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Series: General correspondence

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

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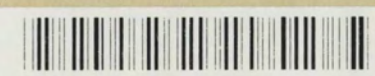
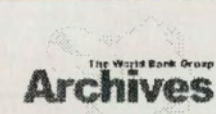
THE WORLD BANK
Washington, D.C.

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

PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

Chronological file (incoming) 13
1975 (Jul. - Dec.)



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A1995-258 Other #: 2

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President's papers - Robert S. McNamara Chronological files (incoming) - Chrons 13

DECLASSIFIED
WBG Archives

492/5/25

THE WHITE HOUSE
WASHINGTON

December 3, 1975

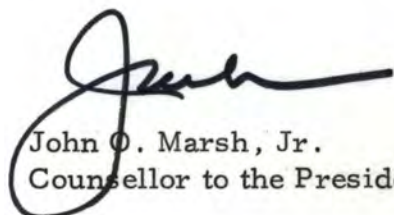


Dear Mr. ^{Bab}McNamara:

The President is currently studying proposals for improving the organization and management of the intelligence community. To assist the President in this effort, I am writing you and several others with special expertise in intelligence matters to invite you to visit with me and other senior Presidential advisers. We would appreciate hearing your views on how to improve the intelligence community. We envision two or three meetings in groups of three or four here at the White House.

I hope you will be able to assist us in this effort. We will be contacting you by telephone next week in order to attempt to schedule your visit sometime before Christmas.

Sincerely,


John O. Marsh, Jr.
Counsellor to the President

The Honorable Robert S. McNamara
2412 Tracy Place
Washington, D. C. 20008

INTBAFRA WASH DC

INCOMING TELEX

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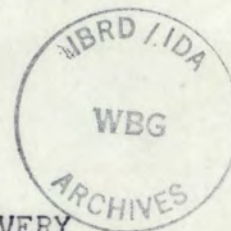
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1975 OCT 14 AM 8:28

Distribution: Mr. McNamara ✓
Mr. Goodman

OCT 14 1975

INTBAFRAD PARIS



2190 MR MCNAMARA COPY GOODMAN FOR IMMEDIATE DELIVERY

RE IDA 5.

LUXEMBOURG. AUTHORITIES SYMPATHETIC BUT BECAUSE OF BUDGET DIFFICULTIES DO NOT WISH TO INCREASE APPROPRIATIONS FOR BANK GROUP BEYOND CURRENT LEVEL.

SWITZERLAND. IDA 4 REFERENDUM EXPECTED JUNE OR SEPTEMBER 1976. SWITZERLAND SYMPATHETIC BUT CANNOT ACTIVELY PARTICIPATE IN IDA'S NEGOTIATIONS UNTIL REFERENDUM OVER.

10/14
FRANCE. MET COOL RECEPTION IN FRANCE. HABERER PLAINLY UNHAPPY OVER LEVEL OF INCREASE WE HAVE IN MIND. FOR EXAMPLE, HE SUGGESTED TRADITIONAL DONORS SHOULD INCREASE IDA 4 LEVEL ONLY ENOUGH TO OFFSET PRICE INCREASE BETWEEN LAST YEAR OF IDA 4 (FY76) AND FIRST YEAR IDA 5 (FY77). THIS MAY BE JUST A HARD LINE OPENING POSITION, BUT ATMOSPHERE VERY DIFFERENT FROM OTHER CAPITALS WE HAVE VISITED. HE STRONGLY FAVOURS LARGE OPEC CONTRIBUTION AND IS QUITE PREPARED TO PAY FOR THIS IN ADDITIONAL VOTING RIGHTS AND BOARD SEATS.

REGARDS

GAUD

K

IBRD A PARIS

INTBAFRA WASH DC

FINANCE KW

248423A IBRD UR

FROM: KUWAIT

INCOMING TELEX

October 14, 1975

492/5/22 EP

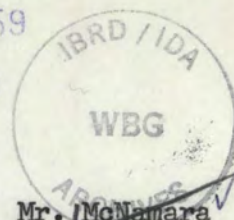
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INTBAFRAD

WASHINGTON DC

1975 OCT 14 AM 10: 59

COMMUNICATIONS
SECTION



Distribution: Mr. McNamara
Mr. Rotberg
Mr. Cargill's Office

FOR MCNAMARA ROTBERG

=====

LEAVE TODAY FOR RIYADH HAVING MET RE ~~PROLLEE~~ PROPOSED BORROWING
WITH PRIME MINISTER , FINANCE I MINISTER AND KIC STOP KUWAIT
AUTHORITIES PROPOSE DOLLAR LOAN AMOUNT ONEHUNDRED FITY MILLION
MINIMUM AVERAGE LIFE FIVE YEARS POSSIBLY SEVEN STOP DISCUSSIONS
MOST CORDIAL BUT INCONCLUSIVE SO FAR ON ACCOUNT DIFFERENCE IN APP-
ROACH TO SETTING INTEREST RATE STOP KUWAIT WISHES THIS LOAN TO BE
ON COMMERCIAL TERMS TO ENSURE MARKETABLY WITH WHICH EYE AGREE
AND WISH TO BASE RATES ON EURODOLLAR MARKET FOR ISSUES OF COMPARABLE
QUALITY AND MATURITY WHICH IN THIS CASE WOULD IN THEIR JUDGEMENT WARR

10/14
-
ANT INTEREST RATE OF NINE AND HALF PERCENT POSSIBLY LOWEST NINE
AND QUARTER PERCENT STOP EYE SAID (FIRST) THAT BANK MUST
REGARD BORROWING OF THIS KIND IN RELATION TO ITS OTHER DOLLAR
BORROWINGS WHICH WERE EITHER DIRECT ISSUES IN NEWYORK OR AT PRICES
BASED ON SUCH ISSUES (SECOND) BANK BONDS OF FIVE FIVE TO SEVEN
YEAR MATURITY SOLD AND TRADED AT ABOUT TWENTY BASIS POINTS
ABOVE US GOVERNMENTS OF LIKE MATURITY WHICH TODAY WOULD IMPLY
INTEREST RATE ABOUT 8.30 P.C. (THIRD) EURODOLLAR MARKET THIN
AND CROWDED AND UNABLE ABSORB LARGE AMOUNTS CONSEQUENTLY NOT
STRICTLY COMPARABLE TO NEWYORK STOP IN MY JUDGEMENT IT WOULD
BE INADVISABLE TO DEPART FROM OUR EXISTING PRACTICE AS THIS
WOULD HAVE FAR REACHING AND ADVERSE IMPLICATIONS STOP HAVE
PROMISED TO CONTACT MINISTRY FINANCE TOMORROW FROM RIYADH

REGARDS

CARGILL

World Bank

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



With the compliments of

Mr. M. C. ...

William Clark

Vice President External Relations

477-2467

*19/12 Cleared with Les Norrick
& Peter R.*

10/22 5³⁵

P. Kiddleberger took
signed copy to deliver to
Cong. Ober + cc to
deliver to US ED. B.

October 22, 1975

Dear Mr. Obey:

Thank you very much for your letter of October 9. I am glad you found my earlier letter useful and may I say how encouraged I was to watch the constructive role you and other U. S. delegates played at the 7th Special Session of the United Nations. I hope to hear more about this from you.

But I must tell you that there are certain constraints on me as President of this international institution in the manner in which I reply to your second letter and your staff's detailed enquiries. By a long tradition accepted by all my predecessors, the President of the Bank does not deal directly and publicly with enquiries from the legislators of any of our 127 member governments, but, instead, handles them through the Executive Director concerned.

I responded directly to your first letter because I wanted to expedite a reply to your question on the Arab boycott which clearly was of immediate concern to you. However, in dealing with the broader range of issues in your letter of October 9, I feel I should now turn to the proper channels and am therefore turning over the enquiries to Mr. Charles Cooper, the U. S. Executive Director.

I would just say one further word in response to the questions about boycott: the Bank's rules do not permit bidders for a contract financed under a Bank loan to be excluded because they trade with Israel or are located in a country that trades with Israel; a contract awarded in violation of this rule would not be eligible for finance under a Bank loan.

I would like to extend once again my invitation to go over these matters with you at your convenience.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

The Honorable
David R. Obey
House of Representatives
Washington, D. C. 20515

WDClark:LN:PR:RMcN:bmm
October 22, 1975



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

OFFICE OF THE PRESIDENT

Dear Mr. Obey:

Thank you very much for your letter of October 9. I am glad you found my earlier letter useful and may I say how encouraged I was to watch the constructive role you and other U.S. delegates played at the 7th Special Session of the United Nations. I hope to hear more about this from you.

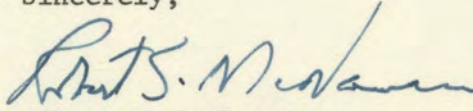
But I must tell you that there are certain constraints on me as President of this international institution in the manner in which I reply to your second letter and your staff's detailed enquiries. By a long tradition accepted by all my predecessors the President of the Bank does not deal directly and publicly with enquiries from the legislators of any of our 127 member governments, but instead handles them through the Executive Director concerned.

I responded directly to your first letter because I wanted to expedite a reply to your question on the Arab boycott. However, in dealing with the broad range of issues in your letter of October 9, I feel I should now turn to the proper channels and am therefore turning over the enquiries to Hon. Charles Cooper, the U. S. Executive Director.

I would just say one further word in response to the questions about boycott: the Bank's rules do not permit ~~qualified~~ bidders for a contract financed under a Bank loan to be excluded because they trade with Israel or are located in a country that trades with Israel; a contract awarded in violation of this rule would not be eligible for finance under a Bank loan.

I would like to extend once again my invitation to go over these matters ~~privately~~ with you at your convenience.

Sincerely,


Robert S. McNamara

Honorable David R. Obey
House of Representatives
Washington, D. C. 20515

10/11/77
Blancher
re: your letter, later
+ sign
Lm

which clearly was?
immediate
concern
to you.

* no date
Draft No. 3
WDClark:LN:PR:sf
October 17, 1975

Dear Mr. Obey,

Thank you very much for your letter of October 9. I am glad you found my earlier letter useful and may I say how encouraged I was to watch the constructive role you and other U.S. delegates played at the 7th Special Session of the United Nations. I hope to hear more about this from you.

But I must tell you that there are certain constraints on me as President of this international institution in the manner in which I reply to your second letter and your staff's detailed enquiries. By a long tradition accepted by all my predecessors the President of the Bank does not deal directly and publicly with enquiries from the legislators of any of our 127 member governments, but instead handles them through the Executive Director concerned.

I responded directly to your first letter because I *wanted to expedite a reply to your question on the Arab boycott.* ~~recognised that you were engaged in a genuine effort to acquire information on a number of important international issues which~~ *in dealing with the broad range of issues in your letter of October 9,* ~~deeply concern us both.~~ However I feel I ~~must~~ *should turn* now ~~return~~ to the proper channels and am therefore turning over ~~your~~ *the* further enquiries to Hon. Charles Cooper, the U.S. Executive Director.

I would just say one *further* word in response to the ~~very detailed~~ questions about ~~the question of~~ boycott: the Bank's rules do not permit qualified bidders for a contract financed under a Bank loan to be excluded because they trade with Israel or are located in ~~any~~ *a* country that trades with Israel; ~~and~~ a contract awarded in violation of this rule would not be eligible for finance under a Bank loan.

I would like to extend once again my invitation to go
over these matters privately with you ^{at your convenience} and other members of the
~~Foreign Operations Appropriations Subcommittee.~~

Sincerely,

OFFICE MEMORANDUM

TO: Mr. William Clark
FROM: Peter Riddleberger *PR*
SUBJECT: Obey Correspondence

DATE: October 10, 1975

1. This morning Alan Romberg called me to say that, as promised, a letter from Mr. Obey to Mr. McNamara was now being sent over to us and would be released to the press for Sunday a.m. papers, along with Mr. McNamara's August 30 letter.
2. This second round of questions which Obey poses are similar to those which a number of organizations are asking publicly about the Arab boycott and other OPEC issues. These questions were clearly formulated by people outside of Obey's immediate staff and are typical of the views of Bart Rowen, Vivian Lewis or others from Senator Church's multinational subcommittee's staff, the American Jewish Congress, Moris Amitay of the American/Israeli Public Affairs Committee, and B'nai B'rith.
3. Many Jewish organizations have been in touch with Mr. Obey since he returned from the Middle East and submitted a report which was not totally satisfactory to the Zionist community.
4. These groups and individuals are not necessarily anti-Bank. But the boycott issue is first on their agenda and they are looking for any and all avenues to pursue this line of questioning. In addition to the Bank, they have strongly attacked Commerce Secretary Rogers Morton for circulating contract information from Arab countries which exclude "Jewish" firms. Attorney General Levy is under similar fire for permitting OPEC countries to impose restrictions which violate U.S. law.

Comment

Obey's staff and their cohorts are clearly controlling the timing if not the total substance of Obey's inquiries. This letter came just hours before Obey is leaving Washington until October 20th, thus hindering any possibility of McNamara talking to Obey directly. What they have in mind is a written response to these questions in the next two weeks when they then will be prepared for a meeting.

In saying that he would be happy to meet with McNamara and staff in his own office, we clearly run the risk of walking into a room full of "OPEC experts." This could be a real hornets nest. I strongly feel that answers to these questions should not be delivered in writing until McNamara has a chance to talk to Obey (over the phone?) directly. This may be a little difficult but it would not be impossible to track Obey down in Wisconsin.

PBR:pam

APPROPRIATIONS

SUBCOMMITTEES:

LABOR-HEW

MILITARY CONSTRUCTION

WASHINGTON OFFICE:

308 CANNON HOUSE OFFICE

BUILDING

PHONE: 202-225-3365

ADMINISTRATIVE ASSISTANT:

LYLE STITT

WBG

ARCHIVES

DISTRICT OFFICE:

FEDERAL BUILDING

317 FIRST STREET

WAUSAU, WISCONSIN 54401

PHONE: 715-842-5606

DISTRICT REPRESENTATIVE:

LAWRENCE DAHL

FIELD REPRESENTATIVE:

ROBERT JAUCH

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

October 9, 1975

Mr. Robert S. McNamara, President
The World Bank
Washington, D.C. 20433

Dear Mr. McNamara,

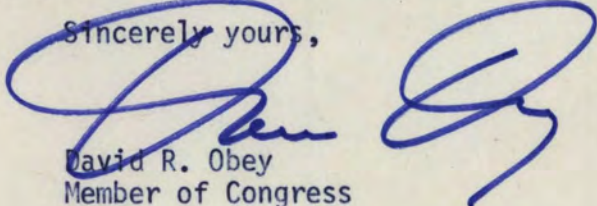
Thank you for your letter of August 30, 1975 responding to my inquiry of August 19th concerning certain aspects of the World Bank's relations with OPEC countries. Your timely answer is encouraging to me as a sign that we can engage in a useful dialogue on these and other important issues over future years as the Congress considers the role of the Bank Group and U.S. relations with it.

While your letter directly addressed some of the questions I asked and I appreciate your reassurances on various points, there are certain areas I feel were not fully covered or where your answers raised yet further questions. My staff has put together the enclosed list which includes some of the more important of the remaining questions.

I would welcome a personal meeting as you have suggested, and my staff will be in touch with yours to arrange an appointment in my office for us and staff. In the meantime, I would appreciate a written response to the further questions raised in the enclosure so that our discussion may be better focused and conducted on the basis of more complete and specific information.

I look forward to talking with you in the near future.

Sincerely yours,


David R. Obey
Member of Congress

DRO/kf

Enclosure

FURTHER QUESTIONS REGARDING IBRD OPERATIONS AS DISCUSSED
IN REPRESENTATIVE OBEY'S LETTER OF AUGUST 19, 1975 AND
WORLD BANK PRESIDENT McNAMARA'S RESPONSE OF AUGUST 30, 1975

QUESTION 2

ObeY asked about submission of bids by firms on the Arab boycott list for contracts connected with Bank projects in Arab countries.

McNamara responded that the Bank requires its borrowers to expend IBRD funds for goods and services on the basis of international competitive bidding and that the Bank does not permit the inclusion in tenders for bids of any condition that precludes participation by qualified suppliers because they do business with or trade with Israel or are located in a country that trades with Israel. He stated further that Bank policy is to require that its contracts be awarded to the lowest evaluated bidder and that it would refuse to finance a contract which was not so awarded by reason of the Arab boycott. He said, however, that each lender applies its own standards to the procurement of goods financed by it and that the Bank will not seek to impose its own practices on other sources of finance.

McNamara added that the Bank has not been advised of any case where a qualified supplier refrained from bidding on Bank financed contracts because of the boycott or where a supplier had complained to the Bank about the boycott.

Further queries:

What happens if the Bank awards a contract to a boycotted firm and the co-lender objects? Is the co-lender forced to finance that particular contract with the Bank's participation in the overall project reduced by that amount? Or does the Bank finance another contract of approximately equal value which it had not originally intended to finance?

If the co-lender or recipient has a veto power over Bank contracts, isn't it likely that boycotted firms would decide not to go to the trouble and expense of preparing bids? In order to try to get a measure of this possibility, could the Bank please identify which of the firms on the attached list have bid on and/or been awarded contracts connected with Bank projects or programs in or co-financed by Arab countries since January 1970? Dates, specific identification of the projects or programs involved and dollar amounts should be included.

As a measure of OPEC influence on Bank policy, we are also interested in the \$40 million dollar loan application recently submitted by Israel. We understand that the Bank may deny the application because Israeli per capita GNP exceeds norms for recipients of IBRD loans. While we have no problem with this if such adherence to rules is standard Bank procedure (and in fact believe that

richer LDCs should be encouraged to seek financing in the private sector), we would appreciate detailed background information on loans over the past three years to Israel and other countries whose per capita GNP has exceeded Bank norms at the time loans were approved.

We would also like to have figures on Bank Group loans to OPEC countries over the past three years together with some discussion as to intentions regarding future loans.

QUESTION 4

Obey noted that most aid by OPEC countries is going to countries which are confronting Israel and asked what steps the Bank has taken to increase OPEC contributions to LDCs in general through IDA.

McNamara responded that the Bank has been discussing increased OPEC countries' contributions to IDA. He also gave some approximations of capital flows from OPEC countries to other developing countries.

Further queries:

(RE: IDA, see question 6 below.)

McNamara listed capital flows from OPEC countries to "low income countries" and "other developing countries". What countries are included in these categories in this table? For all countries covered by the figures given, please provide on a country-by-country basis a breakdown of capital flows by terms (i.e. commercial vs. concessional loans, investment, grants, etc.) and by purpose (i.e. civilian vs. military).

QUESTION 5

Obey asked about internal staff studies on Bank policy towards oil prices, inquiring what Bank policy is, what has been recommended internally, and whether any internal studies calling for Bank advocacy of lower prices for oil had been suppressed.

McNamara responded that the Bank's policy has been to "study the effects of market and price developments and to tailor lending programs in accordance with those developments".

He also said that various estimates have been made of the effects of crude oil prices on the balance of payments and creditworthiness prospects of the developing countries in which the Bank has operations. These studies, which are limited to assessments of the consequences for those countries of probable, and sometimes alternative, trade and price policies, are regularly brought to the attention of the Board of Directors in a variety of ways.

McNamara reported that regular studies of the oil market have conducted,

including estimates of balance of payments relief for oil-importing developing countries from special discounts on their oil imports, from grants to cover a proportion of those costs, or from discriminatory pricing, but the Bank has made no recommendations for or against such schemes. McNamara said that in no sense has management attempted to suppress the judgments of the staff.

Addressing himself indirectly to the question of what the Bank's policy on the price of oil for LDCs and developed countries is, McNamara stressed that, as a financial intermediary, the Bank considers promotion of capital flows its primary concern and considers it appropriate that the Bank focus on the most realistic means of obtaining such funds in order to improve the balance of payments of the developing countries.

Further queries:

Our sense of Bank policy at the moment is that it is concentrating on increasing volumes of loans, largely to offset balance of payments pressures, rather than focusing on development needs.

We would appreciate some discussion of the Bank's perception of its role vis-a-vis short-term balance of payments questions as contrasted with the role of the IMF and in relation to the Bank's responsibilities towards productive development projects.

McNamara's answer also suggests that in both the short and long term, the Bank takes high oil prices as a given and is seeking to work on ameliorating measures rather than on the level of prices per se.

The Bank regularly urges the developed countries to include developing countries in tariff preference schemes and to enter into commodity agreements with LDCs, all of which have financial implications for the developed countries. How does McNamara distinguish between such efforts to influence policies of the developed countries on the one hand and his unwillingness, on the other hand, to go beyond internal studies to actually urging dual pricing or some similar scheme on the part of the oil producing countries to help relieve the poorest and most seriously affected countries?

QUESTION 66

Obey asked if it were not true that the increase in LDC payments for oil more than offset all appropriated aid requests for the World Bank and whether the Bank had tried to get OPEC to lower oil prices.

McNamara, in addition to citing his response to Question 5, cited a number of statistics which left the impression he believes the oil price problem is not overly serious since capital flows to the LDCs more than offset additional oil costs. He stated, however, that with the higher costs of food grains, fertilizers, and manufactured goods, LDCs were only able to finance an annual increase of

imports of just 6% in volume terms, the same amount as their export growth.

He also stressed that the importance of the Bank in capital flows goes beyond mere dollar amounts (which are rather modest if compared to total flows) and that it should be judged against the background of the Bank's role as a generator of aid flows via joint financing arrangements, creation of new methods of intermediation such as the "Third Window" etc.

Further queries:

Aren't the figures cited by McNamara irrelevant and misleading? In the first place, he fails to segregate data on oil-importing LDCs from oil-producing LDCs. In the aggregate Saudi Arabia and Rwanda have very few problems obtaining oil or paying for needed imports. The problem for Rwanda is that its oil and capital are not allocated on a shared basis with Saudi Arabia.

By dealing in aggregates, and by failing to identify the sources, recipients, terms and uses of capital flows, an impression is left that the problem lies largely with prices charged by developed countries for food, fertilizer, and manufactured goods. Granted that those prices have risen significantly in recent months, doesn't McNamara's presentation both ignore the impact of increased petroleum prices on inflation and recession in the developed countries and also downplay the direct costs to most LDCs of increased petroleum prices? Doesn't this present a quite different picture from his own presentation to the Annual Bank Fund Meeting recently where he said: "The unprecedented rise in the cost of oil has been especially difficult for (oil-importing developing countries) to deal with since they have relatively little capability for a rapid conversion to other sources of energy and only an insignificant margin for consumer conservation."?

We need from McNamara a list, on a country-by-country basis for each year from 1972 through 1975, data (or estimates) on all developing countries including per capita GNP, oil imports and (where applicable) exports, capital flows, (indicating source, terms, and purpose), and some assessment of the impact of increased oil prices on the oil-importing LDCs. If he wishes to include an assessment of the increased cost of food, fertilizer, and manufactured goods from the developed countries, that too would be welcome, but it should include analysis of the impact of increased oil prices on the costs of those goods and on the pace of inflation in the developed countries.

We would agree with McNamara that the importance of the Bank goes beyond a measure of the dollar amounts involved. It is precisely for that reason that we are anxious to pursue the questions now under discussion. We would be interested to know how much OPEC money the Bank has gotten for IDA and for the "Third Window" as well as for conventional Bank loans. Specific countries should be identified with the amounts provided by each. These should be placed in perspective by identifying the totals for each category of funds from all sources. We would be interested in the Bank's opinion as to why it was able to come up with only half the OPEC money for the "Third Window" it had expected, thus

requiring a cutback in that facility, at least for the time being, from an estimated \$1 billion to only \$500 million.

QUESTION 7

Obey raised questions about conflict of interest involving Hollis Chenery in light of his financial and executive role in Southern Natural Resources Corporation. He also asked about Bank Report 802, directed by Chenery, on Prospects for Developing Countries.

McNamara said that Bank rules deal with ownership of and transactions in securities of "certain types of corporations which are beneficiaries of Bank transactions" but do not prohibit stock ownership in other cases. He stated that Chenery was in full compliance with the rules of the Bank and with the conclusions of the Bank committee created to implement those rules.

Nonetheless, on September 22, Secretary Simon forwarded a copy of a memorandum from Chenery to McNamara stating that, in light of public comment on possible conflict of interest, Chenery was voluntarily disposing of his interest in Southern Natural Resources (having already given up his directorship with the firm in February 1975).

McNamara also stated that Report 802 was not "rejected" by the Board, and that it had not been submitted to the Executive Directors "because it was not a policy document." McNamara reported that the Board agreed the report could form the basis for continued discussions among technical experts of the Bank and member governments and international institutions in the field of economic development.

Further queries:

It is gratifying that Chenery has taken this voluntary step. We did not mean before, and we do not mean now, to impugn his honesty and intellectual integrity. But it remains of concern to us that Bank management could have held earlier, whatever the formal Bank rules, that Chenery's financial holdings and executive relationship with a firm with major oil interests did not constitute an obvious and direct conflict of interest with his responsibilities at the Bank.

We would like to know whether the Bank management intends in the future to interpret its rules of conduct to require divestiture of stock holdings of principal officers which could be considered to be in conflict of interest with a particular individual's responsibilities even if the subject entity is not a "direct beneficiary of Bank transactions."

As regards Report 802, our information is that while McNamara may be technically correct when he states that the report was not submitted to the Executive Directors for approval, nonetheless it was planned to circulate the

paper publicly as a Bank staff report and that this plan was turned aside by action of several of the Executive Directors who believed it should not be given any standing whatsoever, even as a staff study. Isn't the importance which McNamara himself ascribed to it apparent in the memorandum he circulated to the Executive Directors attaching the report, in which he said the report contained the "Bank's findings" and would constitute the background to his report to the Board of Governors at the fall 1975 annual meeting?

We would appreciate a frank discussion of the history of Report 802 and its standing, if any, as the basis for presentations by Bank officials.

* * * *

OFFICE MEMORANDUM

DECLASSIFIED
SEP 24 2012
CONFIDENTIAL
WBG ARCHIVES

TO: Mr. Robert S. McNamara (thru Mr. Wm. Clark)

DATE: October 9, 1975

FROM: John E. Merriam

SUBJECT: The Obey ProblemRelations with the Bank

The first Obey letter was received by the Bank on August 19, and almost at the same time by Bart Rowen of the Washington Post, whose article about it appeared the next day. We responded to Obey, and suggested it might be appropriate to arrange a meeting between him and yourself. Obey's staff (first Katz and then Romberg) have said that they are quite pleased with the letter, which they found frank and forthright, and that Obey would like to meet you. They have delayed the meeting, however, on the grounds that Obey has been busy (as a member of the U.N. delegation), and that they had a few more questions, and would be writing a second letter. At first Katz indicated the questions were on conflict of interest. We now hear Obey's concern over conflict of interest has been satisfied. This week (via Treasury) the Bank has received a direct inquiry concerning the Arab boycott.

19/a
Romberg told us earlier this week that the second letter would be coming shortly. We said the Bank was certainly prepared to be responsive, but hoped the letter would not be sent to the press before the Bank was given time to respond. We understood, however, that the Congressman had the right to use the correspondence in whatever way he wished after the Bank had responded. We have been informed that the "plan" was to give the letter to the press shortly after it was sent to the Bank.

(Thursday)
The letter, however, has not been sent. Obey is due to leave town this afternoon. Treasury's view (Cooper) is that Obey may not send a second letter at all, if he is satisfied with our response to his latest query (on the Arab boycott).

U.S. Government Position

Treasury has made direct contact with Obey (via Cooper) on several occasions. At one point Cooper indicated that "Obey was unhappy with Mr. McNamara's Address". Later Katz told us there was some problem with this as Obey wondered why we would feel OECD would have to take up the burden of aid to a greater extent than he had expected. Katz indicated, however, this was not a serious problem and, indeed, we have heard very little of it since. Obey delayed publishing the letter from the Bank until late September because he had not heard from Treasury. We have been told repeatedly that relations with Treasury are not good. This runs somewhat counter to the easy access to him Cooper seems to enjoy.

The White House and the State Department are concerned about this issue

October 9, 1975

because of: (a) the general campaign on the Hill conducted by a number of staunch partisans of Israel, which runs in some ways counter to U.S. policy after the recent Egyptian/Israeli settlement; and (b) the problems of IDA.

When I explained our situation to Messrs. Hormats and Janka of the White House staff last week, they responded strongly, pointing out that Kissinger would be willing to take a hand with Passman on the grounds that without full commitment to 4IDA the recent initiatives at the UNGA would appear hollow. Janka outlined current U.S. concern over various lobbying activities on the Hill, pointing out pro-Israeli activity in rallying support for the Pershing missiles (which he indicated had gone too far and had backfired). Janka said he knew an attack on the Arab boycott was now a major element in this strategy. (Morris Amitay of the American Israel Public Affairs Committee, confirmed this to me in a luncheon conversation last week. Amitay's group is the alleged "brains" of Israel public relations in the U.S., backed by the constituencies of the B'nai B'rith, the American Jewish Committee, and various other community groups.)

Janka noted that Obey had placed in the Record a rather strong-worded statement after his recent trip to the Middle East, which in part was critical of Israel. He wondered why Obey would be continuing to prod the Bank on the Arab boycott issue. (Amitay told me, as well, that AIPAC was unhappy with Obey, and would try to get him to take a more positive line.)

Hill Situation

Passman is not due to mark-up until some time in November. Obey is clearly influential with other Democratic members of the Subcommittee leaning toward IDA, namely, Early of Massachusetts and Koch of (Brooklyn) New York. Koch is very sensitive to Israeli issues. All these votes are vital if 4IDA/1 is to survive the Passman Subcommittee uncut.

Obey's staff indicate that he wants to play a more active role in the Subcommittee, but we believe he is showing signs of restiveness under pressure from Katz and Romberg, who confess their disagreement with him on Arab/Israeli issues. Our close connections with Obey's staff have, in effect, prohibited access to him that would be most useful. Meanwhile, Treasury has access to Obey, while its relations with his staff are not good.

COMMENT

1. If we want to retain the friendship of Obey, which is essential for passage of 4IDA/1, we probably will have to let him go through with his public correspondence with us. At this point it seems likely he will focus on the Arab boycott, trying either to show that the Bank is somewhat better or somewhat worse than the U.S. Clearly this action would be in cooperation with AIPAC's attempt to keep the Arab boycott issue alive. What Obey's motives may be are not so clear.

October 9, 1975

2. Obey may well have to make his peace with the Israeli lobby by continuing to put the Bank on the spot in the Arab/Israeli issue. Accordingly, we would expect Bart Rowen, who seems to be close to Obey's staff, to write articles about Obey's letters.
3. There is quite a bit of evidence that Obey is playing two games: first, to get past the charge that he is anti-Israeli, by using the Bank, and, second, to gain a position of strength in the Passman Subcommittee. The division of his activities is apparent in the way in which varying perspectives have been gained by the Treasury on the one hand and the Bank on the other.
4. Since the Washington Post is not likely to publish a sizable edition for the next few days, it is not likely a Bart Rowen story would appear. Most of these have been in the back pages. Accordingly, it may well be that little damage will be done by public release of a letter. Rowen has done his worst, and the U.S. Jewish community has pronounced itself satisfied with what we have said so far.
5. The other side of the coin is whether offense may have been caused to sensitive Arab interests. We have lines of communication to the information offices of the various embassies in Washington. To date there has been a mild rumble, but nothing serious. (Of the group only the Egyptian and Kuwait embassies have systematically collected and reported on the Rowen articles.) As long as the Bank holds to international competitive bidding and the need to be free from bias, it is agreed that we have a strong case. Most representatives of the U.S. Jewish community (as opposed to the U.S. Israeli lobby) take that position as well.
6. Once the game with the press (and the letters) is passed, Obey will probably support us. He is known to be impressed with the Bank's candor and to respect its effectiveness.

cc: Mr. Knapp
Mr. Cargill
Mr. Gaud
Mr. Nurick
Mr. Adler
Mr. Riddleberger

JEM:rgw

492/5/21

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 30, 1975

FROM: Hans Janssen *HJ*

SUBJECT: IDA Fifth Replenishment



9/30
With reference to your letter of September 18, 1975, addressed to Mr. Hans Apel, Federal Minister of Finance, I have the pleasure of informing you at the request of my Government that Dr. Horst Moltrecht, Deputy Assistant Secretary in the Federal Ministry for Economic Cooperation, Bonn, Federal Republic of Germany, will be appointed Deputy to represent my Government in the IDA Fifth Replenishment negotiations. Mr. Moltrecht will participate in the meeting scheduled during the week beginning Monday, November 24, in Paris.

cc: Mr. Cargill
Mr. Adler
Mr. Damry



SUID-AFRIKAANSE MISSIE

BY DIE
INTERNASIONALE MONETÊRE FONDS
EN DIE
INTERNASIONALE BANK VIR
REKONSTRUKSIE EN ONTWIKKELING
TEL. No. (202) 331-1506
KABELADRES : SAFINANCE
CABLE ADDRESS



SOUTH AFRICAN MISSION

TO THE
INTERNATIONAL MONETARY FUND
AND THE
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1776 F STREET, NORTHWEST
WASHINGTON, D. C. 20006

15 September 1975

Dear Mr ~~Mc~~Namara,

I have the honour to transmit to you herewith a letter dated 20 August 1975 from Senator the Honourable Owen P.F. Horwood, Minister of Finance of South Africa.

The Minister wishes to invite your attention to South Africa's willingness, within the limits of its resources, to consider participating with the Bank and with other development financing institutions in joint and particularly parallel financing of economically viable projects in developing countries, especially but not exclusively in Africa. The Minister is also willing carefully to consider opportunities that may arise for other forms of collaboration.

I shall look forward to discussing with you this matter as well as other business of the Bank, particularly the selective increases in IBRD capital subscriptions now under consideration. I should also like to avail myself of our meeting to introduce to you my colleague, Dr Johannes H. de Loor, who will be our Principal Resident Representative at the Headquarters of the Bank as from 1st October 1975. His biographical statement is attached for your information and records.

I shall look forward to seeing you at 6.45 p.m. tomorrow, Tuesday 16 September.

Sincerely yours,

Robert van S. Smit.
Ambassador

PRINCIPAL RESIDENT REPRESENTATIVE

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



492/5/19
M. 6/1/1/7

Ministerie van Finansies,
Ministry of Finance,

Uniegebou,
Union Buildings,

Pretoria.

Mr. Robert S. McNamara,
President,
International Bank for Reconstruction
and Development,
WASHINGTON, D.C.,
USA.

20 -8- 1975

Dear Mr. McNamara,

You will recall that, during the 1973 annual meeting in Nairobi, you identified Africa as 'the continent of the future, where many of the greatest development opportunities of the years ahead are going to be found'. My predecessor, Dr. N. Diederichs, at the same time indicated the willingness of South Africa to play its part in regard to a further increase in lending to the developing countries of Africa. In his statement at the 1974 annual meeting, he further endorsed the view that countries which are more fortunately situated should heed your call for support, and confirmed that South Africa found it possible to expand its development assistance.

South Africa accordingly increased its contribution to the Fourth IDA Replenishment and in 1974 accepted a substantial increase in its capital subscription. Moreover, the South African currency portion of the subscription has been released, and South Africa also made an advance payment of certain amounts in respect of maintenance of value that will fall due only in the future.

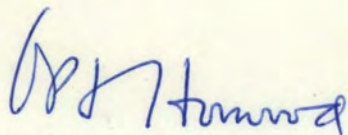
Further possibilities of supporting Bank programmes and enlarging fruitful collaboration with the Bank are being studied. In this connection I am pleased to note that Ambassador Smit has reported to me the cordial initial explanatory discussions that he has had with Mr Knapp and with other officials in the World Bank.

As you may be aware, the general policy of the Government of South Africa is to seek co-operation with all countries in matters of mutual interest, regardless of differences in political or social institutions, and to refrain from intervention in the internal affairs of states.

In furtherance of that policy, South Africa would be glad, within the limits of its resources, to give sympathetic consideration to participating with the Bank and other development financing institutions in joint and particularly parallel financing of economically viable projects in developing countries, especially but not exclusively in Africa. If opportunities should arise for other forms of collaboration, these would also be carefully considered.

I should be pleased if you would agree that there is room for substantial activity along the lines referred to in this letter. I should, of course, be pleased to discuss any aspect with you at your convenience, for example, during the forthcoming annual meeting of the Board of Governors. In the meantime, I have directed the Principal Resident Representative of South Africa to the Bank to give continuing attention to any possibilities that may be developed fruitfully. He will continue to be available in Washington for any further consultations with officials of the World Bank group that you may judge useful.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'O.P.F. Horwood', is written over the typed name.

O.P.F. HORWOOD
MINISTER OF FINANCE

492/5/18

BIOGRAPHICAL STATEMENT

JOHANNES HENDRIKUS DE LOOR



DATE OF BIRTH: April 13, 1930

PLACE OF BIRTH: Pretoria, Transvaal, South Africa

NATIONALITY: South African

MARITAL STATUS: Married, four children

EDUCATION:

- 1967: IMF Institute Course in Public Finance
- 1958: University of Pretoria, M.B.A.
- 1955: Columbia University, Graduate School of Business, Ph.D.
- 1953: Columbia University, Graduate School of Business, M.S.
- 1953/4 and 1954/5: Samuel Bronfman Fellowship for Democratic Business Enterprise
- 1951: University of Pretoria, B.Comm.
- 1951/52 and 1952/3: Department of Commerce and Industries Scholarship for post-graduate studies in the U.S.A.

EXPERIENCE:

- 1968-75: Deputy Secretary for Finance, Department of Finance
- 1960/68: Assistant Professional Adviser and thereafter Professional Adviser, Department of Finance
- 1959: Economist to the Wage Board
- 1958: Economist in charge of the Manpower Survey, Department of Labour
- 1955/58: Assistant Professional Officer and thereafter Professional Officer, Department of Commerce and Industries
- 1952/55: Lecturer in Management and in Marketing, Graduate School of Business, Columbia University
- 1949/51 and 1955/58: Lecturer in Business Statistics, University of Pretoria
- 1960/75: Member of governmental committees, investigating teams and delegations concerning monetary and fiscal matters
- 1974/75: Member of the Board, Southern Oil Exploration Corporation of South Africa
- 1972/74: Leader of South African delegation to Monetary Union negotiations with Lesotho, Swaziland and Botswana
- 1969/73: Member of South African delegation to Customs Union negotiations with Lesotho, Swaziland and Botswana and subsequently member of Customs Union Commission
- 1965 and 1966: Member of South African delegation to GATT Balance of Payments consultations
- 1962: Leader, South African delegation to CCTA Workshop on Governmental Fiscal Statistics.

Mr. Mc Namara

Boards of Governors · 1975 Annual Meetings · Washington, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL MONETARY FUND

492/5/17

Address replies to:

JOINT SECRETARIAT - ANNUAL MEETINGS
IBRD AND AFFILIATES - IMF
WASHINGTON, D.C. 20431

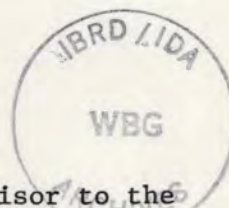
Cable Address:

INTERMEET
WASHINGTONDC

September 1, 1975

MEMORANDUM FOR THE RECORD

Subject: IDA 5--Discussion with Mr. Klackenberg (Sweden)



Mr. Lennart Klackenberg accompanied by Miss Svedin, Advisor to the Scandinavian Executive Directors, called on Mr. Cargill. I was also present.

Mr. Klackenberg asked about the preparations for the fifth replenishment. Mr. Cargill said that it was intended to call a meeting of donor representatives in Paris in the second part of November.

9/2 As to the amount, Mr. Cargill pointed out that we had a replenishment of \$2500 million to \$3000 million in mind. He added that using the same basis for determining the size of contributions for all countries, the contributions of OPEC countries to the replenishment were not likely to exceed \$250 million; it may be possible to increase the contributions by asking them for loans instead of grants, but certainly it would be wrong to expect that a very substantial portion of the total replenishment would come from OPEC countries.

Mr. Klackenberg then inquired about the attitude of the U.S. toward the fifth replenishment. Mr. Cargill said that we had reasons to believe that the U.S. would be rather forthcoming. The U.S. representative at the Development Committee in Paris had emphasized the importance which the U.S. wanted to give to the fifth replenishment. The sentiment was repeated in the Board discussion of the Third Window and also in the course of private conversations.

Mr. Klackenberg then wanted to know to what extent we would be ready to take account of the special needs of the U.S. regarding the timing of appropriations, since the U.S. already would be two years behind most other contributors. Mr. Cargill said that we were exploring various ways of accommodating the U.S., but we certainly would not want to repeat the "double option" arrangements of the fourth replenishment; he hoped that the U.S. could make payment in three installments.

While Mr. Cargill had to leave the office for a few minutes, Mr. Klackenberg asked me whether there were any problems for the Bank to make loans to Indochina. I said that as far as I knew there would not be any difficulty. Mr. Klackenberg then wanted to know whether the U.S. would be willing to go

September 1, 1975

along with lending to Indochina. I expressed, as a personal view, the conviction that in due course the U.S. would not oppose IBRD and IDA operations in Indochina. When Mr. Cargill returned he told Mr. Klackenberg about his discussion with the North Vietnamese in Paris regarding the membership of Viet-Nam.

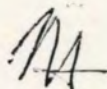
When Mr. Klackenberg mentioned that he was planning to go to Saigon in September or October--he indicated there were difficulties about scheduling this visit--Mr. Cargill mentioned that he had seen today Mr. Umbricht, who was coordinating the aid efforts in Viet-Nam for the U.N.

Mr. Klackenberg then came back to the preparations for IDA 5 and said that a first meeting of Deputies in the second half of November would suit the Swedish authorities because by that time the Government would have formulated its policy toward the Bank and IDA on the basis of the decisions of the Congress of the Socialist Party which was scheduled for September. He said that he expected lengthy debates at the Party Congress about the Swedish attitude toward the Bank and IDA. In that connection I said that I could not conceive of Sweden refusing to contribute to the fifth replenishment. Mr. Klackenberg said that he did not expect that, but added that the Congress may urge the Government not to increase its contribution to IDA. I said that I hoped this would not happen.

Mr. Cargill also said that he or I, or somebody else from the Bank, would visit Stockholm before the first formal IDA meeting to discuss the preparations for IDA 5. In this connection the possibility of having a joint discussion with all Scandinavian countries in Stockholm, or in some other Scandinavian capital, was mentioned.

JHA/mwm

cc: Mr. McNamara ✓
Mr. Cargill
Mr. Goodman


John H. Adler

August 30, 1975

The Honorable
David R. Obey
House of Representatives
Washington, D. C. 20515

Dear Mr. Obey:

Bias, discrimination, or any arrangement, secret or public, giving one nation or group of nations an unfair advantage over other members would subvert and ultimately destroy an organization such as the World Bank. I am appalled at such allegations, which imply that the Bank may be a party to such arrangements, and recognize that it is both your duty and ours, as well as that of others having legislative oversight of Bank activities in the U.S. and elsewhere, to seek to lay them to rest. Representatives of member governments will agree, I am sure, that the Bank has been fair in dealing with them and that their relations with us have proved positive and beneficial.

I have asked the Bank staff to look carefully into the issues you have raised. Our response is enclosed. Briefly I would like to emphasize:

There has been no quid pro quo, precondition, or other arrangement, affecting the Bank's relations with Israel, secret or otherwise, in our borrowings from OPEC. As to trade limitations, such as the Arab boycott, the Bank's role has been consistently positive in terms of expanding market access and ensuring equity. We have no evidence that firms potentially subject to such boycott are hesitant to bid on Bank contracts; but I should add that the Bank encourages all eligible firms to bid and establishes equitable standards to attract them.

The Bank's relations with OPEC nations have been in accord with its role as an international financial intermediary, i.e., we have sought increased aid flows from OPEC sources to compensate for difficulties increasingly encountered by developing nations. I vividly remember that during the House debate of the Fourth Replenishment of IDA a number of Members pointed to the need for OPEC nations to take on a larger share of the aid burden. The U.S. and other countries have urged strongly that OPEC funds be mobilized in behalf of the developing countries. The Bank, I believe, has been responsive.

The Bank has played an important role in bringing OPEC nations into the aid business, via: (a) the sale of bonds (\$1.8 billion in FY75), (b) the Bank's "Third Window", for which OPEC nations have taken much of the initiative and are expected to provide about half of the subsidy funds, (c) joint and parallel financing arrangements whereby OPEC nations have joined bilaterally in financing projects along with the Bank, for example, in Zaire, in Tanzania, and in Egypt for the Suez Canal. A key question is whether OPEC nations will join the next replenishment of IDA. I see no reason to doubt that they will participate, and hope that after this year's Annual Meeting we shall have more evidence on this score.

Finally, there is the Bank's policy on oil prices, which is explained in the attached paper. Historically, the Bank has served the international community by analyzing long-term trends. This has been our role, and we have listened carefully to all opinions held by our staff and outside. No views have been suppressed. We have published, or provided to governments, what we thought were the best statements we can produce. Our members would not for long accept a policy of large-scale Bank intervention in major commodity markets, such as oil, grain, etc., nor would this be in keeping with our role. The Bank has consistently taken a lead in pointing out the effects of the recent price changes in oil and other commodities on the developing countries. A great deal of data has been provided through inter-governmental channels and can be made available to you through the U.S. executive branch. I hope in this regard you will look at Bank Study No. 802 (Prospects for Developing Countries 1976-1980), which is at present being circulated among governments.

I would welcome an opportunity to discuss these matters with you personally, and to provide any further information you or members of your subcommittee may deem necessary to resolve these problems.

Sincerely,

(Signed) Robert S. McNamara
Robert S. McNamara

JEM/NR/R. S. McNamara:bmm
August 30, 1975



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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

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

August 30, 1975

Responses to Questions Posed by Representative David R. Obey

QUESTION 1:

Lending by Arab countries often involves a quid pro quo on the part of the borrower regarding its relations with Israel. Are these anti-Israel restrictions retained, either openly or in secret, when the Bank deals in any way with Arab funding or projects? If not, specifically how is this problem dealt with by the Bank?

RESPONSE:

Lending to the Bank by Arab countries has in no case involved a quid pro quo on the part of the Bank regarding its relations with Israel or financing of projects in certain countries. The lending operations of the Arab countries, as well as those of non-Arab OPEC countries, with the World Bank are conducted on normal commercial terms and are of equal benefit to the Bank, which adds to its lendable resources, and to the lending countries which invest their funds in securities which enjoy the highest investment rating (Aaa in the United States).

The Bank engages in co-financing operations with Arab lenders, as well as with aid agencies from other countries. In these cases each lender applies its own standards to the procurement of goods financed by it. For example, some co-lenders may tie procurement to suppliers from their own countries, (as does the United States in many cases), or to certain groups of countries; while some may extend procurement to countries where procurement under Bank financing would not be permitted. The Bank will not participate in the project unless the total financial arrangements are sound, but will not seek to impose its own practices on other sources of finance.

QUESTION 2:

Are firms on the Arab black-list able to compete effectively for contracts under World Bank loans to Arab countries or are the chances so slight that few, if any, undertake the expense of submitting bids? If this is not true, what is the Bank doing to prevent this from happening? What specific methods are being employed to assess the situation?

RESPONSE:

It is Bank policy to require its borrowers to acquire, on the basis of international competitive bidding by suppliers, goods and services to be financed out of the proceeds of the Bank's loans. The Bank does not permit

the inclusion, in tenders of bids for contracts to be financed by the Bank, of any condition that precludes participation by qualified suppliers because they do business or trade with Israel or are located in any country that trades with Israel. Furthermore, it is the Bank's policy to require that contracts be awarded to the lowest evaluated bidder, and it would refuse to finance a contract which was not so awarded by reason of the so-called "Arab boycott".

There is thus no reason, as far as the Bank's procurement rules are concerned, why any qualified supplier should feel precluded from bidding on Bank financed contracts because of the so-called "Arab boycott".

We have not been advised of any case where a qualified supplier has refrained from bidding on Bank financed contracts because of the boycott, and we recall no case where any supplier has complained to us about the boycott.

QUESTION 3:

Are birth certificates required by the Bank's travel office for any personnel scheduled for missions to Saudi Arabia and are these used to exclude Jews? If so, why? Has this ever been the case?

RESPONSE:

The Saudi Arabian Embassy requires applicants for visas to furnish a statement regarding their religious background.

We have been assured that if the Bank wishes to send a staff member, an international civil servant, to Saudi Arabia on Bank business, religious affiliation will not be a constraint to the issuance of a visa.

QUESTION 4:

The majority of aid extended by OPEC countries is going to nations which are confronting Israel. Why doesn't the World Bank call on the OPEC countries to extend more aid to other LDCs through IDA? Specifically, what steps have been taken to get more OPEC countries to contribute to IDA?

RESPONSE:

It is not easy to measure and assess the capital flows from OPEC countries to other developing countries. Joint efforts of IBRD, IMF and OECD have resulted in indirect measurement of these capital flows but with significant margins of error. A summary of estimated flows in 1975 using definitions and concepts that are as much as possible the same as those used for the measurement of capital flows from the DAC countries, is shown below (in billions of U.S. dollars):

(a) direct (bilateral) flows to LDCs:

1. to low income countries (below \$200 p/c)	1.2
2. to Egypt, Jordan, Lebanon, Syria	2.5
3. to other developing countries	0.7

Total bilateral 4.4

(b) to multilateral agencies:

1. concessional aid (DAC-terms)	0.8
2. IBRD bonds	2.1
3. other agencies (ADB, IMF, etc.)	2.5

Total multilateral 5.4

Total Flows 9.8

Capital flows to the IMF are taken into account only to the extent that these are passed on to developing countries.

The Bank has, in a series of studies prepared for the Board of Executive Directors and more recently for the Development Committee, emphasized the need for a more rapid expansion of capital flows on very concessionary terms, particularly for the poorest countries. For some months Bank staff has been having discussions with the OPEC countries concerning their contribution to flows of concessionary assistance in general and through the intermediary of IDA in particular; these will gain momentum in the coming months when negotiations for the next replenishment of IDA begin. At the time of negotiations for the last replenishment, which started in 1972 and were completed in September 1973, few OPEC countries were in a position to make contributions to IDA. Kuwait has contributed since the beginning of IDA.

In the meantime, a Third Window has been established, with the encouragement and initiative of OPEC, in the Bank. It is designed to provide additional aid largely to the poorest countries at interest rates subsidized through grant contributions. It is expected that over half of the amount to be contributed to the subsidy fund for the Third Window will be contributed by OPEC countries.

QUESTION 5:

Has the Bank suppressed internal staff studies calling for Bank advocacy of a lower price for oil? What has been recommended internally at the Bank regarding a dual pricing system to help LDCs? What exactly, is the Bank's policy on the price of oil for LDCs and developed countries?

RESPONSE:

In the course of the studies which Bank staff routinely undertakes of commodity market prospects and prices, several studies have been made of crude oil. These studies form part of the continuous assessment of the balance of payments and creditworthiness prospects of the developing countries in which the Bank has operations. They are limited to assessments of the consequences for developing countries of probable, and sometimes alternative, trade and price policies.

These effects are regularly estimated and brought to the attention of the Board of Executive Directors, through submission of commodity market studies, through an annual survey of all major commodity markets, through publication of trade and price forecasts in the Bank's monthly World Economic Indicators and by their inclusion in more broad-based analyses.

As part of that work, there have been regular studies of the oil market. In the case of oil, as for other commodities, the Bank's policy has been to study the effects of market and price developments and to tailor lending programs in accordance with those developments. All segments of thought have contributed to these efforts, and in no sense has management attempted to suppress the judgments of the staff.

Estimates of the balance of payments relief for oil-importing developing countries from special discounts on their oil imports, or from grants to cover a proportion of those costs, or from discriminatory pricing, have been made. The Bank has neither recommended for nor against any such scheme.

As a financial intermediary, the Bank considers the promotion of capital flows from all sources, including OPEC countries, its primary concern and considers it appropriate to focus on the most realistic means of obtaining such funds in order to improve the balance of payments prospects of the developing countries.

QUESTION 6:

Is it not true that the increase in LDC payments for oil more than offset all the appropriated aid requested for the World Bank? Has the World Bank tried to exert pressure on OPEC to lower oil prices? If not, why not?

RESPONSE:

All developing countries together (including Bank borrowers in Southern Europe: Spain, Portugal, Greece, Turkey and Yugoslavia) imported in 1972 around 383 million tons of crude oil and oil products. Some of these countries also exported both crude oil and oil products: together (including bunkers) this amounted to some 222 million tons. The price increase for Saudi Arabian Light (f.o.b. Ras Tanura) from \$1.90 per barrel in 1972 to an estimated \$10.46 in 1975 would raise the cost of the same volume of oil by \$26 billion; as their exports of oil increased in price as well, the additional net cost would be \$10.8 billion per annum.

Total annual capital flows to the same countries amounted in 1972 to about \$16 billion (net, official and private together) and are expected to reach \$43 billion in 1975. Corrected for inflation, this still amounts to almost a doubling of the net flows between these years.

In the aggregate, therefore, capital flows more than offset the additional oil costs. LDCs also had to offset higher costs of food grains, fertilizers and manufactured goods. As a consequence, imports of the developing countries increased by only 6% per year in volume terms, which is just equal to their export growth notwithstanding the major increase in their capital receipts.

The share of the Bank in these capital flows may understate its importance as an intermediary. Resources obtained from Government budgets through appropriation are limited to IDA which disbursed an amount of \$261 million in 1972 and \$1,026 million in 1975; and, even when disbursements from IBRD lending and IFC operations are added, the share of the Bank Group remains rather modest compared to total flows. But, given the role of the Bank -- to mobilize development resources from elsewhere in conjunction with its own lending -- such calculations tend to obscure the role of the Bank in generating aid flows via joint financing arrangements, creation of new methods of intermediation (the "Third Window") etc.

(The last two parts of this question are dealt with in the response to Question 5, above.)

QUESTION 7:

Since Mr. Hollis Chenery, Vice-President for Development Policy, headed up the energy study and owns shares in an energy corporation, Southern Natural Resources, isn't this an obvious conflict-of-interest? How can this be reconciled, especially in light of the recent Report No.802 and the rejection of it by the Board?

RESPONSE:

At the time of his appointment in 1970, Mr. Chenery disclosed his financial interests to the Bank, and it was decided at that time that they did not constitute a conflict with his responsibilities as the Economic Adviser to the President. The matter arose again early in 1974 when Mr. Chenery undertook studies of the impact of energy price increase on the developing countries. On January 29, 1974, the Executive Directors, who represent the 125 member governments of the Bank, were advised of Mr. Chenery's outside interests and of the conclusion that they did not constitute a conflict of interest. No member dissented from that view.

Thereafter, in June 1974, the Bank issued comprehensive rules of conduct for its staff which replaced earlier more general rules. Among other things, the new rules established a committee which was charged with the administration of the rules and provide that a staff member shall not hold any official position in any business organization except with the approval of the committee. Following issuance of the new rules of conduct Mr. Chenery filed a report with the committee reporting his directorship in the Southern Natural Resources Corporation and showing his indirect interest in that corporation, through his 14% interest in the Chenery Corporation, a family company formed to hold assets of the estate of Mr. Chenery's deceased father.

In February 1975, the committee issued a written decision stating that while there was no actual conflict of interest it did not approve Mr. Chenery's directorship on the board of Southern Natural Resources Corporation. Mr. Chenery was advised of the decision and thereupon resigned as director.

As far as Mr. Chenery's stock interest in Southern Natural Resources Corporation is concerned, it should be noted that the Bank rules deal with ownership of and transactions in securities of certain types of corporations which are beneficiaries of Bank transactions but do not prohibit stock ownership in other cases. Mr. Chenery is in full compliance with the rules of the Bank and with the conclusion of the committee.

The Bank regards the question of rules of conduct for its staff to be a matter of great importance. For this reason, the new set of rules

issued in 1974, at the insistence of Mr. McNamara, were formulated after a thorough examination of the rules of conduct of other public organizations, both national and international, various governments, and other public and private institutions. As far as we know, the 1974 rules are the most stringent and detailed of those of any public international organization. We understand that the U.S. Treasury recently reviewed our rules and concluded that they were both comprehensive and well-structured. The U.S. Treasury has pointed out certain areas in our rules of conduct which they believe should be reviewed by us. The Committee and the Bank management are reviewing the rules of conduct and the comments of the U.S. Treasury will be taken into account.

Finally, it is important to note that Report No. 802 was not rejected by the Bank's Board of Executive Directors. This report examines the prospects of developing countries, taking account of the oil price increase, the outlook for other commodity prices, the current economic world recession and the probable availability of foreign capital. The report was not submitted for the approval of the Executive Directors because it was not a policy document. The Board agreed that the report could form the basis for continued discussions among technical experts of the Bank and member governments and international institutions working in the field of economic development. We understand that the report is being made available to members of Congress through the United States Government.

* * *

APPROPRIATIONS

DISTRICT OFFICE:
FEDERAL BUILDING
317 FIRST STREET
WAUSAU, WISCONSIN 54401
PHONE: 715-842-5606

DISTRICT REPRESENTATIVE:
LAWRENCE DAHL

FIELD REPRESENTATIVE:
ROBERT JAUCH

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

SUBCOMMITTEES:
LABOR-HEW
MILITARY CONSTRUCTION

WASHINGTON OFFICE:
308 CANNON HOUSE OFFICE
BUILDING
PHONE: 202-225-3365
ADMINISTRATIVE ASSISTANT:
LYLE STITT

August 19, 1975

cc: Mr. McNamara
Mr. Knapp

Mr. Robert McNamara, President
World Bank
1818 H Street, N.W.
Washington, D.C.

Dear Mr. McNamara,



Reports have recently appeared in the WASHINGTON POST, the WALL STREET JOURNAL, and elsewhere that an actual or potential reorientation of Bank policy seeking larger contributions from certain Arab OPEC nations could involve the Bank with the anti-Israeli activities promoted by these countries. This raises certain questions which must be answered thoroughly if I am to continue supporting United States contributions to this institution.

I know that, as President of the World Bank, you are not directly accountable to the United States Congress. I also understand that the international funding institutions must be independent of control by any one member or group of member nations. In fact, it is because of this belief that I am very concerned about the allegations that the Bank is becoming heavily influenced by a small, partisan group of member-states and associated with unfair policies as a result of this. However, since we in the Congress are accountable to the American people for how we spend their tax dollars, I believe it is imperative that certain allegations be cleared up. This must be done so that those of us who believe in multilateral aid by international institutions do not unknowingly end up supporting policies that are not only repugnant to ourselves and our constituents, but are also counterproductive to the goals we seek to meet in our approach to the question of economic aid to the developing world.

1. Lending by Arab countries often involves a quid pro quo on the part of the borrower regarding its relations with Israel. Are these anti-Israel restrictions retained, either openly or in secret, when the Bank deals in any way with Arab funding or projects? If not, specifically how is this problem dealt with by the Bank?

2. Are firms on the Arab black-list able to compete effectively for contracts under World Bank loans to Arab countries or are the chances so slight that few, if any, undertake the expense of submitting bids? If this is not true, what is the Bank doing to prevent this from happening? What specific methods are being employed to assess the situation?

Mr. Robert McNamara, President
World Bank
Page Two

3. Are birth certificates required by the Bank's travel office for any personnel scheduled for missions to Saudi Arabia and are these used to exclude Jews? If so, why? Has this ever been the case?

4. The majority of aid extended by OPEC countries is going to nations which are confronting Israel. Why doesn't the World Bank call on the OPEC countries to extend more aid to other LDC's through IDA? Specifically, what steps have been taken to get more OPEC countries to contribute to IDA?

5. Has the Bank suppressed internal staff studies calling for Bank advocacy of a lower price for oil? What has been recommended internally at the Bank regarding a dual pricing system to help LDC's? What, exactly, is the Bank's policy on the price of oil for LDC's and developed countries?

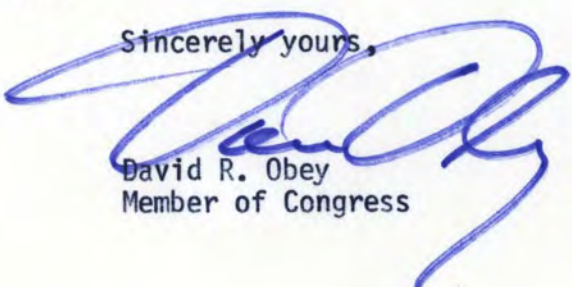
6. Is it not true that the increase in LDC payments for oil more than offset all the appropriated aid requested for the World Bank? Has the World Bank tried to exert pressure on OPEC to lower oil prices? If not, why not?

7. Since Mr. Hollis Chenery, Vice President for Development Policy, headed up the energy study and owns shares in an energy corporation, Southern Natural Resources, isn't this an obvious conflict-of-interest? How can this be reconciled, especially in light of the recent Report Number 802 and the rejection of it by the Board?

As you can see, these are very serious matters which affect the credibility of the Bank. My Appropriations Subcommittee on Foreign Operations will vote on the Bank's appropriation later this year. While we have concluded our hearings on the World Bank, I do believe that reopening the hearings is a possibility we will have to consider in light of the questions that have been raised.

I am sending a copy of this letter to Treasury Secretary William Simon in the hope that he can provide additional information on these questions. I hope to receive your response in the near future and do request that you be as specific as possible in your answers.

Sincerely yours,



David R. Obey
Member of Congress

DRO/fkm

cc: Mr. William E. Simon
Secretary of the Treasury

492/5/15

July 18, 1975



Mr. Walter G. Schulz
Leedshill-De Leuw
120 Howard Street
San Francisco, CA 94105

Dear Mr. Schulz:

I have been asked to reply to your letter of July 11, 1975 to Mr. McNamara. We agree with your comments about the approach to fisheries development in irrigation project areas in Bangladesh. As you will know from Mr. Melmoth's letter of July 2, 1975 to Mr. Kelly, we are hoping to stimulate positive action by the Government of Bangladesh on this problem in the Chandpur Project area and other areas in the southeast region by providing financial assistance through another project credit which we expect to negotiate with the Government within the next few weeks.

Thank you for your comments. We fully appreciate Leedshill-De Leuw's concern about this subject.

Sincerely yours,

DAD

David A. Dunn
Chief, Bangladesh Division
South Asia Department

DADunn:jal

cc: Mr. Burmester ✓
Mr. Morton

49215/14

July 2, 1975

Mr. D. W. Kelley
323 Forum Building
1107 - 9th Street
Sacramento, California 95814



Dear Mr. Kelley,

Mr. McNamara has asked me to reply to your letter of June 20, 1975 concerning fisheries development in the Chandpur area of Bangladesh.

We agree fully with your view that fisheries can and should be made compatible with irrigation and water control projects. Indeed it is the policy of the World Bank and the International Development Association that, during appraisal of all our projects, consideration be given at an early stage to the possible effects of a project on the environment and on the health and well-being of the people. In cases where problems exist we make arrangements to prevent or mitigate adverse effects, if any, stemming from project construction. Thus, our Chandpur Project Credit Agreement called for the fisheries study in which you participated in the anticipation of ensuring that appropriate steps to remedy the effects of the project on fisheries would be undertaken once a suitable program was designed.

With respect to the Chandpur Project, I should like to point out that the Fishery Development Program dated July 1974 by Jones & Stokes Associates was not submitted to the Fisheries Department by the Bangladesh Water Development Board until April 30, 1975. However, shortage of funds for the Chandpur Project has prevented the Government from acting on the Fisheries Program. Consequently, in order to ensure that so essential a program is begun as expeditiously as possible, we are considering providing, under a credit now in preparation, funds for a carp hatchery in the Chandpur Project area as part of a fisheries development program on the South Dakatia, Halda and Lower Meghna rivers. The hatchery would serve to remedy the Project's negative effects on carp fishery in the Chandpur area. It would also serve as a focus for the Department of Fisheries' training and research activities for which Association financing is being considered. The objectives of this training program would be to help establish domestic competence to develop, operate and maintain carp hatchery facilities, while the

July 2, 1975

research program - to be carried out under the direction of the Chandpur Research Station - would study carp and shrimp breeding and movement and develop a project operational system taking full account of agricultural and fishery requirements.

This program will, we hope, get underway, with specialist consultant support, later this year and will begin to supply fry and fingerlings required to stock the waters within the project area before the water control structures at Chandpur are made fully operational.

We share your concern lest the agricultural objectives of the Chandpur Project override so important a local activity as fisheries, and wish to assure you that we are giving full support to the Government in implementing measures to prevent the destruction of existing fisheries in the project area.

Yours sincerely,

Christopher G. Melmoth
Acting Director
South Asia Department

RPB:rigi ~~Whyn~~

Cleared with & cc: Dr. Lee
Mr. Morton

cc: Mr. McNamara (with incoming letter)

D. W. KELLEY, Aquatic Biologist

323 FORUM BUILDING
1107 - 9TH STREET
SACRAMENTO, CALIF. 95814

PHONE (916) 443-3781

June 20, 1975

Mr. Robert McNamara, President
International Bank for Reconstruction
and Development

1818 H Street N.W.
Washington, DC 20433

Dear Mr. McNamara;

In March, 1974 I was asked by Jones & Stokes, Associates, Inc., an environmental firm in Sacramento, California, to help make the IBRD sponsored Chandpur Irrigation and Flood Control Project in Bangladesh compatible with fisheries there. Like other investigators, I found that the construction of levees to prevent floods and facilitate irrigation will destroy the local inland fishery. It is the only significant source of animal protein for about one-half million people who live within the project area.

I was consulted because I have spent most of my career trying to reconcile conflicts between water development and fisheries. Four years of this experience were in the developing countries.

In Bangladesh I found that the threat posed by the Chandpur Irrigation Project to the local fisheries was clearly recognized by the project engineers working for the Bangladesh Water Development Board; by the consulting engineers at Leedshill-DeLeuw, San Francisco; by FAO/UNDP representatives in Dacca; and by your staff in the Asian Development Bank there. During my visit, the IBRD sent a team from Washington to review the project. I described the problem to them and suggested solutions. Everyone agreed that action was needed soon. The Fishery Directorate staff and I drafted a "Fishery Development Segment" designed to help with this problem. A report describing that plan was submitted in July, 1974.

That was nearly a year ago. The Chandpur Irrigation Project continues with no fisheries component. Within a year the gates will be closed and the destruction of the fishery will begin.

492/5/73
M. Cassner.
Will you please
draft, in conjunction
with projects, a quick
reply to this to go
from M. Cassner.

6/25.



Surely with so many competent and willing people, with so much available money, something can be done. It need not be a question of rice or fish. The two can be compatible, but they will not be so by accident.

I have discussed this matter with the staff of Jones & Stokes Associates and with Leedshill-DeLeuw. They do not know how to generate any action. They were told that this was "too small" a project for the World Bank.

I urge you to think again. As the organization financing the Chandpur Irrigation Project you are responsible for avoiding the destruction of the fishery. I urge you to personally intervene to avoid this catastrophe.

Sincerely,

Don W. Kelley

Don W. Kelley

cc: Mr. Steve Allison
IBRD, Dacca

Mr. William Beckman, FAO
Intercontinental Hotel, Dacca

Mr. A. Q. Chowdhury, Deputy Director
Freshwater Research Station, Chandpur

Senator Allen Cranston
California

Mr. Roy Jackson
Deputy Secretary General, FAO, Rome

Jones & Stokes Associates, Inc.
Sacramento, California

cc: (cont.)

Dr. F. Z. Kutena, FAO/UN
Advisor to the Government of Bangladesh
and Water Development

Mr. William E. Ripley
UNDP, New York

Mr. Walter Schulz
Leedshill-DeLeuw, San Francisco, CA