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Subject / Title
Office of the President - President's Council Meeting, January 4, 1981.

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822/9/2

OFFICE OF THE PRESIDENT

President's Council Meeting, January 12, 1981

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chaufournier, Chenery, Golsong, Hopper, Paijmans, Qureshi, Thahane, Wapenhans, Wuttke, Alisbah, Chang, Hittmair, Kapur, Kirmani, van der Tak, Vergin

Lending Rate

Mr. McNamara reminded participants that tomorrow the paper on the IBRD Lending Rate is scheduled for discussion at the Board. He asked Messrs. Qureshi and Hittmair to report on where the Bank stands on the lending rate issue, especially in view of the dramatic recent changes in the outlook for borrowing costs, particularly in the U.S. Mr. Hittmair reported that the average borrowing cost estimated in December was 9.11%. At that time, it was decided to fix the lending rate at the rounded figure of 9.60% to reflect the Board's decision that there should be a spread of 50 basis points between the average borrowing cost and the lending rate. In the meantime, however, there have been ups and downs in the U.S. market. As of last Friday, the situation is back to the point of December. The most recent estimate (last Friday) is that the average rate of borrowing would now be 9.08%. Mr. McNamara commented that, despite those dramatic changes in the U.S. (35-50 basis points), the Bank is still very close to the original estimate, and the rounded estimate for the lending rate would remain the same at 9.60%. He mentioned, however, that there is still something rather illogical in that approach.

Mr. Qureshi said that, in the past six months, the Bank borrowed approximately $3 billion, and there are still some $3.6 billion equivalent to borrow before the end of the fiscal year. Of these $3.6 billion, the Bank expects a substantial amount of U.S.$ borrowing, on the order of $1.1 billion. In the proposed borrowing program, the share of U.S.$ borrowing has obviously a great weight on the total average rate. There is special concern for the kind of formula which the Bank uses in determining the lending rate. In addition, there has been a deterioration in the U.S. market in the last three days in the order of 50-60 basis points. Mr. Qureshi explained that the formula currently in use stipulates that the borrowing rate should be centered on January 1, looking back on the actual borrowing cost of the past six months, and looking forward at the estimated cost over the next six months, and adding 50 basis points to obtain the proposed lending rate for the next period. The Board policy adopted in 1979 also stipulates that there should be a review for making adjustments in the lending rate as necessary. When the formula was agreed, there were already a number of different views and interpretations as to the basis for the interim reviews. Mr. Qureshi explained that there are two basic schools in the Board and one individual approach. In the first instance, some argue that there should be as automatic an adjustment as possible and rigid enforcements of the rule of the 50 basis points spread. In the view of others, there should be more flexibility, and emphasis should be placed on the longer-term objectives, e.g., the Bank income level objective. Then there is the individual position of Mr. Looijen. Mr. Looijen's interpretation for the adjustment at the interim review is essentially: on January 1, the decision is based on the actual cost for the past period and estimates for the next six months; in June, the Bank should adjust by the margin by which the estimates were incorrect. For example, if from January 1 to June 30 the estimate were 10.17%, and it is found in June that the real rate is 10.27%, then the Bank should adjust by 10 basis points. Mr. McNamara illustrated Mr. Looijen's point further by saying that, if an error were made for the first half of the calendar year, then the adjustment for the second half would be made irrespective of the estimate for this second half, but rather only on the basis of the actual rate for the first half. Mr. Qureshi commented that Mr. Looijen's approach has some logic. However, Bank management explained to Mr. Looijen that management's view is that the lending rate should be as close as possible to the 50 basis points spread in June, and, more importantly, it should be as close as possible to the market rate. Mr. Qureshi explained that Mr. Looijen's argument is that these considerations were not clearly articulated. Mr. McNamara emphasized that Mr. Looijen's point is that this was not articulated at the time of the Board decision in July 1979.

Mr. Chaufournier raised the point as to what is the objective of the formula. Mr. McNamara said that he always thought that it is not possible to manage this institution by formulae. He further explained that, when the formula was developed, the basic philosophy was to obtain a lending rate as low as possible for the lowest level of income consistent with the lowest possible borrowing cost. In that respect, the most recent income projections for the 10-year period FY80-FY90 (established on December 15, 1980) are very close to the estimates made at the time the present lending rate policy was established, with its 50 point spread (May 1979). Therefore, the present formula has led to a reasonable level of income, the basis of which is financial prudence. The problem with the formula, however, is that it does not address this fundamental objective of income level, and furthermore the formula is related to commitments and not to disbursements. Mr. Chaufournier said that, if he understood correctly, the main difference with Mr. Looijen's position is that the Bank formula would be to stick closer to the market rate. Mr. McNamara agreed. He added that the main reason for having a formula is that there is a controversy in the Board about the financial management of the Bank. He emphasized that all of the senior management of the Bank should remain aware of the fundamental issue which is the necessity to have prudent financial management for the institution.

Mr. Baum asked whether the income level estimated in 1979 at about $8.3 billion for the 10-year period is still acceptable in view of the inflation and other factors. Mr. McNamara replied that, in his view, it was acceptable. He explained that originally he thought this level was too high. He reiterated the need to watch very carefully what develops from this income side. If the rate of inflation continues as in the recent past, the market will have to adjust to the circumstances and the Bank will have to move along, keeping in mind the income objectives. In essence, the Bank is getting into a new decade in the 80s where it will have to face very different circumstances than in the past, and it will have to make the necessary adjustments. Mr. McNamara added that at this time no one can predict what the market will look like in the future. However, there are four elements which will need to be taken into consideration: (a) there will be substantial capital surpluses in different pools of countries; (b) there will be substantial requirements for funds in the oil-importing developing countries; (c) the Bank (and the Fund) should be prepared to intermediate in the transfer process, at least to the extent previously planned and possibly more; and (d) the Bank should adjust its financial policies and procedures to achieve this objective. This, in particular, requires flexibility and frequency of changes much greater than in the past, and there is no formula to do that. An easy answer would be to "deflate." Mr. McNamara said that he thought this would be very wrong. Some would suggest that the Bank should keep its lending rate down, but, if it does, it then will not be able to generate the necessary income, and therefore it will not be able to borrow.

IFC

Mr. Qureshi explained that, four years ago, the Bank used to borrow from the U.S. market and then it used to lend to IFC in dollars with no particular subsidy. The Bank was charging a spread between its cost of borrowing and its lending rate to IFC, and IFC was treated like any other borrower of the Bank. In the last few years, there has been more reliance on currencies other than the U.S. dollar, e.g., the Japanese yen, Swiss franc and deutschmark, and there have been higher rates in the market for U.S. dollars. The Bank lending rate would have led to IFC being subsidized if IFC had continued borrowing in dollars from the Bank. In June of last year, the Bank decided to go into the currency pooling system. It was not possible, however, for IFC to be part of the currency pooling system because, in such a system, the risk is largely unknown to the borrower. As a result, if IFC had to depend on the currency pooling system, it would have been unable to find too many borrowers itself. However, the problem was not too pressing in view of the successive capital increases of the last three years, which made it such that IFC did not need to borrow. At the beginning of 1979, IFC management indicated that IFC would need to borrow from the Bank. There were, however, serious difficulties because of the currency pooling system. This issue was discussed with Mr. McNamara in November and December of last year. There was then a request for a $100 million loan from the Bank to IFC, and the key issue was to try to find ways to ensure the non-subsidization of IFC from the Bank. The Bank had borrowed in June $500 million in the Eurodollar market at 10%. Applying that rate to IFC would have given IFC undue advantage. The formula which was adopted was to add 80 basis points to the cost of borrowing to the Bank, to take account of the cost of comparable maturities. For the future, Mr. Qureshi added, IFC should advise the Bank well in advance of its intention to borrow from the Bank. IFC does have the capability to borrow independently and it may well do so in the future; however, at the present time, it is not wise to do so in view of current market conditions. In the future, IFC may be able to do it.

Mr. McNamara mentioned that the key principle which was agreed is that IBRD will lend to IFC at its cost. Mr. McNamara then pointed to an aspect of the Bank lending rate which he had not mentioned previously, which is the comparison between the Bank's lending rate and that of other international institutions, e.g., ADB and IDB. After asking Mr. J. Wood to distribute a table to all PC members, summarizing the lending rates of these other institutions, he pointed to the fact that one cannot compare the nominal rates. For example, the IDB charges a commitment fee of 120 basis points, plus a 1% front-end fee. Mr. McNamara concluded on this by saying that IDB has a more irrational formula than the Bank, since it is based on the actual cost of borrowing over the last two years.

OL
January 19, 1981

OFFICE OF THE PRESIDENT

822/9/3

President's Council Meeting, January 19, 1981

Present: Messrs. Barletta, Baum, Benjenk, Chenery, Paijmans, Qureshi, Rotberg, Stern, Wapenhans, Wuttke, Alisbah, Chang, Kapur, Kirmani, Scott, Wiehen, Mrs. Clarke

Mr. Stern's Travel

Mr. Stern reported on his recent visit to Egypt, Tunisia and Morocco. With respect to Egypt, he mentioned that much of the talks which he had in Egypt centered on the issue of the ending of IDA lending to Egypt and on the reforms of economic policy. With respect to the latter, he mentioned that there are some rumors of efforts by the Government to try to change the pricing policies. However, it looks as if these efforts are still very much fragmented, and there does not seem to be much leadership in the economic policy field. He expressed his serious doubts that significant changes will take place soon. He added that Egypt's problems are quite serious. The Civil Service in particular does not work. The Bank projects are in a rather modest shape, although there seems to be a good impact of the Bank at the working level. He indicated that the donors' meeting at Aswan scheduled at the end of the month will be the scene of high-level discussions headed by the President. It was still unclear, however, what the political climate might be at that time.

Mr. Stern said that Tunisia and Morocco are very different cases from Egypt. As far as Tunisia is concerned, he said that he met with senior Cabinet members who understand their problems very clearly, especially with respect to the adjustment program. They have quite clear views on where both the economy and the Tunisian society are going. In both Tunisia and Morocco, Mr. Stern said that he found extremely high regard for the Bank. Both countries were very effusive about the Bank's assistance, especially as regards technical relationships. In ministries or sectors where the Bank is not present, they all ask for Bank assistance, not so much for the sake of funds but rather for technical assistance. In Tunisia, Mr. Stern mentioned that some agricultural projects financed by the Bank are very productive. In Morocco, the focus on low-income population may be slightly less than what it is in Tunisia, but there is an increasing interest in rain-fed agriculture and they are increasingly looking for the Bank's help. In summary, he mentioned that the Tunisian and Moroccan experiences with the Bank are all very encouraging.

Mr. McNamara said that there is a lesson to be learned from this high regard of Tunisia and Morocco for the Bank. In his view, it is not based on Bank endorsement of Government policies. In Morocco in particular, the Bank has had major disagreements in the past, for instance, with a proposed steel mill which would have cost $1 billion, and would have diverted these large financial resources from other projects or programs much more needed. The Bank refused to go ahead with the Moroccan proposal, and arguments back and forth took place over a period of two years. With a very tactful approach, the Bank was finally able to convince the Moroccans and eventually this led to very good understanding between the Government and the Bank. Mr. Stern informed the meeting that the idea of the steel mill which Mr. McNamara referred to was not completely abandoned, being put forward again especially under UK pressures (Lord Carrington). Mr. McNamara said that it would be very sad if this project were to come through since it would represent a clear misdirection of the economy.

Mr. Rotberg's Travel

Mr. Rotberg reported on his trip to Europe where he went to deliver two major addresses, one in London and one in Zurich. The two objectives of the strictly financially oriented meetings were to present and discuss: (a) the financial structure of the Bank; and (b) the lending for structural adjustment. He indicated that in both places there was great interest with respect to the situation of the Bank's loan portfolio. In general, the discussions were extremely useful, as evidenced by the large support of the financial community for the Bank and the tremendous interest in the proposed creation of the energy affiliate. Most people in both places understand the capital structure problem of the Bank, and they indicate that they are willing and able to finance substantial resources for the Bank if needed.

Mr. Rotberg reported that ten days ago the Eurobond market became very active, with $1 billion worth of bonds issued. The Market went through a severe period of indigestion and most issues failed. Short-term money was at 17.5% while bonds were at 12.5%. During this period, the Bank was made several offers which it refused, and this brought great credit to the Bank. Mr. McNamara said that this had always been the policy of the Bank, namely, that the Bank does not want any deal that would not be good for both parties. He said that this policy, enforced over the last ten years, has been made clear to the Bank's underwriters. Mr. Rotberg indicated that the Bank is now in a very good position because of the credit accumulated. Mr. McNamara said that several other international organizations, e.g., the European Investment Bank, did not necessarily adhere to the same policy in the past and they are now in a very bad position which Mr. Rotberg confirmed. Mr. Rotberg then indicated that the dollar is very strong, this strength not being caused by the 17% short-term interest rate. The dollar is now at about 12% above its level of a year ago against the major hard currencies, such as the deutschmark and the Swiss franc. He further said that the Bank could raise large amounts in dollars at fixed interest rates. He indicated that half of the bond issues are now quoted in floating interest rates.

Mr. Rotberg said that the market in Germany is closed until March 31. The bond market there is getting much stronger and, by March 31, the rates are likely to be much lower. The inflation rate in Germany is currently 5-1/2%, and it has been very stable over the last 12 months. Mr. McNamara mentioned that he disagreed that the dollar is very strong. Rather he indicated that it is strong only because of the interest rates policy which he does not believe will last much longer. In his view, if the U.S. economy is to move forward, the interest rate policy will need to be changed and the interest rate differential with the German rates will decrease. Mr. Rotberg said that Germany now has a deutschmark 28 billion deficit. If the deutschmark continues to devalue, export increases should be expected, but this has not happened yet. Mr. Rotberg mentioned that, as of December 12, 1980, the developing countries gained some $500 million due to the disbursements of $5 billion equivalent in deutschmark, compared to what it would have been if the Bank had disbursed in U.S. dollars.

Commenting on his trip to Switzerland, Mr. Rotberg indicated that the Swiss underwriters fully understand the Bank. The Swiss are now by far the largest placers of Bank issues. The Swiss are extremely supportive of the Bank and appreciative of the fact that the Bank constantly borrowed in Switzerland over the last three years. The Swiss indicate that the Bank has "infinite" possibility for borrowing in Switzerland. The Swiss interest rates are now 5.5%, with the inflation running at an annual rate of 4.5%.

With respect to the UK, Mr. Rotberg reported that the inflation rate may be in the order of 15.5% and the bond market is at 14%, or 1% above the U.S. rate. He mentioned that the UK is facing "hair-raising" problems. The economy is very weak and there are innumerable bankruptcies of medium-size enterprises. With respect to IDA, the British authorities made it clear again that they consider their 10% share excessive and they warned that this will not happen again. Their view is that they should increasingly concentrate on bilateral assistance rather than on IDA and/or other forms of multilateral assistance. In this respect, they are clearly looking for short-term political gains. Mr. Rotberg finally said that he had indications that commercial banks throughout Europe are cutting their lending to oil-importing developing countries. Mr. McNamara said that, on this latter point, he has not seen this phenomenon translated yet into figures. He said that he always thought that deficits cannot be financed by short-term lending, but he has not yet seen what was thought could happen. He said that he believed some banks are reducing their rate of increase in lending to developing countries, and he wondered where the balance of this increase is going. Mr. Qureshi said that, in his view, the balance is going to Europe itself. He mentioned that a good deal of the money goes into real estate, not so much in gold as Mr. Rotberg had suggested. In his view, the biggest danger for the developing countries is the competition from stronger borrowers. Mr. Rotberg said that, after the freezing of Iranian assets in the U.S., the OPEC money started flowing to European banks (in U.S.$) which do not lend to developing countries.

Mr. McNamara said that, if it is the case that the rate of increase in lending by commercial banks is half of the rate of increase of two or three years ago, the deficits of developing countries are unlikely to be financed by commercial banks in the next 12 months. He added that, if this interpretation is correct, the Bank ought to raise flags now. Mr. Stern said that in this issue the Bank should be country-specific in its approach and assessment. Mr. McNamara fully agreed with Mr. Stern's point.

Energy Affiliate

Mr. McNamara asked Mr. Qureshi to report on the situation with respect to the energy affiliate. Mr. Qureshi said that, after a series of discussions on a bilateral basis after the Annual Meeting, the decision was taken to get a group of countries' representatives together to exchange views about the possible creation of an energy affiliate. Some countries, especially the Arabs, made it clear that they wanted to be part of any discussion at the inception stage. A small group of nine countries met in early December: India, Brazil, Kenya, the U.S., Canada, Germany, France, Saudi Arabia and Kuwait. The first meeting provided a very useful exchange of views and the general conclusion was that all representatives were very supportive of a market-oriented institution. Several issues were left unresolved, in particular, the capital and voting structure of the new institution and the organization aspects. The Bank itself raised at this meeting the specific problem of the poorest countries, those which are only IDA eligible. Mr. Qureshi indicated that the next meeting is scheduled for February 2 and 3, and the objective is to pursue further the ideas of the various participants. He said that the Bank was very careful in making clear to everybody that this group is essentially informal. It is by no means a decision-making body; its purpose is only to act as a sounding board. Following the second meeting, it is expected that Bank management would submit a paper to the Board. The Board hopefully will then give the Bank a mandate to go ahead with a specific proposal. Mr. Qureshi repeated that there is a great deal of support for the energy affiliate. After the first group had been established, the Bank received a number of requests from other countries which expressed their desire to join the group. Although it was generally discouraged, so as not to create an excessively large group of people, the Bank finally agreed to add four more countries to the original group: Norway, Nigeria, the UK and Japan. All four had said that they are prepared to take a leadership role in the establishment of the affiliate. Mr. Qureshi said that the major uncertainty now has to do with the U.S. The Bank had close cooperation with the last Administration, but this is still very unclear with respect to the new Administration. Mr. McNamara said that he hoped that the paper on the energy affiliate could be presented to the Board in February.

Mr. McNamara informed the meeting that he had changed his plans to travel to India and Pakistan in early February. He indicated his hope that the trip could be rescheduled for March.

OL
February 5, 1981

Office of the President

822/9/4

President's Council Meeting, January 26, 1981

Present: Messrs. McNamara, Baum, Benjenk, Chenery, Gabriel, Golsong, Hattori, Paijmans, Qureshi, Rotberg, Stern, Wapenhans, Wuttke, Alisbah, Kapur, Kirmani, Picciotto, Acharya (for Research Report only), Mrs. Clarke, Mr. Wiehen

PLO

Mr. McNamara asked Mr. Golsong to report on the results of the second meeting of the Joint Committee of Governors which took place in Wellington last week. Mr. Golsong said that the meeting had turned out not at all satisfactorily. In the first place, it was overshadowed by the death of Mr. Shivnan, a staff member. In the second place, the atmosphere was quite different from that which prevailed during the first meeting in Manila in December of last year. In particular, the European representatives had not prepared their tactical approaches. They were generally fairly weak, the most decided one being Mr. Mentre, the French representative. The Swedish representative came more with the other Europeans; however, this will not show in the report. A majority of the Committee agreed that the By-Laws do allow for withdrawal of the votes. In the final report, a very confusing paragraph was added at the end. Essentially four representatives say that a quorum did not exist and four others say that there was no ground to challenge the decision. The Chairman did not express an opinion on this point. The final report was produced Friday afternoon, but the Committee members have not yet seen it.

Report on the World Bank Research Program

Mr. McNamara asked for comments on this paper. Mr. Baum observed first that an overwhelming majority of the research undertaken in the Bank is of a social and economic nature rather than scientific and technical. He asked whether the Bank should do more of the latter, for example, the highway studies or water supply studies, and he said that he thought the issue of balance in the research program should be reopened. Mr. McNamara said that, in his view, all research undertaken by the Bank ought to be development focused. He mentioned that there is necessarily some focus on economic problems, but this should not be exclusive. Mr. Qureshi observed that the Research Committee is made up of economists and therefore the focus is largely on economics. Mr. McNamara commented that, if this is the case, the Committee ought to be changed.

Mr. Gabriel expressed his doubt on what the financial control of the Research Committee is. Mr. McNamara said that there is one universe where the research is such that a majority of the costs is staff time which the Committee can and should control. He added that he always thought that the Research Committee had full control only in that research where 100% of the cost is staff time. He said that, in that respect, the paper is rather confusing. He requested that Mr. Gabriel write a statement in the report on the issue of budget control, especially the control clearly exercised by the Research Committee. Mr. Stern intervened saying that, if this is Mr. McNamara's view, it becomes essential to clarify what is defined as research. Mr. McNamara reaffirmed his view that, as presented in the paper, the issue is very confusing. Mr. Chenery commented that one has to be careful in this issue, since for a manager of research, ideas come from a variety of sources when one has to decide what is wanted. However, there are always false starts. Mr. McNamara replied that all he wants is some clarification.

Mr. Benjenk said that the typical procedure for deciding on a research topic is an individual's decision. He asked whether there is a procedure in the Research Committee to look at the most adequate mix of research by sector or topic. Mr. Chenery explained that there is a review at the departmental level and there are a number of steering groups on various sectors in order to ensure the proper balance. The procedure is somewhat similar to the CPP review procedure. Mr. Baum indicated that there is a substantial amount of research undertaken in CPS which does not go to the Research Committee. Mr. McNamara said that this is what needs to be made much more clear. In particular, there should be a clear view as to what should go to the Research Committee. Mr. Chenery mentioned that, in that respect, there are annual reviews where CPS and P&B representatives attend.

Mr. Wapenhans said that, on the list presented on page 21 of the report, there is a distribution of centrally funded expenditures. He asked whether this distribution was adequate. Mr. Chenery replied that this distribution is only the post mortem of what happened in view of the guidelines that had been established in 1973. Since then, however, there had been a number of modifications. Mr. Wapenhans asked whether there should not be more precisely defined objectives. Mr. McNamara indicated that he thought it would be enough to look at this once a year. But he turned back to Mr. Baum's point which is that there is some research which is not accounted for in the list presented on page 21, and that is exactly what troubles him. Mr. McNamara added that he had one comment to make. He suggested that the paper should end by pointing to the possibility of large changes in the magnitude of the research program in the years ahead. Perhaps an annual program of some \$25-\$50 million should be appropriate and perhaps there is a need for an appropriate organizational structure to deal with research. Mr. McNamara finally said that, at the conclusion of the discussion on the two major policy papers (the expansion of the lending program and means of financing) in 6-8 months, Bank management should focus on this research issue. As far as the present report is concerned, it still needs substantial editing and the Finance Committee should review it. He asked Messrs. Acharya and Gabriel to meet with him on this issue later in the day.

OL
February 5, 1981

822/9/5

OFFICE OF THE PRESIDENT

Meeting on Report on World Bank Research Program, January 26, 1981

Present: Messrs. McNamara, Gabriel, Acharya

Mr. McNamara stated that he thought this was an excellent report. However, he wanted to be certain that there would not be excessive controversy in the Board discussion of this paper. For that matter, he would like Finance, Operations and DPS to coordinate so as to ensure that the report stands together. In particular, he would like Mr. Please to be consulted. In addition, Mr. McNamara said that he would want a brief statement at the end of the paper in order to alert the Board. The statement, referring to one of his earlier statements to the Board, should say that the current research program is inadequate in view of the needs and, in particular, in view of the increasing ability of institutions in the developing countries to carry out research. At some point, it may therefore be desirable for the Bank to examine the possibility of an expanded role. In that sense, a $25-$50 million program annually and a different organizational structure might be necessary. The decisions on this issue, however, would need to be deferred until decisions have been made with respect to the papers dealing with the proposed expanded lending program and the means of financing. Mr. Acharya asked Mr. McNamara whether his major difficulty was not with Chapter 3 of the report, namely, the issue of who is doing what in the Bank in terms of research, and more importantly who controls what. Mr. McNamara agreed that this was indeed his most serious doubt about the report. Mr. Gabriel enquired whether this would include translating man-years into dollar terms. Mr. McNamara said that it should be possible to do this, even though it may be only approximative. In essense, it is not possible to go to the Board saying that the Bank has a program which covers only part of what it is actually doing. In addition, if the Bank talks about one element, it should give it a full cost.

OL
February 9, 1981

OFFICE OF THE PRESIDENT

822/9/6

President's Council Meeting, February 2, 1981

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chaufournier, Chenery, Gabriel, Golsong, Hattori, Knox, Paijmans, Rotberg, Stern, Thahane, Wapenhans, Weiner, Wuttke, Kirmani, Wiehen, Widen (for paper discussion only)

Paper on New Reassignment Policy

Mr. Paijmans introduced the paper and the discussion by recalling that the decision on the new reassignment policy was taken a year ago. Since then, Mr. Widen has been in charge of implementing the policy and, in particular, he has chaired all the panels. The policy was implemented with great caution, and apparently with good results, since approximately 150 people moved and 80% of the staff who moved were reassigned within their stated preferences. There is no question, however, that the implementation of the policy did hurt in several cases since some people were forced to move because they had been in the same place for too long. The often stated argument that there may be excessive staff movement is not substantiated by the data. On the Personnel side, there is a feeling of moving in the right direction with the policy; however, Personnel needs continued support of management for the continuation of implementation of the policy. Mr. McNamara commented that, in his view, the process is working. He then asked for comments from PC members.

Mr. Gabriel said that Mr. Paijmans had referred to a hard-core of people who had been in the same places for a long time. This included a number of staff who are extremely experienced in their fields and he questioned whether these should be moved. Mr. Paijmans answered that there should not necessarily be a move of specialists, and there are some safeguards in the policy for that purpose. Mr. Knox said that there should be more incentives for staff to move. There is a perception among professional staff that it is easier to move from one level to another (especially from L to M) if one stays in the same department. However, in the operating departments, there are no restrictions as to the number of promotions from L to M level. In his view, there should be a more equitable distribution of promotions from L to M across departments and moves from one department to another should be encouraged. Mr. McNamara suggested that Mr. Paijmans should look at the problem and come back to the PC with further recommendations. Mr. Stern commented that the implications of Mr. Knox's proposition could be quite far-reaching. He termed the proposition "horrendous." Mr. McNamara agreed with Mr. Stern, but he added that it is a "horrendous" problem. Mr. Baum expressed his full endorsement of what Mr. Paijmans had said, emphasizing that he fully agreed with the reassignment policy which so far has been implemented with good judgment and good reasons.

Mr. Kirmani made the point that the main issue is to avoid hurting the staff. In his view, staff satisfaction in the process is the most important factor. Mr. McNamara asked Mr. Kirmani what he meant by the staff being hurt. Is it the supervisor or the person who is transferred? Mr. Kirmani said that he would make his point through an illustration. Taking the example of a division with 15 professional staff, he said that it could be assumed that 4 of them are very good, 2 or 3 may not be very good, and the rest may be average. In his view, there is a delicate balance in the unit which should not be disrupted. If this balance is disrupted by transferring one of the very good elements, there should be a replacement by an equivalently very good professional. Mr. McNamara agreed with the point made by Mr. Kirmani, but he said that one of the problems faced by the Bank is that there is no policy to remove the people who are not up to the required standards. He then instructed Mr. Paijmans to look into this problem. Mr. Kirmani then suggested that the informal system of transfer should be encouraged, leaving more responsibility to the individuals. Mr. McNamara observed that the system of panels should indeed be the exception, and, in his view, it is. Mr. Kirmani then raised the other problem of staff members who may be staying too long in the panel lists. For such a staff, it may be very difficult to find suitable transfers. He enquired what the Bank can do with such a person since, as time passes, it becomes more and more difficult for him to get accepted by a new unit. In his view, perhaps such a person should have more incentive to retire, or perhaps the Bank should terminate his employment. Mr. Stern observed that the point raised by Mr. Kirmani in fact is related to another one which is the need for more honest evaluations of staff. He pointed to the fact that there is no supportive evidence in the Personnel files to the effect that a person is not performing up to standards. He indicated that this is a pervasive problem throughout the Bank. Mr. McNamara said that it should be Bank policy that somebody not wanted anywhere in the Bank should not remain in the institution. He agreed with Mr. Stern that the Bank does not have a policy to that effect. Mr. Kirmani commented that many managers in the institution believe that, if they are tough on one of their staff, this person cannot be transferred since nobody will want him. Mr. Paijmans said that he understood that and that it would certainly take some time to change attitudes. Mr. Stern commented that, in his view, the panel system is excellent. In particular, it answers one of the problems raised by Mr. Kirmani, in the sense that what is said orally in the panels may be quite different from what is written in the Annual Evaluation Report.

IDA VI

Mr. McNamara commented on last week's events, i.e., the report of proposals for budget cuts in the U.S., by saying that everything that PC members may have read in the press is true. Mr. Stockman, the Director of OMB, is recommending a 50% cut in IDA VI and other foreign assistance programs. There was a report from OMB, a copy of which Mr. McNamara received. The press, however, did not disclose all of the details of this report. The report states that there would also be equivalent cuts in bilateral assistance. In multilateral aid, the cuts would be enormous. Mr. McNamara indicated that he had received calls from Mr. Grant (UNICEF) and Mr. Morse (UNDP) who expressed their gravest concern. He added that the report also indicates that the resources of the ExImBank would be very heavily cut. Mr. McNamara then informed the meeting that he and Mr. Qureshi had met with Secretary Regan. In addition, he personally talked to Secretary Haig. He mentioned that Mr. Colby King had made a statement to the Board on this issue, and he (Mr. McNamara) also talked to the EDs.

Mr. McNamara said that, following the release of the OMB report, a number of actions took place which were also reported in the press. The Cabinet meeting was postponed and a number of complaints were received from foreign capitals: Germany, France, the Economic Community, and some of the LDCs. In addition, U.S. private financial leaders expressed their great concern about the proposed cuts. As a result of these interventions, the decision to cut IDA by 50% was postponed. Mr. McNamara said that the issue is by no means over and it will stay with the Bank for at least nine or ten months. One element which also played an important role was the intervention of several Congressional leaders, in particular, Senators Percy and Mathias. Mr. McNamara concluded by saying that it is still very unclear as to what may happen. He told the meeting that he would meet again with Secretary Haig later this week.

Egypt

Mr. McNamara asked Mr. Chaufournier to report on the results of the aid donors' meeting in Egypt. Mr. Chaufournier started by stressing that, against the background just described by Mr. McNamara with reference to foreign assistance from the U.S., Egypt fared well as evidenced from the meeting. He indicated that the meeting in Egypt had started very badly, overshadowed by the prospects of discontinuation of IDA lending to Egypt. Egyptian authorities were extremely irate over this issue. In particular, Mr. Chaufournier attended a very unpleasant dinner meeting with Mr. Meguid, Deputy Prime Minister, before the official donors' meeting. Mr. Meguid lobbied very strongly with the other donors, trying to isolate the Bank. The climate was so bad that Mr. Chaufournier decided to talk privately with Mr. Meguid to complain about the attitude of the Egyptian authorities. Mr. Chaufournier explained that he threatened Mr. Meguid that he would reply at the plenary sessions if the Egyptians decided to raise the IDA issue. In the end, Mr. Meguid promised that he would keep the issue out of the meeting. Finally, Mr. Meguid became very gracious towards the Bank and was full of praise for the technical assistance from the Bank. With the change of attitude, the Bank was then getting priority to speak with President Sadat.

Mr. Chaufournier indicated that the Egyptians were slightly disappointed at the level of representation from the various donors which was not as high as they had expected, although it was still a good level in his view. The donors' meeting then turned out better than expected. In particular, there was good press coverage of the substantive issues, e.g., pricing policy. There were no announcements of very concrete measures, except in the field of energy where the intention is to raise the price of oil to reach the world level in about five years. Mr. Chaufournier said that the second stage of the meeting was largely devoted to population problems. He said that Mrs. Sadat attended the meeting and she invited everybody to meet with the President. This turned out to be a very good discussion, where good words were expressed for the Bank, and where the President appeared well briefed about the issues. At the meeting with the President, Mr. Chaufournier said that he had spoken about the need for the President to come out himself in support of the population program. Then he talked about the general direction of the economy, and he re-emphasized that the Egyptian authorities had to be consistent in their actions with their stated goals, in particular to the effect that they now want a more open economy. Mr. Chaufournier mentioned that no other speaker raised the population issue with the President. Mr. Chaufournier concluded by saying that the donors pledged some $3 billion for Egypt, and the Bank came out very well in the meeting. The Egyptian authorities and the donors in particular clearly appreciated the Bank's candor in discussing the main issues.

Mr. McNamara thanked Mr. Chaufournier for his presentation and indicated that Egypt is likely to remain a major problem for the Bank. In his view, the issue is not the ratio of IDA to IBRD lending, but rather it is whether the Egyptians will be able to produce a program which justifies larger IBRD lending. He added that the Bank needs better prepared population projects. Mr. Chaufournier commented that this is well recognized, since, in the population field, the problem is not so much the supply of necessary inputs, but rather the problem of acceptance. Mr. McNamara stressed that Mr. Sadat himself has not been supportive enough of the population issues. Mr. McNamara concluded that, in any case, he was delighted to hear that the meeting turned out well, and he congratulated Mr. Chaufournier for a job well done.

Other Items

Mr. McNamara told the meeting that he had recently read an excellent report from Exxon on energy. In particular, it has excellent graphic presentations and it also shows extremely interesting projections. He recommended that all PC members read this report. According to this report, oil consumption in the West is declining, largely due to conservation and savings. It fails, however, to recognize the potential for non-oil energy production of developing countries.

Referring to the proposed establishment of a new senior management committee structure, Mr. McNamara said that he has decided that it would be unwise to make the change now. He decided that it would be best to wait until Mr. Clausen assumes the Presidency. However, Mr. McNamara reaffirmed his belief that such a change is necessary. He then said that, from now on, meetings of the Finance Committee and Personnel Management Committee would immediately follow the PC meeting on Mondays.

Mr. Stern informed the meeting that the Bank has decided to suspend disbursements on all projects in El Salvador. He added that there was also suspension of disbursements for one loan in Colombia. He further indicated that, after threatening Tanzania with suspension of disbursements, this country has now repaid fully all its arrears. Finally, he said that the Bank had advised Sierre Leone about excessive overdue payments, and this country had now begun repayment of part of its debt.

OL
February 26, 1981

822/9/7

OFFICE OF THE PRESIDENT

President's Council Meeting, February 9, 1981

Present: Messrs. McNamara, Baum, Benjenk, Chaufournier, Chenery, Gabriel, Golsong, Hattori, Hopper, Husain, Knox, Paijmans, Qureshi, Rotberg, Stern, Thahane, Wapenhans, Weiner, Wuttke, Lerdau, Muncie (for discussion of report)

Energy Affiliate

Mr. Qureshi explained that representatives of 13 countries met in the Bank on February 2 and 3. He reported that this was a good meeting, which accomplished a number of things. He explained that the meeting went over the main characteristics of the energy affiliate which had already been discussed during the first meeting: (a) a comprehensive approach to the problem of energy; (b) the market base structure of the proposed affiliate; and (c) the proposed capital structure for the institution. He said that the U.S. representatives were not in a position to express any views since they had not had the time to address the issues. He then said that two aspects on which there had not been a consensus during the first meeting were still the subject of considerable debate in this meeting, namely, the voting structure and the organizational aspects.

On the voting structure, a number of alternatives were considered from the Bank-type on one side to the other extreme with a majority share for OPEC countries and a minority for OECD countries. Mr. Qureshi reported that it was clear that there could be intermediate alternatives on which unanimity could be obtained. One such alternative would be the possibility of having equal parts for OPEC and OECD countries, with the Bank having a balancing role. Mr. Qureshi said that this was the main advance of this meeting that a consensus along this line could be envisaged. With respect to the organizational problems, the Bank management's approach is that full integration from an operational point of view is the only viable option. This view is being shared by the Germans, the Japanese and the British. However, another group, with the French and the Arabs, wants much more autonomy for the affiliate, while recognizing that there should be some link with the Bank. Strong criticism was expressed by the second group for the Bank bias in the presentation of its option in the papers circulated before the meeting. Mr. Qureshi explained that he did not make any apology for this presentation.

Mr. Qureshi then turned to the questions concerning the next steps. Clearly, the participation of the U.S. is an essential element. At this time, however, the U.S. has taken a totally non-commital approach. Mr. Qureshi added that, in private, the U.S. representative had taken a rather questioning approach. The U.S. representatives are now seeking a continuation of the round of informal discussions. The timing proposed by the U.S. representatives is so far away, however, that it casts some doubt as to their seriousness in this whole matter. Mr. Qureshi said that he had informed the U.S. representatives that the Bank would go for the presentation of a paper to the Board in the near future.

Mr. McNamara said that he thought Bank management cannot continue with the informal groups for too long. He observed that this group started with six countries and there are now thirteen. He indicated his preference to go now for a much broader forum. He recalled that the initial plan was to go to the Board with a paper and then to call for a meeting of deputies for negotiations. With the situation of the U.S., there are now a number of problems with this plan. He then turned to the issue of integration of the affiliate with the Bank which he characterized as very serious. He emphasized that discussions are not exclusively related to petroleum exploration, but rather that it deals with the whole energy sector: forestry, coal, hydroelectricity, etc. Likewise, financing requirements are for energy in general, and not only for oil and gas. He indicated that, if discussions were only for petroleum exploration, Bank management would not care so much about the organizational issues. Mr. Chaufournier asked whether the second group referred to by Mr. Qureshi offered any solution for the soft loans problems. Mr. McNamara said that this second group is not so much concerned with development, but rather they are after other purposes, especially political ones.

IDA VI

Mr. McNamara reported that he and Mr. Qureshi had met first with Mr. Rashish and then with Secretary Haig and Mr. Rashish. He reported that a number of topics were discussed during the meetings. Essentially, the Executive Branch of the U.S. Administration leans to full support of IDA VI; however, it has been decided that support to the international financial institutions would be cut in other ways; in the Bank case by extending the GCI contribution over six years. With respect to IDA VI, Mr. McNamara said that it would lead to a complete collapse if it were to be renegotiated. He then said that the problems are going to stay with the Bank for at least 9-10 months, but clearly the first round is for the Bank. Mr. Husain asked whether the support expressed by Mr. Rashish and Mr. Haig also has the support of OMB. Mr. McNamara said that clearly it has not, and that is why the Bank is in a very uncertain situation. He observed that everybody is now objecting to a number of proposed cuts, putting a lot of pressure on Mr. Stockman. Mr. Reagan has to put forth cuts of the order of $13 billion for 1981 and $35 billion for 1982, and this will be under continuous re-examination until February 18. Then the same re-examination is likely to take place in Congress. Mr. McNamara indicated that Mr. Rashish and others do understand IDA and the Third World and they do have a certain geopolitical sense. However, in some other parts of the U.S. Government, there is no such understanding. Mr. Baum asked what the Bank's strategy will be, given this timetable and the fact that there is no money left in IDA as of March 15. Mr. McNamara replied that this is very simple; the Bank will have to continue processing. The real problem will come in May/June at the time of discussion of the FY82 budget. Mr. Baum enquired whether there would be any possibility of another bridging arrangement. Mr. McNamara replied that there was none. Mr. Rotberg asked whether there was any truth in OMB's recommendation that there should be no paid-in capital on the GCI. Mr. McNamara replied that there was none; however, this illustrated his point that those problems are likely to be re-examined every day, both by the Administration and by Congress. Mr. Chaufournier then commented that, if there is no IDA money, some other funds may be able to substitute for IDA, and this may reinforce the arguments against IDA replenishments. Mr. McNamara commented that this is very unlikely to happen. The Bank will be short of $1.3 billion for IDA, and probably not more than $200 million could be taken up by other institutions. In conclusion, Mr. McNamara asked that all PC members act as ambassadors. He thanked PC for their great efforts in soliciting the reactions of the various governments to the proposed cuts originated from OMB.

India

Mr. McNamara asked Mr. Hopper to report on his recent visit to India. Mr. Hopper said that the macro-economic situation of India is now very critical. The net reserve losses are now at about $200 million per month, leading to a decrease in total reserves from $7.6 billion at the beginning of 1980 to $6 billion estimated for April 30, 1981. He indicated that the Indian authorities do not see how to stop this drain. The Indian Government is now seeking to tap the financial market and it anticipates substantial commercial borrowing over the next five years. Mr. Hopper said that the new five-year plan was redrafted to take the new situation into consideration and it is now to be put to the Cabinet and later to Parliament. The foreign exchange requirements from the plan rise by $6 billion a year. Mr. Hopper said that India's export performance is very poor and the Indian Government is obviously to be on the Bank's doorstep for more IDA and IBRD funds.

Philippines and Thailand

Mr. McNamara asked Mr. Husain to report on his visits to The Philippines and Thailand and on the Consultative Group meetings of both countries held in Paris. Mr. Husain said that the readjustment policies adopted by both countries lead to a much improved short-term outlook. These adjustment policies are rather far-reaching. Mr. Husain said that there is a very good dialogue with both countries where they take the Bank's economic and sector work very seriously. He also said that there was no doubt about the excellent intellectual quality of the Bank's work. With respect to The Philippines, Mr. Husain reported that the main problem of this country is poverty. He indicated that absolute poverty increased in the first half of the 70s in spite of a good growth rate. He mentioned that he had very good discussions with a number of ministers and the Philippine Government now intends to address the issue of a more equitable treatment of the poorer areas of the country. They indicated that the policies of structural adjustment lending should help redress the balances, especially with respect to industry.

With respect to Thailand, the poverty issue is much less disturbing than in The Philippines. The restructuring efforts, however, may now be somewhat distracting from the focus on poverty. The Thai authorities do want, however, to focus on rural development. The quality of the Bank's dialogue with the Thai authorities is excellent. Mr. Husain reported that there was no problem with the Consultative Group, where continued increases from Japan and IFIs were committed but where very little could be expected from bilateral assistance. Mr. McNamara said that both countries depend more and more on private capital markets and this is a rather good sign. Mr. Husain then mentioned that he also had very good discussions with the Asian Development Bank. The Bank has excellent relations with ADB and there now is very active coordination of our lending with ADB.

Paper on Internal Communications

Mr. Paijmans introduced the discussion on the paper by observing that many people in the Bank do not know who does what. In addition, there is not a consistent information policy. In that respect, he suggested that the proposal for discussions would be a first step. He observed that managers should obviously be counted on as part of the information process; however, they are not always informed themselves. Mr. Baum said that the proposal was a very good suggestion. His only qualification is that it may appear as too paternalistic. Bank Notes should be as much a staff publication as a publication of management. A first step, which Mr. Baum recommended, would be to investigate what staff would want to see in such publications. Mr. Stern commented that the information communication is a high priority issue. He observed, however, that the proposal is not very clear about how to go about it. In particular, how would one quell rumors on very sensitive issues; and also there is a need for censorship on delicate policy issues (e.g., energy affiliate, etc.). Mr. Thahane agreed that, for sensitive policy issues, there should be the use of management's prerogatives. In his view, there should be encouragement to bring out staff experiences. He also agreed with Mr. Stern's suggestion as to the need to check how many people read Bank Notes. Mr. McNamara agreed that Mr. Baum's point on the readership survey is very important. Mr. Chaufournier mentioned that the former letters from Mrs. Boskey were extremely useful. Mr. Paijmans agreed with Mr. Thahane and pointed to the fact that too many papers are not read by the staff. Mr. McNamara concluded by saying that the problem of communication cannot be entirely and fully addressed by this proposal, but he believed that it would be a first step in the right direction, especially following the approach suggested by Mr. Baum.

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March 13, 1981

OFFICE OF THE PRESIDENT

822/9/8

President's Council Meeting, February 23, 1981

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chenery, Golsong, Hattori, Husain, Knox, Paijmans, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Wuttke, Bart, Vergin, Wiehen, Mrs. Clarke

Mr. McNamara explained that he wanted to brief the PC about the U.S. position on the general capital increase, IDA VI and the energy affiliate. He said that Mr. King, the U.S. ED, had sent a memo to Mr. McNamara dated February 19. This memo essentially says that the U.S. Administration intends to fulfill all its commitments with respect to the Bank and IDA. He added that he had met with Secretary Haig and Mr. Rashish jointly with Mr. Qureshi. With respect to IDA VI, the situation is that it is certainly one of the agreements negotiated and the U.S. Administration and State Department in particular would act in such a way that renegotiation of this agreement would be avoided. Mr. McNamara said that it is true that the U.S. Administration is acting to change the phasing of its participation in the agreement. However, this should not create too many problems. The only problem is in the Bank's allocation plan since the U.S. schedule of participation is now different from the original one.

With respect to the general capital increase, State Department says that the U.S. will seek full authorization, but it is planning a schedule of subscription to this increase over a period of six years. This should not require renegotiation of the agrement. In that sense, the Bank is in reasonably good shape.

On the energy affiliate, the statement issued by Mr. King concludes by saying that the U.S. Administration believes that something should be done to expand energy production in developing countries. It says, however, that it is not in a position to decide on the affiliate itself and especially on the problem of the structure.

Mr. McNamara repeated that it should be clear that the Bank intends to take the U.S. Administration at its word. He observed, however, that it is obviously going to be different between the U.S. Administration and Congress. He reminded the meeting that the Bank does have some support in Congress, especially with Senators Percy and Mathias.

Mr. Husain asked whether, with respect to IDA VI, the other donors agree that there would be no need for renegotiation. Mr. McNamara said that the question is rather whether the other donors will agree to an accelerated schedule of their own contributions in view of a delayed contribution by the U.S. He said that what ought to be told to the other donors is first that there is no need for renegotiation, and second that their contribution should be made according to the original schedule, but with guarantees of no risk/no cost in doing so. On this basis, Mr. McNamara added, he would recommend to the Board that it process the projects according to the original schedule. He repeated that the main problems now can be expected with the U.S. Congress.

Mr. Husain then asked what the situation would be with respect to the energy affiliate. Mr. McNamara reminded the meeting that the last round of informal discussions was recently completed, and that Bank management now has to prepare a paper for the Board to be submitted in the first half of March. Then a meeting of Deputies to negotiate would be convened some time in May. The main problem with the U.S. on the energy affiliate is that there is no U.S. team. Mr. McNamara said that the Treasury just does not know where it stands. He said that Bank management needs to sit down with Treasury representatives and try to convince them that the Bank does not want or need an excessive amount of money, e.g., something in the order of \$150-\$200 million. Mr. McNamara observed that, at this point, the Bank is not losing anything with respect to the energy affiliate. In fact, energy is a bit easier to deal with than IDA because it is more obvious that it is in everyone's interest.

Mr. Baum asked what is to be done for the budget in the meantime. Mr. McNamara replied that the system to be used is double budgeting for the administrative costs for the Chinese program and the expanded energy lending program. First, the Bank should prepare a budget for the full amount of what is already in the previously planned program and then it should add China and the expanded energy lending program.

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April 9, 1981

OFFICE OF THE PRESIDENT

822/9/9

President's Council Meeting, March 9, 1981

Present: Messrs. McNamara, Barletta, Baum, Chenery, Gabriel, Golsong, Hopper, Husain, Knox, Paijmans, Qureshi, Rotberg, Stern, Thahane, Wapenhans, Weiner, Wuttke, Bart, Chang, Pollan, Mrs. Boskey

The meeting discussed the Annual Report of the Status of Women Working Group and a report by Personnel Department on the Status of Women in the Bank. Mr. Paijmans explained first that the report of the SWWG is very vocal, asking the Bank to do more for women. He added that SWWG has become a strong advocacy group. Mr. Paijmans observed that the situation with respect to women in the Bank Group may not appear to be very good, but there has been substantial progress especially over the last year. For instance, there has been an increase in the number of women in operations both as a result of more recruitment of women in operations and relatively more women retiring from support units. Mr. McNamara intervened to say that the distribution of women between operations and support in the total number of women in the Bank is totally irrelevant. In his view, the critical element is the percentage of women in the total number of people, whether in operations or support units. Mr. Paijmans added that an interesting element of the present situation is that 60% of all women at the J-Q level come from the U.S. and the UK. Mr. McNamara asked what ought to be done in this respect for the next five years. He suggested that perhaps there should be less emphasis on the distribution between Part I and Part II staff as far as women are concerned. Mr. Paijmans turned to another point, that of the fact that most women are rather young. In his view, it will be a long time before a substantial number of women can reach the top levels of management in the Bank. As an illustration of this situation, he mentioned that 18 of the 19 women recruited at the J and above level this year were less than 40 and 15 of them were less than 30. Among the perennial problems in recruiting women are elements such as the difficulty of obtaining jobs for the husbands, holders of G(iv) visas, and the problem of child care. Mr. McNamara said that, on that point, the Bank may be vulnerable if it implies that it is unique. He observed that the argument presented by the SWWG is that the Bank is unique in its low percentage of women on board. Mr. Paijmans argued that the Bank is not all that low in comparison with others. Mr. McNamara observed that the correct statistics which would help substantiating this argument do not seem to be available. In particular, he argued that the distribution of specialities in the Bank is quite different from that in other institutions. He said that one of the first tasks is to distribute female Bank staff by speciality and then to compare this distribution with that of the Fund.

Mr. Paijmans said that it should not be expected that the situation will be significantly better in 1985 if present trends are continued. At that time, the percentage of women at the J and above levels is likely to be no more than 15%, compared to today's 12%. Mr. McNamara said that he thought that there are three problems with respect to women in the Bank, those at the level A-I, those at the J-Q levels and finally the specific problem of women at the N-Q level. With respect to the A-I staff, he said that one particular problem is that of morale. He then asked for comments from the PC members as to what more can be done than is currently being done.

Mr. Baum said that both the paper from SWWG and that from Personnel Department say that the Bank is not making much progress. He observed that women claim that the Bank has a bad image, and certainly this hurts for recruitment of women. In that sense, the Bank may be facing a vicious circle, since low recruitment contributes to perpetuating the bad image. Mr. Baum added that two problems seem to be particularly serious, on one side, that of husbands, mentioned previously by Mr. Paijmans, and, on the other side, there is the travel problem for women. Mr. Baum said that he had some suggestions which could be considered. One would be to address the possibility of explicit targeting. He explained that this has already been accomplished in some occasions, on a limited basis, but with very positive results. He also suggested that part-time work could be considered. Mr. McNamara said that he was concerned that part-time work may bring some inefficiency in the institution. He asked whether anybody in the room would disagree that there should not be the introduction of inefficiency in the Bank's services to developing countries. Mr. Baum argued that part-time work can have plusses and minuses. He recommended, however, that the Bank might need to be very selective if it were to consider part-time employment for women. He observed that the Bank already makes good use of part-time employment for men at the present time, especially through the use of retired male staff.

Mr. Barletta said that, although the hiring of women should be neutral in terms of nationality, it might be better to hire proportionally more Part I women, since Part II women are also needed in their own countries. He also said that some sectors of activities may be easier to recruit women from, e.g., computer scientists and financial analysts. Mr. Wapenhans said that the turnover of women is higher than that for men and part-time work may alleviate this situation. Mr. McNamara observed that the turnover rate is still low anyhow.

Mr. Husain said that, in operations, women generally come as generalists. He argued that the Bank is putting an Anglo-Saxon face to the Bank's member countries. He therefore insisted on the need for the diversification of nationalities. Mr. Chenery mentioned that the Bank now hires mainly from U.S. and UK universities. He argued that the Bank ought to look at the supply side by categories.

Turning to the issue of child care, Mr. McNamara asked whether the Bank is doing everything possible to provide adequate nursery care. Mr. Paijmans said that a plan should be ready before the end of the year, but it may not be an entirely satisfactory one. Mr. McNamara then said that there should be a fully satisfactory plan prepared. Mr. Chenery said that many universities are now moving into part-time work for women. He gave the example of a Division Chief who had to resign her job in DPS because she was not allowed to work as a part-time member. Mr. Paijmans argued that on part-time, consultants are usually very experienced people. Mr. McNamara argued that the Division Chief mentioned by Mr. Chenery obviously must have been a very experienced staff member. Mr. Gabriel said that one of the problems is that the Bank does not make sufficient use of the women already on board. In general, these have very good acquaintances in the job market which could be taken advantage of.

Mr. Thahane said that in the first place there should be a better profile of our existing skills. The Bank should target on those skills where the supply looks good, e.g., computer scientists and financial analysts. Second, with respect to nationality distribution, he said that there is strong criticism in the Board for the Bank not doing enough. He suggested that clear targets could be established on this point. Third, he recommended that a much closer look should be taken at the women already on board and possibly additional specific training could be provided to those identified as likely candidates for promotion in the future. Mr. Wuttke said that, in his view, one of the best ways to promote the presence of women in the Bank is the YP program and he indicated that this has been rather successful in IFC. Mr. Golsong said that, without special targeting, the percentage of women in the J-Q levels in the Legal Department went from 9% to 17% in a year with no loss of quality. Mr. Qureshi observed that the percentage of women is currently so low that the Bank should make very special efforts. He recommended that a policy statement be issued and concrete measures should be taken for a cohesive program for which a time horizon should be established. He also mentioned that the target mentioned by Mr. Paijmans is not all that bad. It could essentially mean doubling the percentage of women in the recruitment for the next five years which, in itself, would be quite an achievement. Mr. McNamara said that, all being said, he found it totally unacceptable that the Bank recruited 1 woman in 17 project economists and 8 out of 50 economists over the past year. In his view, a targeting by function should certainly help.

Mr. Rotberg said that, in his field, there are not too many women and, probably because it is a smaller group to start with, women are consistently performing better than most men. Mr. Stern said that one of the major problems is the treatment of women within the institution, e.g., the attitudes of managers and promotion prospects. In his view, the most essential need is to change attitudes. Mr. McNamara fully agreed and said that it is the people in this room who are primarily responsible for bringing about that change in attitudes. Mr. Stern continued by saying that he agreed with Mr. Husain with respect to the nationality issue. He also recommended that the Bank should not stick to predetermined sectors for its efforts in the recruitment of women.

Summarizing the discussion, Mr. McNamara said that he concluded from the discussion that: (a) a policy statement should be issued; (b) there should be a simple statistical analysis by function of the J-Q staff from the end of FY76 to December 31, 1980; (c) there should be a comparison with the Fund and the UNDP on the functional distribution issue; (d) a satisfactory nursery plan should be prepared; (e) for the next fiscal year, it should be stated that the Part I/Part II recruitment distribution objectives would apply for males only; (f) each PC member will hold discussions similar to the one just completed with his own managers on both reports; and (g) each PC member will suggest changes for the draft paper to the Board.

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March 17, 1981

OFFICE OF THE PRESIDENT

President's Council Meeting, March 16, 1981

Present: Messrs. McNamara, Barletta, Baum, Bart, Chenery, Gabriel, Golsong, Chang, Wiehen, Husain, El Darwish, Paijmans, Qureshi, Rotberg, Stern, Thahane, Gue, Weiner, Kearns, Mrs. Boskey

Compensation

Mr. McNamara opened the discussion on this subject saying that the compensation issue is the major problem to be solved before his retirement at the end of June. He then asked Mr. Paijmans to summarize the situation as it is today. Mr. Paijmans explained that, by the end of the weekend, there will be a final report submitted by Hay Associates. There will be three volumes: (a) a document on the methodology, which is common to the Fund and the Bank; (b) a document on the findings for the Bank; and (c) a document on the findings with respect to the Fund. Mr. Paijmans indicated that, as recently as two weeks ago, it was thought that even the methodology would not be consistent between the Bank and the Fund. To Mr. McNamara who asked what were the most significant differences in both approaches, Mr. Paijmans said that, in the first place, the Bank deals with total compensation, while the Fund considers direct compensation only. In addition, the Fund study on the A-I staff is not exactly comparable to the Bank's. With respect to the utilization of the nominal exchange rate versus the purchasing power parity rate, the Fund wants to go only with the NER whereas the Bank will present both. The Fund is now in the process of preparing a piece of paper to its Board explaining the differences in methodology between the NER and PPP. Mr. Paijmans then said that the tentative conclusions from the study is that a range of options will be available. He indicated that Bank management will be moving along with representatives of the Staff Association, the Board Committee on Compensation and the PMC and by the end of April Bank management will move to recommendations. The paper to be submitted to the Board is now scheduled for May 8.

Mr. McNamara emphasized that it is very important to realize that the Bank approach is to present recommendations simultaneously for possible adjustments for March 1980 and March 1981. He indicated that the Fund does not seem to agree on doing it this way. Mr. McNamara added that Bank management can count with the Board Committee on Compensation whereas the Fund has no such committee. He added that the issues to be dealt with are extremely complex, and he expressed his concern about the lack of communication between the two Boards on this issue. He also indicated that the Bank could not accept actions that would be non-parallel with the actions recommended by the Fund. In essence it would be unacceptable if the Bank staff were to be compensated differently from the Fund staff for the performance of similar tasks.

Mr. Paijmans said that one fundamental issue with respect to the Hay data is the transformation of this data in comparable form, whether the NER or the PPP indices are being used. The difference between the two is about 20%. He indicated that the survey conducted by Hay Associates is extremely precise, but the 20% difference comes from the translation of the data. As far as the main findings of the survey are concerned, Mr. Paijmans said that, on the whole, the comparison of Bank compensation with U.S. comparators is favorable. The Bank is lagging behind in direct pay, but it is reasonable (i.e., there is the recommended 10% premium) in total compensation. With respect to the French and German comparators, the Bank is lagging behind. Using the NER, the Bank total compensation lags behind the French by about 18%, while with the PPP the lag is about 1%. Mr. McNamara added that this lag does not include expatriation allowance. With respect to Germany alone, Mr. Paijmans indicated that the Bank lags 15% if NER is used, but it would be slightly ahead if the PPP is used. Mr. McNamara intervened to indicate that this result concerns March 1980 only. Today the exchange rate has changed very substantially, and this would affect the comparison if the NER formula is used. Mr. Paijmans indicated that an important issue is to decide whether the U.S. market alone should be used as a comparator or a market constituted by a mix of countries. Another issue is, in case an expatriate allowance is envisaged, whether this should be general or selective.

Mr. McNamara summarized what appear to be five possible options and asked every participant in the meeting to think about them:

(a) All staff paid on the basis of U.S. comparators with a 10% premium;

(b) All staff paid on the basis of the highest international comparators;

(c) The U.S. staff paid as a function of U.S. comparators, and a uniform expatriate allowance for all non-U.S. staff;

(d) U.S. staff paid according to U.S. comparators, and only expatriate staff from the higher paying comparators would have an expatriate allowance; and

(e) A uniform payment to all staff, falling between the levels of the U.S. and the highest non-U.S. comparators, i.e., halfway between alternatives (a) and (b).

Mr. Paijmans said that, as far as A-H staff are concerned, the results of the survey indicate that the Bank compensation is generally about right. On the whole pay line, there is a 10% premium over the comparators' market. Mr. McNamara said that this was right, although it does not include Social Security which in itself represents 6%. Mr. Paijmans further said that the salary structure is low at the bottom of the scale and high at the top of the scale. At the top, Bank compensation is between 10-15% over the recommended premium. Mr. Paijmans added that there is a problem on this issue with the Fund, since they include senior managers in their study, and they want to use the NER instead of the PPP. He further indicated that there is very good relationship with the Staff Association on these issues. While there are some disagreements on certain issues, e.g., the local market, taxes and others, the Staff Association is fully satisfied with the survey.

Mr. Kearns asked whether the Hay study would be made available to everybody. Mr. Paijmans answered that the distribution of the documents will not be restricted. Mr. Baum asked about the Social Security aspects. Mr. Paijmans answered that these aspects were not studied by the consultants. Mr. Golsong suggested that it would be best to have the Board discussion on compensation before the discussion of the Administrative Tribunal. Mr. McNamara indicated that he saw very little likelihood of this happening. Mr. Husain asked what was the rationale for the Fund taking its approach. Mr. McNamara replied that, in his view, the Fund thought that they would be better off with direct compensation. He said that this is correct if the comparison is made only with the U.S., but, in the case of Europe, total compensation is much higher. Mr. Qureshi said that the Fund will say to its Board that it can pick its own choice of PPP depending upon what criterion it wants to put most weight on.

On other business, Mr. Chenery reported that he thought that the draft report on China is the best report that he has seen in 10 years. Mr. McNamara told the President's Council that he will be leaving on March 21 for a visit to India and Pakistan.

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April 30, 1981

OFFICE OF THE PRESIDENT

822/9/11

President's Council Meeting, April 6, 1981

Present: Messrs. McNamara, Lerdau, van der Tak, Chaufournier, Chenery, Gabriel, Golsong, Hattori, Hopper, Husain, Knox, Paijmans, Qureshi, Rotberg, Stern, Thahane, Wapenhans, Weiner, Parmar, Mrs. Boskey

Annapolis Seminar

Mr. McNamara reminded the meeting that there was a seminar held last week at Annapolis for senior managers. He said that those who had not been present at the seminar might be interested in hearing what happened there. He asked Mr.Stern to make a brief summary of the seminar. Mr. Stern said that the first seminar of this kind had been held last year. He said that the purpose of the seminars is not so much to get to specific conclusions, but rather to exchange views among the participants on selected management issues. He said that this year Mr. Cheysson of the Commission of European Communities was the guest speaker. Mr. Cheysson had emphasized the European discontent with respect to the current American positions with respect to development assistance. He had called attention to the fact that apparently the U.S. seems to look only at the security aspects and the supply of raw materials when dealing with the issue of international financing. He had added that the EEC is now preparing for the Ottawa summit.

Mr.Stern said that he thought that the meeting had been very interesting. In the first place, the discussion on the economic adjustment process proved that the Bank has now gone farther than dealing strictly with the oil situation. He added that Mr. McNamara, in his address to the meeting, had stressed the importance of intellectual contribution which the Bank can make in assisting the developing countries. On the management side, Mr. Stern said that there was a consensus that there seems to have been some improvement with respect to the capacity for innovation. There was in the past year a much greater effort to build the management group as a team. He observed, however, that a great deal still has to be done. He mentioned that everybody in the meeting had been especially appreciative of the effort of Mr. Paijmans, and many people felt that the Bank was moving in the right direction. Mr. Husain said that, in talking about structural adjustment, the issue of Africa probably should be raised as a separate problem. He said that Mr. McNamara's comments on intellectual leadership apply much more for Africa than anywhere else in the world. Mr. McNamara said that, in his meeting with the group, he had stressed that the main difference between the decade of the 80s and that of the 70s will be in the intellectual contribution of the Bank. The decade of the 80s, as far as the Bank's contribution is concerned, will need to be "labor-intensive" compared to the decade of the 70s which was more "capital-intensive". Mr. McNamara added that the developing countries today are much more receptive to discussion, and the Bank knows much more than it did before. He observed, however, that this does not mean that the financial contribution of the Bank should be less than ever before. He also said that structural adjustment lending opens new fields of opportunities. He commented that, in the past, he was often opposed to program lending because he was convinced that it could lead to a lot of lending without any program. By the same token, lending for structural adjustment obviously should be accompanied by concrete adjustments. He added that he shared Mr. Husain's views with respect to Africa. In this connection, he expressed his fears that the report (Africa Study) may not give the Bank a sufficient basis for actions. Mr. Stern said that part of the problem is that, in Africa and some other countries, the Bank just does not have a sufficient technological knowledge.

Mr. Knox's Visit to Ivory Coast and Nigeria

Mr. Knox said that both countries are currently facing serious problems. With respect to Nigeria, Mr. Knox said that the Bank does not have very clear ideas of what to do. Fortunately, this is balanced by clearly excellent relationships and useful dialogue with the Government. In essence, the price incentives in Nigeria are pulling people out of agriculture and industry which are obviously where the long-term future of the country lies. The Government expects oil production to stabilize at about 2.2 million barrels of oil equivalent a day. They will have, however, a balance of payments deficit from 1986 onwards. It is, therefore, clear to everybody that more emphasis should be put on agriculture and industry. However, a lot must be done to study how this should be accomplished. The Bank does not have a ready-made answer. In summary, the new Minister of Finance, who seems to be very good, says: (a) can Nigeria have some help from the Bank; (b) can there be an increase in the level of lending; and (c) the Bank should be patient with the shortcomings of Nigeria's Government. With respect to the latter, it is indeed clear that there are some serious problems of division in the country.

With respect to Ivory Coast, Mr. Knox said that they over-expanded at a time of high coffee prices and they are now in the process of adjusting. They are in particular reshaping their policies, and, in this connection, they are now requesting a structural adjustment loan. There are indeed some strengthening mechanisms for generating and improving agricultural projects and they have conducted a major overhaul of the parastatal companies. Mr. Knox said that he had met with President Houphouet-Boigny who had told him: "We are ill, but you are the doctor." Mr. McNamara observed that this attitude just did not exist 10 years ago. Mr. Knox agreed, but added that this puts a tremendous onus on the Bank. Mr. Thahane said that several things are now happening in African countries. In the first place, on the policy analysis side, the Bank now gets them to listen more openly. Secondly, the Bank is now talking to the younger post-independence generation and it is with this group that the Bank will be evaluated. Finally, there are some problems on the political side. Many African countries are definitely reluctant to imitate simply what has been done elsewhere.

India Trip

Mr. McNamara asked Mr. Hopper to comment on the trip to India and Pakistan. Mr. Hopper said that the visit to India was very good and it showed how much esteem the Indians have for Mr. McNamara and the Bank. He said that Mr. McNamara arrived in India right after the publication of the latest census which shows a population of 684 million. It came as a great surprise that the growth rate of 2.24% per annum over the last decade is not significantly different from the annual rate prevailing over the previous decade. He added that the Government is genuinely concerned about the population issue. Mr. Hopper then said that the Indians recently put out their sixth five-year plan. This plan is not overly ambitious except for an objective of 10% growth rate for exports. He said that a special committee for exports has been created under the chairmanship of Mrs. Ghandi, and a new aggressive commerce secretary has been appointed. In spite of this, it is not easy to say how they should go about accomplishing their objectives. The agricultural performance of the country is very good, and the agricultural team is excellent. Mr. Hopper also said that the incremental capital output ratio is still very high (around 6), largely due to poor infrastructure. He indicated that the Indians are unlikely to solve their power problem between now and 1990. He added that Mr. McNamara went to some villages to see real India. On the export side, if the petroleum sector moves forward as expected, and, if agricultural production continues satisfactorily, the Indians could export five million tons of rice by 1985. Finally, Mr. Hopper said that the current accounts deficit projected at 2.5% of GDP remains at a level quite acceptable.

With respect to Pakistan, Mr. Hopper said that the population issue was again put forth. He mentioned that there is a new drive headed by a dynamic woman, advisor to the President on population issues. He said that the Pakistanis are going for sterilization and contraception. However, education of women is very low and is a difficult obstacle to population planning. Mr. Hopper added that there is a very disappointing performance in education. He also said that the Pakistani Government does not have any strategy for oil exploration; however, they do have an aggressive development plan for hydro-energy. Mr. Hopper said that Mr. McNamara visited all provinces. He said that Mr. McNamara went to Karachi where he met with private entrepreneurs who are clearly more interested in their profits than in development. He said that Pakistan can show a good performance in exports and in agriculture. Mr. McNamara said that he was amazed to see that only 6% of the fertile women are continual users of contraceptives. He added that, according to the woman advisor to the President, the growth rate would still be 1.5% by the year 2000 if her program is successful. In a word, there is no way that Pakistan can stabilize population at less than 175 million people. Mr. McNamara added that he told the Governments of both India and Pakistan that they will not be able to avoid compulsory measures of population planning within the next 10 years. He said that in India they rely on sterilization and he just does not believe that this is the answer.

IDA VI

Mr. Qureshi said that the meeting of IDA Deputies took place in Paris on March 30 and 31. This was a follow-up to the meeting of July 1980. The purpose of the meeting was to get the U.S. to reaffirm their program of contributions to IDA VI, but also to allow other non-U.S. donors to continue with their contribution. For the other donors, the Bank was expecting commitments from those who had not given advanced instalment authority to commit. Mr. Qureshi said that IDA is now out of commitment authority. He indicated that there is little likelihood that the first U.S. contribution could be obtained before July.

Mr. Qureshi said that the meeting was very well attended. In particular, Arab representatives attended the meeting. The meeting was also very helpful. Mr. Qureshi said that it gave him an idea of the importance of IDA VI for several member countries. There is no doubt that for these countries IDA VI is a major instrument of their foreign assistance policies. Mr. Qureshi also said that IDA VI has now become a major political issue. He indicated that the U.S. did very well in its statement, saying that they were committed and would move expeditiously. The U.S. also said that, if the other donors were prepared to release their second instalment, the U.S. would allow the draw-down. Assuming the U.S. contributes, there is then no real cost attached to other donors. Mr. Qureshi reminded the participants that the no-risk approach is designed so that non-U.S. donors would be insured that the IDA commitments would be stopped until full assurance of U.S. contribution. Mr. Qureshi said that some non-U.S. donors agreed that this was an acceptable approach but they genuinely felt that there was a serious risk associated with giving up the burden-sharing aspect with the U.S. at this time. They wanted first to get the U.S. authorization bill through. Some others said that they wanted to wait until the first instalment has been appropriated. This also gives them three or four months to have bilateral discussions with the U.S. (especially in the case of the Germans and the Japanese).

In summary, Mr. Qureshi said, there was strong support for IDA. There was also a pledge from countries which had not yet given advance contributions. With this, and within the next two months, IDA should be able to get about $500 million - $600 million. Mr. Qureshi said that, in his view, the Bank has set the stage for the release of the second instalment as soon as IDA VI becomes effective. Then, the Bank will be able to take it to non-U.S. donors. Mr. Qureshi concluded by saying that there is a feeling on the part of several countries, e.g., France, that, if the Bank is in a position to process projects and make commitments, there is not much penalty in waiting a few months more. Mr. Qureshi said that this was not true, since, in fact, there are severe penalties.

On other business, Mr. McNamara offered his congratulations for the accuracy of estimates of project scheduling.

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April 30, 1981

OFFICE OF THE PRESIDENT

822/9/12

President's Council Meeting, April 20, 1981

Present: Messrs. McNamara, Barletta, Baum, Chenery, Gabriel, Golsong, Hattori, Hopper, Knox, Paijmans, Qureshi, Stern, Thahane, Wapenhans, Weiner, Wuttke, Hittmair, Jaycox, Picciotto, Mrs. Boskey

Mr. McNamara opened the meeting explaining that he has 11 subjects to deal with during the next 72 days, before his departure from the Bank. On each of these subjects, either a decision will have to be made before June 30, or a bridging arrangement for his succession will have to be developed. These subjects are: maintenance-of-value; compensation; energy program; IDA VI; FY82 lending and borrowing programs and budget; July 1 lending rate; PLO issue; sub-Saharan study; Development Committee; briefing papers for Mr. Clausen; and finally his personal post-retirement plans. Mr. McNamara then asked Mr. Paijmans to brief the meeting on the compensation issue.

Compensation

Mr. Paijmans indicated that there are some problems with the Staff Association, which has already heard about the various options being studied by management. He said that what was being discussed now in the meeting should be kept in the room. Mr. McNamara emphasized this point adding that every participant in the meeting should understand that the compensation issue should not be discussed outside. However, he encouraged every participant to think personally about it. Mr. Paijmans continued by summarizing the five basic options now under consideration: the first option would consider a uniform salary structure using the U.S. market as a comparator; second, a uniform salary structure could be based on a higher-paying comparator (e.g., France); a third option would be based on a uniform comparator market somewhere between the U.S. and the higher-paying comparator; a fourth option would be to use the U.S. Market as a comparator for the U.S. staff and a non-U.S. market comparator for expatriates, with a general expatriation allowance; the last option would be the same as option 4 but with a specific expatriation allowance for staff of high-income countries instead of a general expatriation allowance.

Mr. Paijmans indicated that there are now some additional elements to take into consideration. Because of differences in public and private pay, the 50-50 mix in the U.S. places the Bank below the average of the private market because of problems in the public sector which lags 25% behind the private sector in total pay. Mr. Paijmans mentioned that the Compensation Department is looking at the evolution in the U.S. market over the last three years. In essence, the result could be a different U.S. market than the presently considered 50-50 public/private comparator plus the 10% quality premium. As for the A-I staff, Mr. Paijmans indicated that it is clear that the Bank is paying too little at the lower levels and too much at the higher levels. Therefore, there should be a reduction over time for the latter and an increase for the former. Mr. McNamara said that it appears likely that a differential treatment for different categories of staff will be necessary. Mr. Paijmans observed that the objective of the March 1980 adjustment on the basis of the Hay Survey is to adjust the Bank's salary structure. He agreed with Mr. McNamara that adjustments for the J-N staff will be different from that of the A-I staff. Mr. Paijmans said that this is the only point which the IMF recognizes. He added that the IMF management is about two weeks behind the Bank on the compensation issue.

To a question asked by Mr. McNamara, Mr. Paijmans replied that the EDs of the Bank have been frequently involved in the study of the compensation issue. There is a committee of eight Directors who meet regularly and who do understand the complexity of the issue. There is no unanimity in the committee but there is an undeniable eagerness to look for solutions. Mr. Paijmans repeated that the IMF is two weeks behind the Bank as far as the management is concerned; however, they are two months behind with respect to their Board, essentially because they have no committee of Directors equivalent to that of the Bank. He added that the Fund has not yet formulated any options. With respect to the A-I staff, the Fund seems to lean towards a uniform increase.

Mr. Paijmans mentioned that the Staff Association currently faces a difficult dilemma. There is generally a great willingness to work with management and there is basic agreement on the value of the data of the Hay Survey with which the Staff Association, the Executive Committee and COMPAC have all been frequently involved. However, the political arm of the Staff Association prefers to ignore this situation. This is a very serious problem and, Mr. Paijmans added, a rather militant piece of paper from the Staff Association was recently circulated. In essence, the Executive Committee of the Staff Association is being outflanked by some militant delegates of the Delegate Assembly, not so much by staff. Mr. McNamara said that it would be a terrible situation if by definition the Staff Association must be in conflict with management. Mr. Paijmans indicated that he is also worried about the composition of the Executive Committee. He added that there had been very fruitful talks, but there may be excessive expectations on the part of the Staff Association. He mentioned that the position of the Staff Association can be summarized as follows: (a) the U.S. market is no longer a good proxy; (b) other markets must therefore be found; and (c) there is a cost of expatriation which should be recognized and which warrants a specific expatriation package. With respect to the A-I staff, the Staff Association argues that there should be an across-the-board increase, with grandfathering the staff who may have been overpaid. Also, the expatriate status of secretarial staff should be recognized. Mr. Paijmans said that he told the Staff Association that this was totally unreasonable, and he warned them that they would run the risk of losing credibility with the staff if they pursued this line of argument. He concluded by saying that there are now serious tensions between the U.S. and the non-U.S. staff, and the gap may be widening.

Mr. McNamara thanked Mr. Paijmans for an excellent summary and asked what should be the next steps. He indicated that he was inclined to try to resolve this before June 30, as it would be unfair to dump the whole issue on Mr. Clausen when he comes in. He added, however, that it should be recognized that it may not be possible to resolve this issue because of timing. He observed that there is the need for five weeks of lead time for the Board, and some four weeks before a paper can be put out, plus the need for detailed discussion. He added therefore that there may be a need to consider a bridging arrangement to buy some time. He also said that there would be a need for indoctrination of Mr. Clausen and of the U.S. Administration. For the latter, the added difficulty is that there is not even a U.S. ED now. He then raised the question as to what sort of bridging arrangement might be envisaged, if proven necessary. He also said that a second interim adjustment applicable to March 1981 should be envisaged. He indicated his willingness to pursue both a definitive solution and a bridging alternative at least for the next two weeks. He added that not all of the data are now available. Mr. Wapenhans asked how would the Fund react to the idea of a bridging arrangement. Mr. McNamara replied that he did not know. Mr. Paijmans observed that the Fund's decision-making process is totally different from the Bank's. Mr. McNamara said that the Fund management always runs risks with its Board which, in the past, has led to a strike there.

Lending Rate

Mr. McNamara indicated that the lending rate is bound to go up and the problem is to decide by how much. He added that there was no possibility of borrowing the required amounts for FY82 without borrowing U.S. dollars, and the current rate of borrowing U.S. dollars is now 14.5%. Therefore, there is no possibility of holding the current Bank lending rate at 9.6%. He added that a paper ought to go forward soon. He indicated that he still does not know what the new rate ought to be, but he said that he could not conceive that it could stay at 9.6%.

Sub-Saharan Africa Study

Mr. McNamara said that there should not be any opinion given on that report at this time. He indicated that he had not yet seen a draft and that everybody should be very careful about this issue.

Bangladesh Consultative Group Meeting

Mr. Hopper reported on today's Consultative Group Meeting for Bangladesh which reviewed the economic situation of the country. Food production reached 15.2 million tons last year where the weather could be considered average. He said that the food situation dominated the meeting. The storage situation in Bangladesh is currently very bad and, because of shortage of storage capacity, the Government has not been able to maintain prices to farmers. This is likely to affect next year's production, especially because of the fertilizer consumption. There has been an increase in the price of fertilizer and they have cut substantially the amount of subsidy. A basic change in the agricultural sector is the expansion of irrigated areas, where canal digging and drainage are major successes. Mr. Hopper indicated that exports are doing very poorly, in spite of good performance in volume of exports of skins and hides. However, the price of jute and that of skins went down. The foreign exchange reserves are equivalent to only one month of imports. Mr. Hopper mentioned that all donors encouraged the Government to export rice; however, there are not enough milling facilities and there is no market for exporting paddy rice. To a question put by Mr. McNamara, Mr. Hopper replied that the Government's objectives on population are completely unrealistic. He said that the Government claims that the population growth rate will go down from 2.7% to 1.8% in five years. Mr. McNamara commented that this is absurd and unfortunately it casts some doubt as to the Government's seriousness on this issue. He further said that India and Pakistan have not made much progress, but at least it is possible to talk to both Governments which are conscious of the seriousness of their problem. Mr. Hopper then said that the five-year plan was discussed--this plan appears to be outrageously ambitious. Mr. McNamara asked what happened with the aide memoire which had been left with the Government during his last visit a year ago, and Mr. Hopper replied that the Government did not want this aide memoire to be distributed to other donors. He concluded by saying that there was a $1.6 billion pledge from the donors, compared to the Bank's request for $1.8 billion. Of the $1.6 billion, there was an increase of 7% from France in dollar terms, or 27% increase in French francs.

OL
June 9, 1981

Office of the President

822/9/13

President's Council Meeting, April 27, 1981

Present: Messrs. McNamara, Barletta, Benjenk, Gabriel, Golsong, Hattori, Hopper, Paijmans, Stern, Thahane, Wapenhans, Weiner, Wuttke, Alisbah, Hittmair, Jaycox, Picciotto, van der Tak, Waide

Compensation

Mr. McNamara said that Bank management is trying to put out a paper outlining a set of actions for March 1980 and March 1981 adjustments. This set of actions will then be discussed first with the IMF, then with the Board Committee of EDs, and then with the Staff Association. He indicated that he would like PC members to participate in the process. He asked Mr. Paijmans to prepare the paper and to have that paper with each PC member by tomorrow night. The paper will be discussed next Monday. He instructed PC members to limit their review of the paper to themselves and to those for whom they are sitting. He emphatically stated that there cannot be any leak. He said that, if confidentiality is not fully ensured, he would prefer not to have the paper.

Administrative Tribunal

Mr. Golsong said that the Administrative Tribunal has received 900 applications of U.S. and non-U.S. citizens. Almost half of the cases received are for tax reimbursements. The Tribunal has selected six representative cases on which oral hearings will be held on May 28. He said that he was told by the Tribunal that a decision would be ready by mid-June. He added that the judges have already worked on the written pleadings. The Secretary of the Administrative Tribunal has arranged for 100 seats to be available for the oral hearings and there is a preoccupation not to turn the oral hearings into a circus. The Tribunal's judgment will quickly follow the oral hearings. In addition, there are three other cases before the Tribunal, two termination cases and one case of inequality of treatment on compensation. Mr. Golsong indicated that the latter case is probably unreceivable by the Tribunal.

Mr. Golsong said that one of the general problems in the discussion with the staff is their representation in front of the Administrative Tribunal. The staff have to get their representation from counsel outside the Bank at a cost of $125,000 which the Staff Association pays. They would like to have legally trained people paid by the Bank at their disposal. Mr. McNamara said that this was not possible. Mr. Golsong added that the mere fact that the Administrative Tribunal exists has already made a positive impact on the staff. He concluded by saying that the issue of relationships between the Appeals Committee and the Administrative Tribunal have so far been left open.

Mr. Benjenk's Travel

Mr. McNamara asked Mr. Benjenk to report on his extensive travel over the last few weeks. Mr. Benjenk said that he would leave aside his trip to India and Pakistan where he accompanied Mr. McNamara, assuming that Mr. McNamara had already briefed the PC on his trip. He said that the rest of his trip took him to Kuwait, Rome, Geneva and then Rome again.

Commenting on his visit to Kuwait, Mr. Benjenk reported that three new financial initiatives are being considered. First, there is a $5 billion fund by Arab states to be spent in 10 years for Arab countries, for infrastructure, as a trust fund managed by the Arab Fund for Economic Development. The commitment authority of AFED is about $200 million per year. Second, a smaller fund is being established, following an initiative of Jim Grant whereby funds from the Gulf would support UNDP and UNICEF actions to the tune of $150-$200 million a year. Commitments for the first year have already been made. Finally, there is the prospect of replenishment of the Islamic Bank, but the ways and means of accomplishing that are not yet known. A bridging arrangement for $1 billion is being considered, with commitments of about $300 million per year. Mr. Benjenk added that the Algerian/Venezuelan proposal to turn the OPEC funds into a bank was turned down.

Concerning his visit to Rome, Mr. Benjenk indicated that this was a follow-up to Mr. McNamara's visit to The Vatican in November 1980. The main idea was to examine the prospects of The Pope making an appeal on behalf of developing countries. Mr. Benjenk said that some ideas did move forward. The Pope in particular instructed the Peace and Justice Commission to initiate a study group to make recommendations as to what the next steps should be. This lay group is to start operating in September and the Bank has been invited to participate in the group. With respect to Catholic education, which is under the responsibility of Cardinal Baum, former Bishop of Washington, there is an indication that Cardinal Baum would like to work with the Bank on this issue. Mr. Benjenk concluded on this subject observing that things tend to move rather slowly in The Vatican.

With respect to his visit to Geneva, Mr. Benjenk mentioned that he attended the ACC and OAU meetings. He explained that the voice of the Bank is clearly listened to in the ACC since half of the meeting this time was on development issues. Mr. Benjenk reported that the UN/OAU meeting was a shambles where not much was achieved. However, there was an unusually successful meeting earlier on the issue of African refugees. Mr. Benjenk added that there was one nasty remark on the World Bank and the African study from the Assistant Secretary General of the OAU.

Commenting on his second visit to Rome, Mr. Benjenk said that he had attended the seminar presenting the World Bank to the Italian business and banking community. He reported that the meeting was very successful, very well organized, and that Mr. Ragazzi had done a lot of preparatory work. Some 400 people attended the plenary session, and groups of 50 people each attended meetings on specific issues, e.g., energy, agriculture, infrastructure and cofinancing. Besides himself, the meeting was attended by Messrs. Knox, Rovani, Yudelman, Chadenet and some others from the Bank. Mr. Benjenk mentioned that two interesting remarks were made by officials from the Italian Treasury and Ministry of Foreign Affairs. First, Italy has appropriated money which they have difficulty in spending and, therefore, they now recommend cofinancing with the Bank for this unspent money. Second, the Italian Government expressed very strong support for the energy affiliate. They indicated that, if the Bank is not able to come up with such an affiliate, Italy would then want to put it to the EEC for financing with OPEC money.

Returning to the Administrative Tribunal issue, Mr. Alisbah asked how staff are represented in other organizations. Mr. Golsong replied that the UN does not allow its own lawyers to represent staff. However, it does indicate a list of lawyers outside its Legal Department.

OLafourcade
June 8, 1981

OFFICE OF THE PRESIDENT

822/9/14

President's Council Meeting, May 4, 1981

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chenery, Gabriel, Golsong, Hattori, Hopper, Paijmans, Qureshi, Stern, Thahane, Weiner, Wuttke, Alisbah, Hittmair, Kirmani, Kraske, Picciotto

Compensation

Mr. McNamara first instructed the meeting that none of the forthcoming discussion of the compensation issue should be discussed with the Staff Association. He indicated that, before the paper is sent to the Board, management will have discussions with the Staff Association and with the IMF. He then asked Mr. Paijmans to introduce the subject.

Mr. Paijmans said that he would concentrate first on the J-N staff. As a preamble, he said that one of the findings of the Hay Survey with respect to March 1980 led to the recognition that expatriation has become a key issue which both the Board and the Staff Association recognize. The latter has expressed its position that it wants to see the inclusion of benefits to cover the costs of expatriation into the compensation package. Mr. McNamara observed that it can be interpreted that the Staff Association is in support of a uniform salary structure for the Bank staff, and they ask that real expatriation costs be recognized and compensated for.

Mr. Paijmans mentioned that management has now come up with various options on which there have been some discussions with the IMF. He summarized the options as follows:

-- Option 1. The U.S. market plus 10% quality premium; this would amount to the system presently used in the Bank and it would not recognize the Hay findings;

-- Option 2. Highest comparator (e.g., France) plus 10% quality premium;

-- Option 3. An intermediate comparator market in between the previous two, e.g., one-third U.S., one-third France, one-third Germany, plus 10% quality premium; this would amount to paying less for Europeans and more for U.S. citizens than warranted in the respective markets;

-- Option 4. Throw away the uniform structure and pay the U.S. staff according to U.S. comparators and European staff according to European market comparators; two sub-options: (a) general expatriation allowance for all expatriate staff; and (b) and specific expatriation allowance for citizens of highest-paying countries; and

-- Option 5. A composite option by which there would be an attempt to keep a uniform structure maintaining the American market as a yardstick; for this purpose, the public U.S. comparator market could be adjusted, and a redefinition of the U.S. private market could be undertaken.

Mr. Paijmans indicated that there are indeed strong arguments for adjustment of the U.S. market. Mr. McNamara asked whether anybody in the meeting would have any objections to adjusting the U.S. public sector and eliminating consulting firms from the private sector comparator market which, combined, would add 7% to the present U.S. comparator market. He reminded the meeting that the Kafka Committee had recommended a 50/50 mix of public and private sectors. He added that a basic assumption for the present exercise is that management sticks to Kafka principles as much as possible.

Mr. Benjenk commented that he thought there was good justification to exclude consulting firms from the present private sector market. Mr. McNamara observed that consultants have a much higher turnover than the Bank and other private sector comparators and they also have largely different benefit packages. Mr. Gabriel asked whether there could be some further explanation on the specific point relating to spouse allowances. Mr. Paijmans replied that Option 5 has three basic elements. First, the total adjustment in net salary, which would amount to 7.6%. Second, there are improvements in some expatriation benefits. Third, he explained that the 7.6% increase in net salary would come from two sides: (a) an increase in general salary amounting to about 5.2%, and (b) an adjustment in spouse allowances which would amount to 2.4% of net salary. Mr. McNamara further explained that, to put it simply, married staff is currently underpaid while single staff is currently overpaid and the proposal would mean correcting this abnormality. Mr. Picciotto asked whether the adjustments are meant only for this year. He expressed his concern that the NER/PPP mix of 50/50 has an appearance of expediency. Mr. McNamara replied that, ultimately, the proposal will come as a full package, and it should be clear that management is not trying to fix everything for the future. The only fixed elements in the present package are the Kafka principles. He further added that the introduction of the NER concept in compensation inevitably brings some changes and adjustments. Mr. Chenery commented on this point by mentioning that there are long-term implications in this. In inflationary periods, there are lags, and the private sector determines the public sector in the long run and not the reverse. Likewise, the same is true for the NER/PPP, since purchasing power will ultimately determine NER in the long run. He added that he thought the compromise in the paper seemed adequate. Mr. Gabriel said that, in his view, by a process of elimination, Option 5 is the best. He added, however, that he has not seen evidence of major difficulties of recruitment. Mr. Paijmans commented that Option 5 does give the right answer. He said that, looking at March 1980, there are clear indications of drops in applications from high-income countries, with the possible exception of France. He mentioned the increasing difficulty in hiring experienced technical specialists. In addition, there is clearly a higher rate of voluntary termination. Mr. McNamara observed that the turnover in the Bank is extremely low. He added that he thought it was too low, although it should be recognized that it is now higher than in the past. Mr. Paijmans explained that there is a problem of aging of staff from high-income countries and the trends are worrisome.

Mr. McNamara then asked that the discussion turn to the issue of expatriation benefits. He mentioned that he is personally opposed to anything that costs more to the institution than the benefit to the individual. He said that there are four possible alternatives with respect to some form of expatriation benefit additional to the existing ones: (a) a flat Home Leave allowance; (b) a flat dollar payment per year (e.g., one week's salary); (c) more frequent Home Leave, e.g., 18 months instead of 24 months; and (d) a recruitment bonus (e.g., settling-in allowance). He mentioned that there may be other forms, but he wanted to know first which of these four the meeting would favor. Mr. Chenery said that, if the problem to be solved is mainly recruitment, he would favor the last alternative, e.g., the recruitment bonus. Mr. Golsong observed that the reputation of the Bank was very different ten years ago when it was known that the Bank was paying very well. Today, it is exactly the reverse, many people thinking that the Bank is not sufficiently serious in its compensation policy. Mr. Golsong mentioned that, in his view, the key point is whether or not the Bank is still getting the best possible staff. He argued that the present strength of the U.S. dollar is not enough of an expatriation incentive and, in this respect, more than 1% or 1.2% increases are required to attract people, especially young staff, from abroad. He concluded arguing that the four alternatives presented by Mr. McNamara are not addressing the key issues. Mr. Wuttke said that the overriding element as far as staff is concerned is that they prefer cash and, therefore, they would favor those options which bring cash. Mr. Golsong further argued that management should be very careful in its fight against supplementary payments by some member countries. Mr. Kirmani said that he was in favor of the payment for Home Leave, e.g., the first option. Mr. Baum said that the logic of Option 5 of the basic options presented by Mr. Paijmans is to recognize the element of cost. He then observed that none of the four alternatives on expatriation addresses this issue. In particular, a recruitment bonus does nothing to cover real expatriation costs. Mr. Gabriel gave his view that an increase in Home Leave facilities would clearly imply inequitable distribution of benefits and therefore he too favored cash payment. Mr. Picciotto expressed his belief that a flat dollar payment would bring divisiveness between expatriates and non-expatriate staff and therefore he declared his support for the Home Leave allowance option. Mr. Baum observed that, if the objective is to attract staff, the issue is different from compensating expatriates for specific costs of expatriation. Mr. Thahne argued that, once an expatriate has been settled, he still faces a number of problems that are different from those of non-expatriates and this has an influence on recruitment.

Mr. McNamara then asked that the discussion turn to the issues of A-I staff. Mr. Paijmans explained that the Hay Survey points out that the Bank is below the comparator market at the lower levels and above that market at the higher levels; therefore, the proposals are to increase 12% at the bottom of the B level to 0% at the top of the E level. He said that the Staff Association has recognized that management is drifting to separate systems for A-I and J-N staff; however, they are violently opposed to no adjustment at all at the higher E levels. Furthermore, they argue that the benefits for expatriates at the J-N level should equally apply at the A-I level. Mr. Paijmans explained further that the main reason for high salaries at the higher levels is the fact of older staff for long periods in their jobs, coupled with the close-to-the-throne syndrome. Mr. McNamara asked whether: (a) the meeting agreed to a tapering increase, or to a flat increase spread equally to all A-I staff; and (b) the meeting is in favor of making the proposed additional expatriation allowances for the J-N staff equally applicable to the A-I staff. Mr. Kirmani said that he was in favor of a flat 2% increase for all A-I staff. Mr. Wuttke said that secretaries are highly paid at the top and are paid too little at the bottom. He explained that, being a newcomer, he does not know all the details but he nevertheless would favor a differential treatment. Mr. McNamara informed the meeting that Mr. Clausen's present secretary makes $10,000 a year less than her equivalent in the Bank and this clearly shows that the Bank higher levels of A-I are highly paid. Mr. Benjenk expressed his support for the idea of a taper. Mr. McNamara said that he sensed general support for a taper. He then asked for the meeting's views on the issue of expatriation allowance for A-I staff. Mr. Benjenk said that A-I staff already enjoy expatriation benefits and, therefore, for the sake of peace and unity, he would be in favor of giving additional expatriation benefits to the A-I staff. Mr. Gabriel said that it may be desirable to keep the same benefits for J-N and A-I staff, but a policy statement could be issued that eventually these would be phased out in the case of A-I staff. Mr. McNamara commented that part of the problem is that a high percentage of the A-I staff comes to Washington to be employed by the Bank and, therefore, they are not recruited internationally. Mr. Qureshi said that much depends on what sort of benefit is being thought about. Specifically, if there is an increased payment for Home Leave for J-N staff, it is impossible not to give the same to the A-I staff. On the other hand, if a cash payment is being considered, it should not be extended to the A-I staff. Mr. Hattori said that, if there is a basic principle that the Bank recruits in the Washington area, it should stick to its policy and, therefore, not extend additional expatriate benefits to the A-I staff. Mr. Benjenk said that he would favor a reconsideration of the type of taper to be applied to the increase for A-I staff. He expressed his preference for a small increase at the top. Mr. Wuttke observed that one problem in recruiting is that people ask about their prospects for their future. He indicated that he thought more flexibility should be introduced in the system. Mr. McNamara said that the Bank had failed in its merit increase system. In his view, the ablest people do not advance fast enough in the institution.

Mr. Alisbah asked what the timetable looks like for consideration of the compensation issue. Mr. McNamara replied that his intention is to resolve the compensation issue before his departure from the Bank on June 30. He noted, however, that there are several problems, especially because of the meeting in Gabon. He added that Mr. Paijmans intends to put a paper to the Board a week from Friday, and he expressed doubts as to whether this would be feasible. Mr. Paijmans said that there are some problems with the Staff Association. The Executive Committee of the Staff Association has asked Mr. McNamara's authorization that they present the management proposal to their Delegate Assembly before it is presented to the Board, and this clearly seems impossible. Mr. McNamara said that this was not to be discussed now; it is a problem of management versus the Staff Association. He said that there was no need to decide on that now.

OL
June 23, 1981

822/9/15

OFFICE OF THE PRESIDENT

President's Council Meeting, May 11, 1981

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chaufournier, Chenery, Gabriel, Hattori, Hopper, Paijmans, Qureshi, Rotberg, Stern, Thahane, Weiner, Alisbah, Kirmani, Parmar, Scott

Mr. McNamara informed the meeting that a draft memorandum on compensation will be circulated later this week to PC members and a meeting of the PC will be scheduled to discuss the paper before the Gabon meeting. On IDA, Mr. McNamara informed the meeting that the Sub-Committee in the House had decided to cut the first appropriation from $540 million to $408 million. He added that he had talked to Secretary Haig and Secretary Regan who had given assurances that President Reagan would talk to the Sub-Committee members. He also said that the situation with respect to IDA has become very difficult.

Mr. McNamara asked Mr. Rotberg to report on his recent trip. Mr. Rotberg said that the high U.S. interest rates are showing considerable effect throughout the world. In the UK, there is now a strict allocation of resources for foreign borrowers. Mr. Rotberg noted that the recent Bank bond issue turned out to be a great success in the UK, where savings are mainly in long term and rates are 13%-14%.

Mr. Rotberg indicated that Singapore is now ready to let the Bank borrow there. Singapore has seen a recent proliferation of banks for a small population of 2.5 million. Most of the trading is in Asian dollars, and they use a merchandising technique to sell in the Asian market. This is a 5-7 year market only, since there are no longer-term institutions, e.g., pension funds. Mr. Rotberg said that there would be possibilities for borrowing there rather frequently. The spread over the U.S. Government rate would be about 25 basis points compared with more than 100 basis points in the U.S. He further explained that this differential may be largely due to tax evasion.

With respect to Japan, Mr. Rotberg said that there was a recent lowering of the discount rate there and the yen has deteriorated 5%-6% since then. In long-term money, the Bank could borrow at 8.2% or 8.3%, equivalent to 7% or 8% below the U.S. In Japan, pension funds and insurance companies do have considerable amounts of money. Mr. Rotberg also indicated that many people think that the yen is currently undervalued, and they expect inflation in Japan to be less than 6%; however, the return in the U.S. market is still better. With respect to Germany and Holland, the Bank's access to funds in these markets is limited because of rationing and because of the large number of borrowers.

With the inclusion of the Saudi Arabia loan, Mr. Rotberg indicated that the Bank has borrowed $5.3 billion so far this year. He gave his opinion that the last $1.3 billion needed to complete the FY81 program could not be borrowed at a cost of less than 15%. Mr. McNamara mentioned that the budget paper sent to the Board for consideration show the Bank's liquid reserves at 43% excluding the Saudi loan. He added that the amount to be borrowed next year stands at about $7.1 billion. He observed that the 43% figure is high, and there may be the need to re-examine the necessity to borrow the remaining $1.3 billion of the current fiscal year program now.

Mr. Benjenk told the meeting that the Paris Office had called him to report on the results of the elections in France. An interim government is to be named shortly since there will be Parliamentary elections in the second part of June. The possible outcome of the forthcoming elections could be: (a) a Socialist majority for the President; or (b) the President does not obtain a majority, which could lead to unknown. Mr. Benjenk indicated that several of the people whom the Bank knows will now disappear, especially in the Treasury. He added that the Socialists have expressed ideas concerning the reorganization of aid. They have also talked about the need for reorganization of the IMF and of the Bank. In general, however, President Mitterand is very favorable to aid.

OL
June 23, 1981

822/9/16

OFFICE OF THE PRESIDENT

President's Council Meeting, May 18, 1981

Present: Messrs. McNamara, Barletta, Benjenk, Chaufournier, Chenery, Gabriel, Golsong, Hattori, Hopper, Husain, Paijmans, Qureshi, Rotberg, Stern, Thahane, Wapenhans, Weiner, Wuttke, Alisbah, van der Tak

Compensation--Discussion of Management Paper

Mr. McNamara first indicated that he wanted to hold a PMC meeting at 9:45 a.m. He said that there have been great difficulties on the issue of compensation, but he added that both Messrs. Paijmans and Clarke had done a tremendous job. In essence, the Board of the Fund and the Bank have not been able to agree on a common approach. Therefore, management is sending the responsibility for decision back to them. Specifically, the Fund Board has taken a position totally different from the recommendations of the Kafka Committee. Mr. McNamara then opened the floor for comments on the paper.

Mr. Chaufournier observed that the new paragraph 7(i), i.e., the conclusions, represents a considerable improvement over the previous version. He added, however, that he had some difficulties with the presentation of the paper. Mr. McNamara agreed and added that more time would have been needed to refine the presentation of the paper; however, both Mr. de Larosiere and he want to get the issue resolved before June 30. Mr. de Larosiere is putting his proposal out today and there is very little time. Mr. McNamara added that, at least on the Bank side, there is the Board Committee on Compensation but, even in this Committee, there has been a lot of controversy over the compensation issue. Mr. Chaufournier further said that he thought that a short communication note should be sent to the staff. Mr. McNamara agreed again and instructed Messrs. Paijmans and Clarke to draft a note by tomorrow at the latest. He then asked the meeting whether PC members wished to see the whole paper redrafted. All participants replied that there was no need for a full redraft.

Mr. Husain asked what management is specifically recommending. Mr. McNamara replied that there is no recommendation but rather it is left to the Board to decide. Mr. Golsong asked how the two Boards will resolve their "remaining differences." Mr. Stern observed that these differences can be resolved at a later date. Mr. McNamara agreed and added that the whole exercise is quite difficult especially with respect to the expatriation issue. Mr. de Larosiere has been so badly burned in the past on an allowance linked to Home Leave for expatriates that he now refuses to bring it forward again. Instead, he is now putting an absurd proposal in the form of a ticket per family for eligible expatriates.

Mr. Golsong said that he agreed that something ought to be put out to the staff quickly. Mr. McNamara said that the full paper revised ought to come back to the PC for discussion. To Mr. Gabriel who enquired about the March 1981 adjustment, Mr. McNamara replied that the data are not completely in yet. He added that the Fund has a different schedule whereby they want to put the March 1981 adjustment for Board discussion two weeks after the discussion on the March 1980 adjustment. He then asked whether there would be any objection to the form of payment of an expatriate allowance. He gave his personal view that it should be paid in a highly visible way and that it should have clear value for recruitment. Mr. Golsong commented that the approach proposed by Mr. McNamara is the correct one. Mr. Wapenhans asked whether there would not be a problem of timing with the March 1981 adjustment. Mr. McNamara replied that he did not see too many difficulties since a proposal can be put out quickly and it is a rather simple matter. The problem, however, is to decide whether the Bank's Board should meet before or after the Fund, the latter being scheduled to meet on June 5. He expressed his doubt that this could be done before June 10. He added that he thought there should be an informal meeting with the Bank's Board in his Conference Room after the meeting in Gabon. Mr. Thahane expressed the view that the Fund is likely to postpone its discussion until June 8 or 10.

Mr. Wapenhans said that he thought that, in talking to the staff, senior management should go first to intermediate-level managers. Mr. McNamara agreed but observed that there is a Delegate Assembly meeting of the Staff Association scheduled for tomorrow and, therefore, managers ought to go to the staff before tomorrow afternoon. Mr. Stern observed that, as soon as the paper is ready, Vice Presidents can meet with their managers this afternoon or tomorrow morning.

Mr. Chaufournier said that one point seems to weaken the case in the paper, namely, that YPs are no longer looking for careers in the Bank. Mr. McNamara replied that data do not substantiate this argument. Mr. Chaufournier argued further that the figure of 15% of existing expatriation benefits over net salary should be presented differently, recognizing rather that these are additional costs of expatriation. Mr. McNamara agreed that it can be restated what the 15% is specifically for, and he asked Mr. Paijmans to rephrase the statement and to talk to Mr. Chaufournier about it. Mr. Wuttke said that he thought there is a special problem with respect to IFC which may require special consideration, although nothing is said at this time. Mr. Benjenk observed that, since the full issue needs to be resolved before June 30, the concluding paragraphs, i.e., paragraph 7(i), may sound too confrontational. Mr. McNamara answered that the essence of the problem is that the Bank Board wants very much to meet with the Fund's but the Fund's does not want that.

Mr. McNamara informed the PC that Mr. Clausen came to town last week. He will be back in Washington more or less permanently after June 5 and he will take an office in the Bank of America where the Bank can give him some briefings.

Mr. McNamara, AS A FINAL POINT, ~~finally~~ asked the RVPs to give him a list of heads of state and finance ministers to whom he should write a note before his retirement.

OL
June 24, 1981

822/9/17

OFFICE OF THE PRESIDENT

President's Council Meeting, June 8, 1981

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chaufournier, Chenery, Gabriel, Golsong, Hattori, Husain, Knox, Paijmans, Qureshi, Rotberg, Stern, Thahane, Wapenhans, Weiner, Wuttke, Thalwitz

Mr. McNamara informed the meeting that Mr. Clausen is in town as of today. He said that he has asked Mr. Paijmans to give him the briefing papers. Mr. Clausen will keep an office in the Bank of America. Mr. McNamara then turned to the issue of compensation, asking Mr. Paijmans to report on the Fund Board meeting last Friday.

Mr. Paijmans said that the Fund Board had accepted management's proposal, with an over-all support of 66% of the EDs. One-third of the Directors expressed the view that the proposed package of the Managing Director was to be considered a minimum. Only 17% of the Directors mentioned specifically the need for parallelism with the Bank on compensation matters. Mr. Paijmans reported that the Managing Director had prevented criticism on the A-I staff issues by recommending that, in the future, the comparators for the A-I staff would include U.S. firms in the New York market. In addition, he had recommended that an ex post check with this market be made for the March 1980 adjustment, with the possibility of retroactivity if warranted. Mr. McNamara commented that this new development should not be talked about outside, so as not to raise expectations. In fact, he expressed his doubts that the New York firms would be substantially above the other comparators. Mr. Paijmans said that this proposal by the Managing Director had come as a surprise to everybody.

Mr. Paijmans then reported that the U.S. Director had said that the 10% figure for salary adjustments was very high and he had favored a 7% figure. The agreement in the Fund was that the discussion of the compensation package would be reopened only if there remained significant differences with the Bank. Mr. Paijmans added that the expatriate package proposed in the Fund is different from that proposed in the Bank. He explained that the U.S., Australia and Canada went strongly against the whole compensation package. He further said that the paper on the March 1981 adjustment will be discussed in about two weeks; this paper proposes a 2% increase for everybody. He added that a paper has been distributed to the Fund Board on the matter of an interest payment to be made on the back payment of salary to the staff. The paper states an interest rate of 12% to be applicable from March 1980. He explained that everybody had thought that this issue was dead but apparently it may not be.

Mr. McNamara said that the Bank now proposes to send a paper today to the Board explaining what the Fund decided on the March 1980 adjustment. Then, there will be a discussion of the March 1981 adjustment only when the Fund has acted. In essence, therefore, the Fund will continue acting as a lead agency. Mr. McNamara said that this was acceptable until there is a definitive joint procedure between the Bank and the Fund.

Mr. McNamara said that there are two important points of principle still to be debated. In the first place, there is the issue of the expatriate allowance under the form of a single ticket per family as proposed by the Fund versus the Bank's proposal of one week salary per year. He said that he strongly favored the latter option. He then asked for a show of hands of PC members of those who favored the cash payment option as opposed to the single ticket option. In the second place, Mr. McNamara said that the Fund is making a mistake on the March 1981 adjustment. The Fund recommends a 7% increase for all staff, including the 5% interim adjustment granted in September 1980. Mr. McNamara mentioned that the U.S. market indicates that the A-I staff should have a .7% increase higher than that for the J-Q staff. He said that he would personally favor giving a higher increase to the A-I staff. Mr. Gabriel asked whether the comparator markets support the figure of 2% increase over the 5% granted last September. Mr. McNamara said that the Fund's argument is that a judgment justifies the 2% figure. The actual figures show that the U.S. comparator market had a 5.7% increase for J-Q and 6.4% for A-I; however, comparators in France and Germany indicate that there have been real increases in those markets. There is a point in recognizing the difference between A-I and J-Q in the U.S. market. The difficulty is that, for the J-Q staff, the non-U.S. markets must be looked at, which is not the case for the A-I staff.

Mr. Paijmans said that the U.S. objects very strongly to a cash allowance for expatriation. He argued that maybe a per diem approach should be envisaged. Mr. McNamara said that he disagreed with the per diem approach. In conclusion, Mr. McNamara gave his opinion that the management of the compensation issue as it is now is as unprofessional as it could be.

Mr. Golsong informed the meeting that a decision by the Administrative Tribunal is expected tomorrow.

OL
June 25, 1981

822/9/18

OFFICE OF THE PRESIDENT

President's Council Meeting, June 15, 1981

Present: Messrs. McNamara, Barletta, Chaufournier, Chenery, Golsong, Hattori, Hopper Husain, Knox, Paijmans, Qureshi, Thahane, Wapenhans, Weiner Wuttke, van der Tak, Vergin, Mrs. Boskey

Borrowing

Mr. McNamara said that the Bank ought to borrow in this fiscal year to hold liquidity at 40% by the end of June. In this respect, the Bank should borrow $6 billion instead of the initial plan of $6.6 billion for the entire fiscal year. The Bank is now planning to borrow $500 million and there are two options: the Eurodollar market or the New York market. Mr. McNamara explained that the U.S. rates are now going down dramatically, and it may therefore be possible to borrow quickly $750 million in the U.S. market. A decision on this will be taken today. Mr. McNamara explained that the main reason behind this drop in U.S. interest rates is that the U.S. money supply growth rate figure which came out last Friday is much lower than had been previously expected; therefore, the Bank is now in reasonably good shape. Mr. McNamara added, however, that the lending rate paper shows that the cost of borrowing is very high. There is disagreement among Bank senior management as to what the new lending rate should be. The formula decided upon by the Board would mean an increase in the Bank's lending rate of 165 basis points. The recommendation, however, will be to move only 100 basis points. The implication is that there may be the need to readjust further beyond the 10.60% rate some time in October. Mr. McNamara reaffirmed his long-standing opposition to a mechanistic formula to set up the Bank's lending rate. He concluded on this point by saying that there should be more frequent adjustments to avoid adjustments of more than 100 basis points at any point in time.

Administrative Tribunal

Mr. McNamara asked Mr. Golsong to report on the Tribunal's decision of last week. Mr. Golsong said that the Administrative Tribunal had unanimously rejected the staff claims relating to the Kafka recommendations and the cost-of-living adjustment. Mr. Golsong explained that, if the Administrative Tribunal had accepted the claims, it could have rasied extremely serious constitutional-issues, i.e., the fundamental questioning of Board decisions. He explained that the Tribunal's decisions are based on an argument against the notion of acquired rights. The judges argued on the differences between the "essential" and "non-essential" elements of contract of employment. They argued that the cost-of-living is not an essential part of employment and the non-essential part can be unilaterally modified by the Bank. Mr. Golsong gave his view that the Tribunal's decision is useful for the future. In his view, the staff should be pleased with the Tribunal's ruling, even though they had to spend $210,000 on the case. In addition, it might also be useful for the relationships between management and the Board. Mr. Golsong noted that the ruling was unanimous from the seven judges.

Compensation

Mr. Paijmans reported on last week's Board meeting on compensation. Three main points were decided by the Executive Directors: (i) the Board agreed with the Fund proposal concerning salary adjustments for March 1980; (ii) a Home Leave benefit should be worked out jointly with the Fund, different from the original Fund's proposal of one single ticket per family; and (iii) the Board expressed its strong wish to set up a mechanism for committees in the Fund and in the Bank to work out joint procedures on compensation matters. Mr. Paijmans reported further that, on Friday last week, the two Boards' representatives agreed to meet in the future to talk about procedures. He also said that some agreement is in the making with the Fund on the Home Leave issue; the new proposal would amount to roughly $2,000 per family of four. He finally told the meeting that there will be a Board discussion next Tuesday on this expatriation issue and the March 1981 adjustment, which is now set at 2% across-the-board for all staff.

Mr. McNamara commented that, until joint procedures are firmly established between the Bank and the Fund, there is no alternative but to follow the lead-agency procedure, i.e., following the Fund as a leader. He added that the Fund Board had struck out his reference to their agreeing on procedures for dealing with Boards, managements and staff associations. Mr. McNamara concluded on this point by saying that Messrs. Paijmans and Clarke and their associates have done a marvelous job on the compensation matters.

IDA VI

Mr. McNamara mentioned that, on April 20, he had presented to the PC 11 items which needed actions/decisions before June 30. He explained that six of those items have already been dealt with, and five are left, of which the most serious is IDA VI. On this issue, he reported that the Bill has passed the Senate. But the form in which it is likely to be acted upon in the House would mean renegotiation. There it would be changed with substantial cuts. Compared to the original agreed U.S. contribution of $3.24 billion, the new distribution would be $500 million for 1981, $298 million for 1982, and not to exceed $540 million in 1983, or a total of $1.85 billion for the three years. Mr. McNamara added that it is almost certain to pass the House as it is. It would then have to go to Conference with new reconciliation procedures meaning very uncertain outcome.

Bank Projections

Mr. McNamara observed that, for many years, the Bank has made projections for the future. He said that it is indispensable to make comparison between new projections and old projections, especially in DPS and P&B, and to explain the eventual differences. As an illustration, he said that he was recently looking at projections for ODA in preparation for an interview with the New York Times today. For the year 1980, the U.S. ODA was projected at .18% of GNP last year compared to .27% today. Similarly, the projections for the UK's ODA for 1980 were .52% of GNP last year compared to .35% today. Mr. McNamara said that he found these differences in projections for the same year unacceptable. Mr. Chenery said that he and his associates were very much aware of the differences, which are largely due to problems of changes in the accounting procedures. Mr. McNamara said that explanations for these differences are to be presented. He instructed Messrs. Vergin and Chenery to prepare a note to him by noon today on what these differences mean. Mr. Chenery claimed that the responsibility for projections in this matter are P&B's. Mr. Vergin argued that this is no longer P&B's responsibility, but rather it is now in Mr. Wood's Financial Policy Analysis Department. Mr. McNamara stated that this is the responsibility of everybody in the room. He argued that there should be no publication of the World Development Indicators before everybody is satisfied with the value of the data.

India and Pakistan Consortium Meetings

Mr. Hopper reported that both consortium meetings for India and Pakistan went extremely well in Paris last week. On India, some questions were raised on the population issue. Total aid commitment for India was up 5% in SDR terms compared to last year, amounting to $3.5 billion. With respect to Pakistan, there was strong criticism on the energy program and policies which are the major stumbling blocks. Also population attracted some attention. There was a sizeable increase of 40% in SDR terms for Pakistan, amounting to $1.1 billion. Mr. Hopper said that both meetings were very easy, with the donors very laudatory of both Governments.

Mr. Hopper reported, however, that a problem arose with India on the issue of the proposed EFF from the Fund. Three major concerns are apparent on this issue: (i) conditionality is hard to define because the Government is already largely committed to its program; (ii) there is substantial opposition to the size of the EFF; and (iii) the U.S. is opposed to EFF in general, mainly on rhetorical grounds. To Mr. McNamara who enquired about India's position in the capital markets, Mr. Hopper replied that India is not doing any borrowing now, but they certainly plan to do so in the future. He concluded by mentioning that the main reason for the disappointingly large population as revealed by the recently released census in India is an increase of five years in life expectancy from 1970-1980, from 54 to 59 years. In addition, the birth rate believed to be 33 per 1000 is now confirmed to be closer to 37 per 1000.

WDR

Mr. Chenery mentioned that the seminar on WDR last Friday went very smoothly. Mr. McNamara agreed but said that one very serious issue was raised. namely, whether the WDR should remain as an annual report or not. He said that he is strongly in favor of keeping WDR as an annual report and he strongly urged all PC members to support an annual WDR.

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June 25, 1981