then the progress towards normalcy had been better than predicted by the Mission in this report. For example, exports from East Pakistan during the month of the Bank Mission's visit (June 1971) were Rs. 95.6 million compared to Rs. 124.1 million in June last year. The production of jute goods had also recovered to about one third of the normal production. It was 16,000 tons in June 1971 compared to 49,249 tons in June 1970.

On the fiscal side total customs duties levied in the months of May and June 1971 amounted to Rs. 62.3 million against Rs. 80.9 million for May-June 1970. Of these Rs. 2.03 crores have been actually collected and Rs. 4.0 crores deferred against bank guarantees.

Considering the difficulties inherent in the situation this improvement is quite encouraging. The report however totally ignores the positive elements in the situation. The Government of Pakistan had agreed to the visit of this Mission at a very difficult juncture, in the expectation that a team of international experts would produce an objective and constructive report.

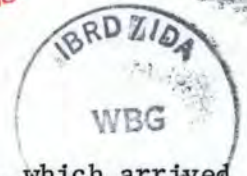
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OFFICE MEMORANDUM

489/3/18

DECLASSIFIED
DATE: July 22, 1971
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SEP 25 2012

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TO: Mr. Robert S. McNamara
FROM: Gregory B. Votaw
SUBJECT: Pakistan - Recent Developments

Attached please find M. M. Ahmad's letter of July 12, which arrived July 21. Obviously his letter was written before he knew of the more explosive articles in the Post, July 10th, and the New York Times, July 13th. I have sent a non-committal acknowledgement (also attached).

I would be very reluctant to schedule another meeting of the Consortium, given the publicity associated with even informal consultations, until there is some prospect of the meeting being successful. This is also the traditional posture of the Bank when scheduling aid group meetings. I see no such prospect at the moment, and I find it curious that the Government of Pakistan is pressing so hard for a meeting at a time when it is unlikely to result in an outcome which they could consider constructive. We are certainly in no position to make any sort of meaningful recommendation regarding future development assistance; our comments would have to be limited to the urgent need for food relief, including rehabilitation of the transportation system to deliver food supplies up-country, and gratuitous advice on the need to find a satisfactory political solution to the refugee problem (which is not strictly within our terms of reference as a development finance institution).

I believe Mr. Cargill shares this view, but I am sure that one of the first things he will want to do after his return to the Bank on July 30 is to make a decision regarding the date and character of any meeting on Pakistan which might be scheduled this fall. In his letter of June 30 to M. M. Ahmad on June 30, Mr. Cargill had said, "Nobody /at the June 21 meeting/ wanted to have a meeting in July, and given the wholly unwelcome attention which this last meeting has attracted, I am sure that it would be a mistake to call a meeting until some positive results can be assured."

Mr. Hattori informed me this afternoon that Japan seems to have suspended disbursements on its existing loans to Pakistan in response to the "moratorium" which Japan and all other members of the Consortium consider a default. We are awaiting further details on the Japanese action. If the suspension is confirmed, Japan would be the first Consortium member to have taken such action; it is entirely possible that they will resume disbursements, since Japan generally does not like to be out of step with its major Consortium partners.

Meanwhile, Mr. Osman Ali continues to ask why we have not recommended lending for projects such as KESC, on which documents were negotiated in March. He is most reluctant to accept the explanations which we have offered

President has seen

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July 22, 1971

Mr. McNamara

- 2 -

repeatedly, i.e., our inability to recommend lending to any member country which is in default with its major creditors, questions about creditworthiness prospects quite independent of the default, and questions about absorptive capacity given overwhelming uncertainties about the size of Pakistan's development program and doubts regarding implementation capacity due to the government's preoccupation with overwhelming political issues. I expect he will raise with you the question of why you are not now recommending new financing to Pakistan and press you to give a definition of the conditions under which you might be willing to make a new recommendation. I do not see how we can define such conditions in advance and have already indicated that we would be constrained by many new factors today, even if the long-deferred policy reform package were implemented, which could only be in some superficial form under present circumstances.

Attachment

cc: Messrs. Cope, Wm. Clark, Blobel

GBVotaw:jw

July 22, 1971

Mr. Musaffar M. Ahmad
Economic Adviser to the President
Government of Pakistan
Islamabad, Pakistan

Dear Mr. Musaffar Ahmad:

This is just to let you know that Peter Cargill was still away on leave when your letter of July 12 arrived. As he is expected to return in another week, I will leave it to him to respond to the various issues you raise and the suggestions you make in your letter.

Sincerely yours,

Gregory B. Votaw

cc: Mr. Cargill
Mr. Votaw

MUSlabel:ad

M. M. AHMAD

H.Q.A., S.Pk., C.S.P.,

Economic Adviser to the
President

Islamabad, the 12th July, 1971.

My dear *Peter*,

Thanks for your letter dated 30th June, 1971, in which you have written to me regarding the informal meeting of Heads of Delegation to the Pakistan Consortium in Paris on 21st June.

Unfortunately this particular Consortium meeting has received very unfavourable press coverage and has evoked a very sharp reaction within Pakistan. Despite some clarifications particularly from the U.S., the impression that the Consortium and the World Bank are adopting a political posture continues to gain ground. This impression was created and strengthened by two reports, one from the B.B.C. on 21st June and the other in 'Washington Post' of 26th June. The B.B.C. reports said "Between the lines the meaning of the communique is clear - that there will be no further aid on this scale until the Pakistan Government reveals what sort of political settlement it envisages for East Pakistan." The Washington Post Report contained many harmful comments attributed to the World Bank team and concluded that the Consortium members "strongly influenced by a devastating report from Peter Cargill" quietly agreed to postpone indefinitely any new economic assistance for Pakistan.

These press reports coincided with statements issued by the British Foreign Secretary. In one he said, future aid to Pakistan will be dependent on a political settlement in East Pakistan and in the other, issued jointly with the Indian Foreign Minister he said "to ensure the return of displaced persons to East Pakistan a political solution



Government of Pakistan
PRESIDENT'S SECRETARIAT
ECONOMIC COORDINATION AND
EXTERNAL ASSISTANCE DIVISION

-2-

M. M. AHMAD
H.Q.A., S.Pk., C.S.P.,
Economic Adviser to the
President

must be found which would be acceptable to the people of East Pakistan."

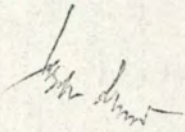
The reaction in Pakistan might have been milder if the Consortium had announced some date for its next meeting or at least the Bank had issued some clarification contradicting the misleading press reports.

Apart from the inevitable strains which these developments have created in Pakistan's relations with the Consortium, continuing evidence of strain in the maintenance of aid relationship and particularly in completing the debt relief exercise would certainly aggravate the situation in both the Wings of the country.

I hope you can give some thought to the unfortunate situation which is developing and in particular it is important that we reach some agreement on the debt question before the end of September so that we do not have to extend the moratorium beyond six months.

I hope you had a nice holiday.

Yours sincerely,


(M.M. Ahmad)

Mr. I.P.M. Cargill,
Director,
South Asia Department,
I.B.R.D.,
1818 H Street,
Washington D.C. 20036

DECLASSIFIED
PERSONAL AND CONFIDENTIAL
SEP 25 2012

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Dear (all other members of the Senate),

I have been given confidentially a complete copy of the report of the World Bank mission to East Pakistan undertaken last month.

This report was submitted July 8 and transmitted to member governments July 10. It is much more detailed and substantively different than the recent New York Times account of the report, which was based on an earlier draft.

The report remains an internal Bank document and is being treated confidentially by the Executive Branch. I would hope to maintain that discretion and avoid any embarrassment to the Bank in a sensitive matter. After reading the report, however, I felt strongly that I should share it with you confidentially.

For your ~~convenient~~ convenience, I have included a collection of significant excerpts from the report. But the entire document, dealing as it does with the fate of more than 70 million lives, deserves ~~to be~~ thorough reading.

The Senate will soon be considering various pieces of legislation relating to our foreign assistance policies and the conflict in East Pakistan. This report, compiled by an international group of experts, is authoritative confirmation of the picture earlier portrayed in the press of gathering disaster and senseless, paralyzing military repression in East Pakistan.

I hope you will consider this remarkable report most carefully and lend your support to Senate action to bring an end to any further complicity of the United States in this tragedy.

With warmest regards,

Walter F. (?) Mondale

Distributed between 4:00 and 4:30 p.m., July 15, 1971

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48913/76

OFFICE MEMORANDUM

TO: Mr. McNamara

FROM: M. Shoaib *Shoaib*

SUBJECT: Leakage of the Report on Pakistan
to the Press

DATE: July 24, 1971



From what I have heard from the Pakistanis, including the acting Head of the Pakistan Mission here, it seems that a very sharp and strong protest from Pakistan in regard to the leak is to be expected.

From what I can judge the position will be taken that staff members of the Bank have jumped to conclusions on insufficient evidence, have commented on political aspects and have "deliberately" leaked the report and the staff notes to the Press.

I tried my best to calm them down but I am not sure that I succeeded too much. I have a suspicion that they may have recommended suspension of repayments of Bank loans.

You may like to consider what action, if any, you might take with the Government of Pakistan to soothe their feelings in regard to the leak.

cc: Mr. Knapp

President has seen

489/3/15

OFFICE MEMORANDUM

CONFIDENTIAL
DECLASSIFIED
SEP 23 1971
WBG ARCHIVES

TO: Mr. Robert S. McNamara

DATE: July 14, 1971

FROM: John E. Merriam

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SUBJECT: Your Conversation with George Meany,
Thursday, July 15, 1971 - 10:30 a.m.

Background

The AFL-CIO has just concluded a national conference on jobs (July 12 and 13 at the Sheraton-Park). While a number of other topics were discussed, the question of job-export via the investment policies of the multinational corporations dominated the discussion. Considerable anger was shown by the delegates, particularly from Textile, Garment, and Footwear Unions. At some points Meany himself was challenged with the cry for "action." Our observer reports that American-owned multinational firms were accused of sacrificing American jobs in a "game of checkers in seeking cheaper and cheaper labor markets for manufactured goods that are ultimately consumed by the United States purchaser." Among nations mentioned were Japan, Mexico, South Korea, Taiwan and Yugoslavia. The international corporations, not the countries, were regarded as culprits. (Korea is still eligible for IDA; Mexico has just received an IFC investment in textiles -- see below).

The key to the issue, as seen by Labor's analysts, is that the system of moving U.S. workers into higher skills, as other countries with cheaper labor move into competition in the lower skill range, isn't working.

Germany, Japan, et al, have come abreast of the U.S. in technology, and are thus able to take over export markets for high technology production that would otherwise be supplied by U.S. labor. At the same time these developed countries have closed their markets to U.S. products. Job expansion in the U.S. is thus restricted across the full range of technology.

The Nixon Administration has been slow to produce a manpower plan. Its laissez-faire approach probably prevents it from ever being truly effective in such a program.

Suggested Approach

1. IDA lends to countries and projects that generally do not compete with American exports but in many cases promote exports.
2. By increasing the flow of total trade IDA increases U.S. trade (and jobs) by direct procurement, and by keeping nations creditworthy for other trade arrangements.

Goldfinger

3. IDA promotes better living and working conditions for workers throughout the world -- and contributes to a more equitable distribution of income.

4. By insisting on international standards of bidding and pricing, the Bank Group is a powerful force against cartelization and against restrictive trade practices of international business.

5. Finally, IDA is a means of working with the Third World without direct U.S. political involvement -- meaning less risks of American boys going overseas.

Questions and Answers

1. Why doesn't the Bank do more about Fair Labor Standards?

Labor standards are regulated by Member governments. IDA has concentrated on maximizing employment. This has been done through loans to small farmers and small industry and in using more labor-intensive techniques in road building, etc. IDA is also attempting to develop projects to equalize income distribution. Employment is a major concern of the Bank.

2. Does IDA export jobs?

No, IDA projects -- now totalling almost \$3 billion in commitments -- have been largely devoted to infrastructural development. Only 4 percent have gone to industrial projects, and one-fourth of that amount went to one project -- for the expansion of a fertilizer plant in Indonesia, a scheme in which IDA shared responsibility with USAID.

More important, 35 percent of all IDA credits have gone to transportation and communications projects -- highways and railroad development. (As of December 31, 1970, almost \$100 million in transportation equipment needed for IDA projects had been procured in the U.S.). General development loans formed 24 percent of IDA credits, and 69 percent of all procurement for multi-purpose loans came from the U.S. And in the same way, it would be difficult to make out a case for "job exports" for loans for agricultural development (23 percent), power development (6 percent) and education (6 percent).

3. Does IDA concentrate on import substitution -- thereby reducing the U.S. share of the LDC market for manufactures?

Almost all LDC's operate at or near the limit of available foreign exchange. Virtually any expansion of foreign exchange receipts will result in increased importation. A successful import substitution usually results in a shift in import composition -- frequently toward higher technology items -- but not a decrease in exports.

4. Why does the U.S. receive only fifty cents back in procurement for every dollar the U.S. contributes?

Procurement is only one benefit received by U.S. exporters from IDA. IDA expenditures for infrastructural projects (education, project preparation and the like) enable LDC's to generate future economic growth, thus permitting them to be in a position to import additional goods from the U.S. For instance, India and Pakistan, main IDA recipients, import from the U.S. about twice as much as they export to this country.

5. Won't the untying of aid adversely affect U.S. procurement under the U.S. Foreign Aid Program?

There are varying estimates on this. No one is sure. Untying will not reduce procurement in the U.S. under IDA since it already deals in free exchange. In fact, the reverse is probably true, since a number of LDC's use tied dollars to cover their U.S. purchases and spend their free money elsewhere. IDA's procurement levels would probably come much closer to U.S. contributions.

(Comment on untying -- no U.S. legislation will be necessary for this step although consultation with key committees is foreseen by AID. It will take at least six months after agreement before U.S. approval would come into effect. There are still some holdouts -- notably France.)

6. Does IDA take away business from the Ex-Im Bank and thus reduce U. S. exports -- as in the case of the recent Brazilian steel mill problem?

Examples of conflicting interests are rare, particularly in the case of IDA which does little industrial lending. There are more examples where our efforts are clearly complimentary, as in the case of a pending Bank loan to a Brazil iron-ore development (Sepetiba Bay) which has allowed Ex-Im to finance \$17 million in locomotive exports (an additional \$13 million worth of locomotives will be financed by U.S. commercial banks).

7. How many jobs do you think IDA creates in the U.S.?

According to standard input-output tables (estimating \$30,000 per job created per year) IDA should directly create and sustain through procurement under the Third Replenishment, 3,000 to 5,000 jobs per year. This may be low since IDA procurement is frequently drawn from firms who are trying to utilize excess capacity by meeting the world market. This estimate does not take account of the effects employment of IDA's local expenditure.

8. Why did the Bank lend to Celmex, a firm which exports textiles to the U.S.?

IFC is the private enterprise arm of the Bank operating on a

strictly commercial basis. Its minority (\$8 million) holding in Celmex is designed primarily to improve domestic Mexican sales. Only 5 percent of sales in 1971 are expected to be exported.

(Comment: One of five Celmex plants is located on the Mexican border at Rio Bravo. Clearly it must be selling to the U.S. The President's Report was not explicit on the export effects of the IFC investment, nor on the extent to which the Rio Bravo plant would benefit).

Attachments: Tables
JEM:pam

cc: Mr. William Clark

TABLE I

IDA Disbursements to December 31, 1970 \$m.

	<u>Industry</u>	<u>Agriculture</u>	<u>Program, Loans</u>	<u>Education</u>	<u>Other Infrastruc- ture includ. Pro- ject preparation</u>	<u>Total</u>	<u>%</u>
India	-	55.5	541.2	-	445.0	1041.7	57.1
Pakistan	6.5 (1962)	141.5	50.0	10.6	71.9	280.5	15.4
East Asia	4.9 (Taiwan 1961)	7.0	-	0.1	33.9	45.9	2.5
W. Hemisphere	-	14.8	-	0.4	96.7	111.9	6.1
African Franc Zone + Algeria, Morroco Tunisia.	-	12.7	-	16.4	35.8	65.0	3.6
Other Africa	-	28.7	-	30.5	121.0	180.2	9.9
Other	34.7 (Turkey 1962-6)	30.8	-	0.3	32.0	97.8	5.4
Total	46.1	291.0	591.2	58.3	836.5	1823.0	100.0
%	2.5	16.0	32.4	3.2	45.9	100.0	
Total Disbursed & Undisbursed	104.0	657.9	655.0	180.5	1288.7	2886.1	
%	3.6	22.8	22.7	6.3	44.7	100.0	

Source: P & B

TABLE II

Undisbursed IDA Commitments
to Industry, up to December 31, 1970

Pakistan	22.9	
East Asia	30.0	(Indonesia Fertilisers)
Africa	<u>5.0</u>	(Congo)
	<u>57.9</u>	

Source: Controllers Department

JUL 8 1971

Dear George:

I had hoped to be able to speak with you on the telephone last week but found that you were away.

Once again IDA, the Bank's concessional lending arm which provides assistance to the poorest of the world's nations, has run out of commitment authority because of a delay in providing the U.S. contribution. In the past, the AFL-CIO has provided a strong voice in support of expeditious action.

As you know IDA funds are spent almost entirely on projects aimed at building infrastructure and at social development. IDA projects do not create competition for American industry. At least half of U.S. contributions return for procurement of American products, and additional U.S. exports are generated out of IDA's expenditures in recipient countries.

It is my personal opinion that IDA is of considerable value to the foreign policy of the United States, and of other member nations, since it promotes economic growth and political stability in the Third World without direct national political, or, indeed, military, involvement.

Knowing of the interest of organized labor in the United States in promoting balanced growth of job opportunity at home and abroad, I would welcome an opportunity to talk these matters over with you, and hope that you can again give us a helping hand when we need it. Please give me a call.

Sincerely,

15/ Bob Mc Namara

Robert S. McNamara

JEM:pam

The Honorable
George Meany
President
AFL-CIO
815 - 16th Street, N.W.
Washington, D.C. 20006

OFFICE MEMORANDUM

N.Y. 488/3/14
4200

TO: Mr. Robert S. McNamara

DATE: July 14, 1971

FROM: J. Burke Knapp

SUBJECT: East Pakistan

I want to call your attention to one particularly misleading consequence of the publication in the New York Times of a preliminary draft version of our report on East Pakistan.

This mornings New York Times, for example, contains the following paragraphs.

"The World Bank also offers strong practical grounds for a moratorium on development assistance. Contrary to Pakistani Government claims, the mission reports that 'the situation is very far indeed from normal, nor are there any signs that normality is being approached or that matters are even moving in that direction'. Citing disruption in East Pakistan caused by 'the general sense of fear and lack of confidence on the part of most of the population' and 'the complete dislocation of the communications system', the report concludes that new international development efforts 'will have to remain in a state of suspension for at least the next year or so'.

"Ten members of the eleven-nation Aid to Pakistan consortium apparently concurred with that finding when the group met in Paris last month. The United States inexplicably did not. Continuation of American development assistance to Pakistan is incomprehensible in the face of that international consensus and of the damning evidence contained in the World Bank report."

These paragraphs rest heavily on a sentence in the preliminary draft report reading as follows:

"One implication of this set of priorities is that the development effort will have to remain in a state of suspension for at least the next year or so."

This sentence does not appear in the final report as circulated to the Executive Directors, and even in the preliminary draft report it immediately followed a sentence stating that "Any remaining available resources must be directed to rehabilitation and reconstruction and to breaking the most important and most persistent physical and organizational bottlenecks impeding efforts to get the economy going again." In other words, the preliminary version was making a distinction between rehabilitation and reconstruction and long-term development. Bad as the situation may be, there was no finding that external aid to East Pakistan (beyond immediate relief and food aid) would have to be suspended for "at least the next year or so". On the other hand, it no doubt remains true that even rehabilitation and reconstruction measures must await the restoration of some degree of public order and the restoration of at least a minimum civilian administration.

President has seen

CORNELIUS E. GALLAGHER
13TH DISTRICT, NEW JERSEY

7/13 To Mr. Gallagher

489/3/13
COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL ORGANIZATIONS AND MOVEMENTS—CHAIRMAN
SUBCOMMITTEE ON EUROPE
SUBCOMMITTEE ON ASIAN AND PACIFIC AFFAIRS
SUBCOMMITTEE ON NATIONAL SECURITY POLICY AND SCIENTIFIC DEVELOPMENTS
COMMITTEE ON GOVERNMENT OPERATIONS
SPECIAL SUBCOMMITTEE ON INVASION OF PRIVACY—CHAIRMAN
SUBCOMMITTEE ON SPECIAL STUDIES
SUBCOMMITTEE ON LEGAL AND MONETARY AFFAIRS

Congress of the United States
House of Representatives
Washington, D.C. 20515



July 12, 1971

Honorable Robert S. McNamara, President
International Bank for Reconstruction and Development
1818 H Street, N. W.
Washington, D.C. 20433

Dear Mr. McNamara:

Recent news reports have commented on the contents of a World Bank report describing the situation in East Pakistan. According to The Washington Post of July 10, 1971, the highlights of this official document are as follows:

1. A continuing reign of terror exists in East Pakistan.
2. Urban life in East Pakistan has been shattered and the economy is paralyzed.
3. Active guerilla resistance is likely to continue.
4. Widespread famine will occur in the Fall.
5. The administration of President Yahya has failed to inform itself of the world-wide condemnation of the actions of his Army in East Pakistan.

As you may know, I have made exactly these points in numerous speeches I have made on the subject, and many are highlighted in the hearings held by my Asian and Pacific Affairs Subcommittee during May. I have also introduced legislation to the Foreign Assistance Act to preclude all aid to Pakistan.

It would fulfill a definite legislative purpose if I could be provided a copy of the World Bank's report as soon as possible. The Committee on Foreign Affairs is marking-up the Foreign Aid bill at this moment and the opinions of the prestigious World Bank would lend much credence to the arguments of those of us who want sanity brought back to our relations with the Government of Pakistan.

With continued best wishes, I am,

Sincerely,

Neil

CORNELIUS E. GALLAGHER, Chairman
Asian and Pacific Affairs Subcommittee

CEG/cpw/cb

*Neil, re NY Times 7/10
this morning reports a major part of the Bank report. Further information from it should be obtained from the U.S. Director of whom a copy was distributed 7/10.
Best wishes
Bob*

Yale University *New Haven, Connecticut 06520*

489/3/10

DEPARTMENT OF ECONOMICS
Economic Growth Center
Box 1987, Yale Station

July 7, 1971

Mr. James Dyek
Personnel Department
International Bank for Reconstruction
and Development
1818 H Street N.W.
Washington, D.C. 20433

Dear Mr. Dyek,

This is in response to your query about my relationship at present to the Pakistan Institute of Development Economics. I have received a cable (copy enclosed) from the Pakistan Institute dated 25th June 1971 requesting me to report for duty at the Institute on the 15th August, failing which my services will be terminated. Under the circumstances prevailing in Pakistan, I do not intend to go back and therefore, my services accordingly stand terminated. This confirms my telephonic statement to you the other day that I have no longer any association with the Institute.

Thanking you.

Yours sincerely,

Nurul Islam

N. Islam

NI/ca