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McNamara Papers

Memos for the Record
1978 (Jul. - Dec.)

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OFFICE OF THE PRESIDENT

792/3/77

Meeting on Graduation Policy, December 13, 1978

Present: Messrs. McNamara, Gabriel, Wood

Mr. McNamara said that, in response to recent pressures in the direction of graduating certain higher-income LDCs from IBRD lending (namely, the statements by Mr. Magnussen on Korea in the Board and Mr. Bergsten's statement on the IDB case on The Hill), the Bank would have to examine carefully the volume of lending to countries as they went up on the income scale; this was a better term to use than graduation. He had held to the view, which was accepted by the Board, that the issue should not be linked to the Capital Increase discussion because the latter would not determine the level of lending and its country composition. However, the external pressures should not be underestimated. The Bank had approached the problem too arbitrarily in the past by, for example, establishing a $2,000 per capita break-point. The analysis had to focus on two factors: (i) the external capital requirements of the countries at issue to achieve acceptable levels of growth, and (ii) the extent to which these capital requirements could be met without involvement of the IFIs. This required a careful analysis of access to capital markets.

Mr. Wood said that it had to be emphasized that the division of labor between the Bank and the commercial banks was not independent of the cyclical stage of the world economy. Also, the cofinancing mechanisms had to be analyzed. Mr. McNamara proposed the following approach: the analysis should focus on the cases of South Korea and Brazil and, as a first step, information and views of the large banks had to be obtained. Mr. Husain should direct the work on Korea and Mr. Wood the work on Brazil. He asked Mr. Wood to travel to Brazil in order to obtain information on the projected capital requirements of the country and on how these requirements were projected to be met through borrowing from the commercial banks and from the IFIs.

Mr. NcNamara said that, after resolving the issues of the IBRD Capital Increase and IDA VI, he planned to look at the future of the Bank. One of the future possibilities for the Bank was to become a full-service Bank; e.g., the Bank could have even helped the U.S. on its minorities investment program which had failed. For the foreseeable future, there was clearly a role for the Bank in countries such as Brazil and Korea in terms of providing policy advice and technical assistance on important development issues, such as the development of Brazil's poor Northeastern region. These services would not have to be provided on a subsidized basis.

Mr. McNamara asked Mr. Gabriel to find out about the course of events at the IDB which had led to the establishment of a ceiling in nominal terms for IDB lending to Brazil, Mexico and Argentina. He concluded that, after some initial work on these issues had been done by P&B, a meeting should be convened with Messrs. Cargill, Stern, Husain and Barletta.

CKW
December 18, 1978

OFFICE OF THE PRESIDENT

792/3/76

Meeting on Office Space Planning, December 1, 1978

Present: Messrs. McNamara, Cargill, Broches, Chadenet, Chenery, Clark, Damry, Gabriel, Stern, Twining, Sommers

Mr. McNamara said that (i) in 1981/2, because of the expected continued expansion of the Bank, a larger number of operational units would have to be moved out of the main complex; in view of this fact, some operational units should be moved right now and Finance should be kept in the main complex; and (ii) it was of great importance that the financial operations were kept close to senior management and the Board. The meeting should focus on the immediate issue of whether to move Finance out or not.

It was agreed to move the Transportation and Industrial Projects Departments out of the main complex instead of Finance. The Office of the Senior Vice President Finance, Treasurer's and P&B should in principle be kept in the main complex.

Caio Koch-Weser
December 8, 1978

OFFICE OF THE PRESIDENT

792/3/75

Meeting on IBRD Capital Increase, November 27, 1978

Present: Messrs. McNamara, Broches, Chenery, Gabriel, Damry, Stern, Wood, Bock

The meeting reviewed the IBRD Capital Increase Proposal paper, dated November 21, 1978.

With regard to Japan's concern about its voting power share, Mr. McNamara said that, during his recent visit to Japan, he had assured Prime Minister Fukuda and Finance Minister Murayama of the Bank's fullest support. One could signal this support to the Japanese without putting the entire issue on the table at this time. The issues of shares and seats should not come up now because they would detract from the support for the capital increase. As to the German concern about maintaining the 10% paid-in ration, he said that this should also be dealt with later. The first meeting should focus on the "headroom" concept and arrive at a consensus on doubling IBRD capital including the selective increase. Only then should the discussion focus on what to do about the other problems and should probably first deal with the issue of the paid-in ratio.

The meeting then made a page-by-page review of the paper. It was agreed to prepare a revised draft including the annexes by Thursday, November 30, and to convene another meeting, if necessary, on Friday, December 1.

In response to a question by Mr. Chenery, Mr. McNamara said that, if the U.S. insisted on linking the staff compensation and capital increase issues, he would be willing to tell the LDCs that the Bank's lending program had to be cut because of the U.S. position. As to the deadline for the Governors' formal ratification of the capital increase, Mr. McNamara said that such action had to be taken in time for the FY83 commitments, i.e., in summer 1982. However, in order not to be forced to reduce the lending program, a formal Board decision was needed by early next year and a Board decision on the detailed issues before July 1, 1979. If necessary, he would be prepared to obtain that decision without U.S. support. However, it was obvious that the Carter Administration did not want a reduction of the Bank's program.

CKW
November 28, 1978

OFFICE OF THE PRESIDENT

792/3/74

Meeting on Distribution of Exchange Rate Risks among Borrowers, November 27, 1978

Present: Messrs. McNamara, Cargill, Broches, Chenery, Damry, Gabriel, Qureshi, Stern, Hittmair, Wood, Bock

The meeting made a page-by-page review of the memorandum to the Executive Directors on Distribution of Exchange Rate Risks among Borrowers.

It was agreed to delete any detailed reference to the DFC problem resulting from the proposed pooling system. The issue would have to be dealt with separately before the new system became effective. Mr. McNamara asked Mr. Bock to obtain information on the EIB's borrowing and lending terms and procedures before the January 1979 Board discussion of the paper.

The meeting agreed on the following dates for Board discussion of the different papers under preparation:

(i) Distribution of Exchange Rate Risks among Borrowers--January 16;

(ii) Energy--January 9;

(iii) IBRD Capital Increase--January 11; and

(iv) Mid-year review of the budget and commitment levels--January 30.

CKW
November 28, 1978

OFFICE OF THE PRESIDENT

792/3/73

Meeting on Future Role of the Development Committee, November 17, 1978

Present: Messrs. McNamara, Stern, Damry, Nurick, Kearns

It was agreed (a) to distribute the paper prepared by Mr. Kearns as an informal talking paper to the EDs; (b) to convene an informal meeting of EDs and Alternates before Mr. Virata returned to Washington between December 8 and 11, i.e., to schedule the meeting for Tuesday, December 5; (c) that Mr. McNamara should meet with Sir Richard King before the paper was distributed to the EDs but not to include Sir Richard King's comments in that paper; and (d) probably to prepare a paper for the Development Committee meeting in mid-March 1979.

CKW
November 28, 1978

OFFICE OF THE PRESIDENT

792/3/72

Meeting on Office Space Planning, November 17, 1978

Present: Messrs. McNamara, Chadenet, Clark, Damry, Gabriel, Stern, Nurick, Twining, Sommers

Mr. McNamara said that the issue was which units should be moved out of the central "master complex." Originally it had been agreed to keep all Regions and CPS in the master complex; this implied that the policy directives staff would be moved away from the EDs and the President's office and that this staff would become fragmented. This was unacceptable in view of the fact that there had been insufficient formalization of the Bank's policy-making function in the past, that contacts between the policy-making groups and the EDs had to be increased, and that the Bank had to consider the creation of a senior executive committee on the operational and policy-making side which would cooperate closely.

Mr. Chadenet replied that the original policy could obviously be reversed, i.e., operational units could be moved out and staff units could be kept in the main complex. However, he felt that this issue had to do with psychological factors ("Siberia trauma" of staff) rather than with problems of physical distance because there would only be a three-minute walking distance between the new building and the master complex. He strongly urged that no compromise solution be adopted.

Mr. Stern enquired about the definition of the policy-making group; e.g., Mr. Cargill was clearly part of that group but he thought that the Treasurer was not. The penalty of having Vice Presidents separated from their staffs had to be avoided. He did not attribute any great importance to the ability of the policy group to interact on a moment's notice.

Mr. Sommers said that no analogy could be drawn re private corporations because the Bank's President and Board were much more involved in operations. He agreed that managers had to be in close contact with their staff. Any solution had to be explainable to the staff.

Mr. Gabriel commented that the physical separation of policy units was not as serious a problem as the separation of operational sub-units.

Mr. McNamara asked Mr. Chadenet to prepare a table giving the capacities of the main complex and the new building and showing the alternatives for action. These alternatives should then be discussed by this group next week.

CKW
November 29, 1978

OFFICE OF THE PRESIDENT 792/3/71

Meeting on IBRD Capital Increase, November 8, 1978

Present: Messrs. McNamara, Broches, Damry, Gabriel, Stern, Wood

Mr. McNamara said that the meeting should focus on (i) whether to raise the issue of the IBRD Capital Increase with the Board in December, irrespective of whether every government was ready to deal with the issue; (ii) whether, if the issue should be raised, this should be done with or without a paper; and (iii) whether such a paper should focus only on the total amount. He would recommend getting a paper to the Board by December 1, arguing for a doubling of IBRD capital.

Mr. Damry said that most EDs preferred a paper which would present only a few alternatives and which would pitch the amount of the capital increase at a high level. Messrs. Stern and Gabriel agreed with Mr. McNamara's view. Mr. Broches also agreed but argued that some additional issues would have to be dealt with by the December paper, particularly the matter of the paid-in portion of the increase. Mr. Stern agreed that the amount could not be negotiated without stating the portion to be paid in.

Mr. McNamara suggested proposing a 10% paid-in portion and a doubling of the capital, i.e., an increase of about $45 billion. Mr. Gabriel commented that the Bank might well lose U.S. and German support if it advanced such an extreme position. Mr. Wood agreed with Mr. Gabriel in that one would lose management's position being the basis for the discussion and one would invite alternative proposals from governments if an extreme position were advanced. Mr. Stern disagreed. The paper would simply state that this was management's preferred position. Mr. McNamara concluded that the paper should propose a doubling of the capital and should state that a 10% paid-in portion would be preferable but that it was recognized that this was a subject for discussion. The paper should also make clear that a discussion of future levels and annual growth rates of IBRD lending should be delinked from the discussion of the capital increase. A number of issues, such as the allocation of voting rights, seats at the Board, and schedule of payments, would have to be settled once the total amount of the increase would have been agreed upon. Mr. Stern said that the Bank should acknowledge a trade-off between paid-in portions and amount of increase but should signal where the result should come out.

Mr. Wood said that the Germans associated a lower paid-in portion with financial irresponsibility; they should be made aware that the alternative to maintaining a higher paid-in portion was a higher lending rate. Mr. McNamara agreed that there was a trade-off between the basis point spread of the lending rate formula and the paid-in portion. The present 50-basis point model should be able to take care of a lowered paid-in portion. The Bank could reconsider this spread in the lending rate formula and/or additional uses for its income which would increase substantially over the coming years. Mr. Gabriel suggested returning dividends which would change the climate in national parliaments. Mr. McNamara agreed that this should be considered, particularly in view of the fact that a major battle on Bank graduation policies had to be expected but would hopefully not have to be dealt with over the next two years. Mr. Stern suggested introducing dividends with reinvestment options.

In response to a comment by Mr. Stern, Mr. McNamara said that there was presently only a very thin and tenuous support for a large capital increase, and that he was not sure whether the Bank could maintain the shares of non-oil developing countries. He was not willing to trade votes against money. Messrs.

Narasimham and El-Naggar had to understand this. The U.S. was hung up on a 20%-21% share. However, the first step was to get three or four of the large countries to agree to a doubling. Preferably, these countries should be The Netherlands, the U.S., Germany and the U.K. They would pull the other countries with them. The U.K. and The Netherlands would most likely support a doubling as they had stated in the past. The Bank would now have to work on the U.S. and then on the Germans.

Mr. McNamara asked that (i) the paper on the IBRD Capital Increase be prepared by noon, November 21; (ii) a version of Standard Table I be prepared based on a doubling of IBRD capital with 0% paid-in and also that a version of Standard Table Ie be prepared based on this assumption; and (iii) that the table giving past shifts in voting rights be redone in order to include more specific information on dates of changes, etc.

CKW
November 10, 1978

792/3/70

OFFICE OF THE PRESIDENT

Meeting on Papers to be Prepared by Finance, October 30, 1978

Present: Messrs. McNamara, Stern, Gabriel

Mr. McNamara asked Mr. Gabriel to assume responsibility for the preparation of the following seven papers:

(i) IDA VI;
(ii) IBRD General Capital Increase;
(iii) Review of Lending Rate Formula;
(iv) Review of Disbursement Experience in FY79;
(v) Allocation of Currencies on Loans and Credits;
(vi) Valuation of Capital Structure; and
(vii) Mid-Year Review of FY79 IBRD Lending Level.

A schedule of work on these papers should be prepared, giving dates of distribution to the management working group and to the Board. The work in Finance on these seven issues had not been scheduled well in the past.

Mr. McNamara observed that the issue of the proper level of IBRD income had to be examined. Management had never really addressed the issue of income levels resulting from the present formula; by 1982 the projected income would amount to $500 million.

CKW
November 8, 1978

792/3/69

OFFICE OF THE PRESIDENT

Meeting on IBRD Capital Increase, October 27, 1978

Present: Messrs. McNamara, Cargill, Broches, Dambry, Gabriel, Wood

Mr. McNamara made the following points: (i) during Mr. Cargill's absence, Mr. Gabriel would be in charge of the Vice Presidency, Finance; (ii) Mr. Gabriel would also be in charge of the work on the IBRD Capital Increase; (iii) a Steering Group for the work on the Capital Increase should be formed, consisting of Messrs. Cargill, Broches, Damry, Gabriel, Stern and Wood; (iv) work on a White Paper on the Capital Increase would have to begin immediately aiming at distribution of a formal proposal to the Board by December 1; management should by then be on record with the Board with its request for action before the end of January 1979.

Mr. Damry pointed to the general view of EDs that it would not make sense to discuss the Capital Increase unless the U.S. was prepared to do so. Mr. McNamara disagreed. At this point, the Bank had to go ahead, even if the U.S. were not ready; the U.S. would then either join, be dragged along, or stay out. Without a formal agreement on the Capital Increase reached by January 1979, management would have to propose a reduction of the program to the Board. Mr. Cargill agreed that, without a formal decision by the Board, the program would have to be reduced to a steady state level of about $6.3 billion. However, he urged waiting on further action at this point in time in order to give Mr. Fried about two weeks for his consultations. Mr. McNamara replied that Mr. Fried should at this point not be informed about management's schedule. He concluded that a cut of the program in January 1979 would be less likely if the paper were before the Board.

CKW
November 10, 1978

792/3/68

OFFICE OF THE PRESIDENT

Meeting on the Issues Raised by Mr. Ripert, Under Secretary-General for International Economic and Social Affairs, September 19, 1978

Present: Messrs. McNamara, Stern, Chenery, Clark, Haq, Mrs. Boskey

Mr. McNamara said that Mr. Ripert had complained to Mrs. Boskey about deficiencies in the cooperation between the Bank and the UN system. In particular, he had mentioned that he had not had early access to the background papers prepared for the WDR. The discussion of the Bank's relationship with the UN had to be raised to the management level in order to get policy guidance for this work. At present the Bank did not have any significant policy representation in UN fora. Mr. Haq said that he would like to serve in a liaison capacity to the UN's Committee on Development Planning and the ACC Task Force. The former had to plan for the next development decade but had not yet got into substantive issues. The latter covered the same issues but was organizing the agencies' input for the next development decade. The Bank could begin to influence the direction of that work through a more active policy participation.

Mr. McNamara said that the Bank should avoid a disparate level of representation. In the past, although these meetings were attended by high-level officials of the UN agencies, Bank officials at the policy level did not participate. Bank representatives such as Wouter Tims or Hicks were not manipulators. The U.S. committed the same mistake of not providing policy input into the UN institutions.

Mr. Chenery enquired about which part of the UN to focus on. Mr. Stern said that the Bank was really not tied into the UN system. Mr. Boskey should develop a system to improve contacts at the policy level, e.g., to coordinate policy work with ILO, UNESCO and FAO on problems of the year 2000 in order to influence the underlying philosophy.

Mr. McNamara said that Mr. Haq should be the key contact person with the UN system. The work program should be developed and this group should meet again before the end of the year in order to review progress.

Mr. Haq could subcontract to other departments in the Bank, for example to Mr. Habte on UNESCO. Mr. Chenery suggested that a more thorough and systematic back-to-office reporting system should be instituted on such meetings.

CKW
October 16, 1978

792/3/67

OFFICE OF THE PRESIDENT

Meeting with African and Arab EDs (continued) on African and Arab Staff in the Bank, September 18, 1978

Present: Messrs. McNamara, El-Naggar, Khelif, Thahane, Razafindrabe, Madinga, Kalfan, Chadenet, RClarke

YP Program

Mr. McNamara emphasized again that management would like to increase the number of African and Arab staff. The Bank was not getting sufficient applications and he would like to ask the EDs to assist the Bank with recruitment efforts. Mr. Clarke reported on the YP Program's efforts to recruit Africans and Arabs. A higher percentage of Arab and African applicants were interviewed than was the case for other nationals. Mr. El-Naggar said that he had doubts as to the significance of these statistics. The fact was that no Arabs and Africans were recruited and that Part II YP recruitments were heavily weighted towards Latin Americans and Asians. Mr. Razafindrabe said that he needed an assurance that the Bank was ready to recruit an X number of Africans and Arabs. Mr. McNamara replied that he could not give quotas because maintaining a high level of competence of staff was the most important criterion. However, the Bank should broaden its appeal to potential applicants. Mr. Clarke observed that it would be helpful if EDs could provide lists of students of their countries at universities in the U.S. and other OECD countries.

Recruitment and Promotion of Africans at Higher Levels

Mr. Razafindrabe said that it would be helpful if Mr. McNamara could indicate the time frame for recruiting and promoting more Africans to more senior positions in the Bank. Mr. Clarke reported that 2-3 out of 11 M Level Africans could be expected to be promoted to Division Chiefs over the next year, provided that vacancies were available. Mr. McNamara said that he had decided to create five special positions for Africans and Arabs at the K, L and M Levels. These positions would be assigned to the Personnel Department and be available to operational departments in the Bank. They would be filled by promising candidates who had not yet acquired sufficient experience to be recruited by those operational departments into regular slots. Staff in these special positions would graduate into regular positions after one year's time.

Mr. El-Naggar said that applications for employment were frequently handled in an unsatisfactory way by the Personnel Officers of the Bank. He gave the example of a letter sent to a senior applicant which had stated that the applicant was too senior for a junior position on the one hand but that the Bank used to promote staff from within into the available senior positions. Mr. McNamara asked Mr. El-Naggar for a copy of this letter.

Mr. Razafindrabe said that there was a certain amount of malaise among African staff because they felt that they were not promoted adequately. Mr. McNamara said that these complaints should be investigated more thoroughly.

CKW
October 3, 1978

792/3/66

OFFICE OF THE PRESIDENT

Meeting with African and Arab Executive Directors, September 14, 1978

Present: Messrs. McNamara, El-Naggar, Khelif, Madinga, Razafindrabe, and Thahane.

Mr. Thahane said that they would like to discuss three issues with Mr. McNamara before the Annual Meetings: 1) IDA VI and U.S. Action on IDA V; 2) the future role of the Bank, particularly required action on the general capital increase; and 3) the employment of Africans and Arabs by the Bank, namely both progress of recruitment at senior levels and upward mobility within the institution.

With regard to IDA VI, Mr. McNamara said that he would emphasize in his Governors' speech that a replenishment was needed which allowed for a substantial increase in real terms. He hoped that the African and Arab Governors would stress the need for prompt negotiations and also point to the fact that IDA was the principal source of external finance for the poorest countries and was directed at the poorest people within those countries. Such statement by Part II Governors would counter the frequent criticism in some developed countries that through IDA the poor in the developed world supported the rich in the poor world. Negotiations on IDA VI had to start before the end of the year and had to be completed in time to permit legislative approval before July 1, 1980. That implied that negotiations would have to be completed by July 1979. As to the required action of the U.S. Congress on IDA V and IV, some progress had been achieved lately. The House had passed an IDA appropriation of $1,221 million which left $329 million of IDA IV unappropriated. Amendments prohibiting indirect aid to Cuba and Vietnam and instructing the U.S. ED to vote against loans for certain commodities had been introduced. The Senate Subcommittee on Appropriations had just raised the appropriation level to $1,300 million and deleted the Cuba and Vietnam amendments. The Senate vote would take place only after the Annual Meeting and the bill would then have to go to conference.

With regard to the IBRD general capital increase, Mr. McNamara said that the delays had not yet resulted in any serious penalty. However he would point out in his speech that unless agreement was reached before the end of the year the Bank would have to cut its lending levels for the next years; e.g. for FY80 from $7.6 billion to $6.0 billion. A constant lending level could be maintained at about $6 billion in current dollars. It was important that the Governors pointed to these facts in their public statements. A consensus on a 5% annual lending growth in real terms would translate into a $30-40 billion general capital increase. Mr. El-Naggar said that the Part II Governors should adhere to the figure of a $40 billion increase. Mr. McNamara agreed. Once the bill would be passed, the U.S. Treasury could start talking to the Hill about the capital increase. The Staff Compensation issue would certainly be raised in this context. A member of Congress had recenlty commented to him: "You will have the highest-paid smallest bank in the world". On the other hand, human rights had become a dead issue with regard to the capital increase.

As to the employment of Africans and Arabs, Mr. McNamara said that the Bank was anxious to have these nationals in increasing numbers. However, the small number of experienced senior Africans were in high demand by their governments and the private sector, and the Arab countries were paying much higher salaries than the Bank for experienced nationals of their countries. Last year the Bank had made four offers to senior Africans and all had refused for different reasons. He suggested a meeting early next week on this issue with Messrs. Chadenet and Clarke participating in order to review the figures and recent progress in this field. Two issues had to be addressed: 1) Does the Bank treat black Africans fairly and assisted them to advance in the institution? 2) Does the Bank recruit enough Africans and Arabs, and which were the problems encountered. Mr. El-Naggar said that the fact that Arab institutions call on the Bank reservoir of middle-level staff should not prevent the Bank from recruiting senior Arabs into Director and Vice President positions. Also, the YP Program did not perform satisfactorily in recruiting Part II nationals, resulting in the present structure being maintained over the next 15 to 20 years. The Program should provide an opportunity for training young Africans and Arabs within the institution. Mr. Thahane added that a more extensive use of fixed-term appointments for African and Arab nationals should be explored. Mr. McNamara said that, based on recent figures, these issues should be discussed in detail at next Monday's meeting.

CKW
September 15, 1978

792/3/65

OFFICE OF THE PRESIDENT

Meeting on WDRII, on September 14, 1978

Present: Messrs. McNamara, Chenery, Clark, Stern, Karaosmanoglu, Acharya.

The meeting discussed a memorandum by Mr. Chenery on Technical Discussions of the World Development Report, dated September 14. As to initial reactions to WDRI, Mr. McNamara said that he was not interested in Mr. Streeten's views as expressed in Attachment I, but would like to receive a list of names of some 20 development economists with policy-oriented minds which Mr. Chenery would contact in order to have their comments. He asked Mr. Chenery to prepare such a list and to have initial reactions tabulated for the next meeting on October 19.

The meeting then discussed alternative chapter structures for WDRII as proposed by Mr. Acharya in his memorandum of September 12. Mr. McNamara said he favored Option B. However under B one had to decide whether to start with international policy issues or prospects for the future. All future reports should begin with an evaluation of last year's performance and projections for future years. The WDRI had been a very successful beginning in directing the world's attention once a year to progress, prospects, and problems of development. Mr. Stern said that the next report could cover the years 1976 and 1977 and include projections up to 1990. WDRI used only 1975 figures. Mr. Chenery said that the WDR should not do a Fund-like updating of short-term indicators but should rather focus on leading indicators for long-term growth. Mr. McNamara agreed.

Mr. Clark reported that the NIEO group was falling apart. Mr. McNamara said that this was due to the fact that the NIEO label had been attached to a vacuum; it should be attached to important subjects, e.g. trade, financial intermediation and ODA. Mr. Stern said that work on a NIEO should focus on future problems, namely (i) assuring a fair share of future trade for LDCs; (ii) getting LDCs into the marketing processes for their products, i.e. into commercial intermediation; and (iii) assure a satisfactory financial intermediation. In order to work on these issues the NIEO group needed a technical secretariat. Mr. McNamara agreed; an International Brookings Institution, i.e. an intellectualizing staff was required. Mr. Clark said that the g-77 had no technical group corresponding to the OECD Secretariat because the technical capacity of UNCTAD had gone downhill. Mr. McNamara said that he was concerned about the issues raised by Mr. Ripert in his recent conversation with Mrs. Boskey. The Bank had to establish a good relationship with his group. Mr. Stern suggested that, as part of the WDR work, the Bank had to establish close contacts with the UN specialized agencies, specially the ILO.

Mr. McNamara said that the next meeting would discuss the indicators and the list of WDRI follow-up meetings with development economists. He agreed with Mr. Karaosmanoglu's point that planning for WDRIII should commence before the end of the year.

CKW
September 18, 1978

792/3/64

OFFICE OF THE PRESIDENT

Meeting on Governors' Speech, July 24, 1978

Present: Messrs. McNamara, Chenery, Damry, Broches, Clarke, Haq, Wood, Maddux

Mr. Chenery commented that the topics covered were the right ones. The section on trade was strong and novel but contained too much detail, it required some editing. The section on the Bank's program could be strengthened and integrated with the poverty section. It should be emphasized that the Bank was addressing poverty by (i) redirecting IDA to the poorest countries and (ii) carrying out new-style projects. It should be stated that ODA needed to be shifted towards the poorest nations. Finally, it should be made clear that the growth projections on agriculture were optimistic. Mr. McNamara agreed that the point be made that, in contrast to IDA, only 40% of ODA went to the poorest countries. One should point to this political reality which was immutable. He referred to the examples of Saudi Arabian aid for Egypt and France's support for the West African countries. He asked Mr. Chenery to draft a few paragraphs for the absolute poverty section.

Mr. Cargill commented that Mr. Ramphal's criticism had to be taken care of. The speech should state that the WDR was actually quite optimistic in its assumptions and projections. Mr. McNamara said that, if one took the projections as the probable developments, the 600 million absolute poor by the end of the century revealed a shocking extent of poverty. However, what could be said if governments did not even agree on the objectives and much less on action?

Mr. Cargill suggested that, if the Tokyo round turned out to be successful, this was not an opportune time for criticism. Mr. McNamara replied that the lack of participation of LDCs in the Tokyo round would result in a lack of significant improvement for LDCs. Mr. Strauss was referring to progress vis-a-vis the EC. The LDCs had to organize themselves; there was no statement as to what they would view as a favorable outcome of the Tokyo round. He would check this point with Messrs. Balassa and Keesing.

In referring to Mr. Wood's comments on the speech, Mr. McNamara asked Mr. Wood to redraft the section on maturities of foreign debt and the role of commercial banks.

Mr. Haq commented that the speech had now abandoned the concept of interdependence. Mr. McNamara replied that the speech emphasized the concept of mutual interest. Mr. Haq said that there should be more reference to interdependence in food and energy. To meet the projections of the speech certainly required a substantial effort on the part of the LDCs. However, he doubted that they required an equal effort on the part of the MDCs. Also, the speech retreated behind the targets set by former speeches; e.g. the 1976 speech had called for elimination of remaining trade barriers. This would make the statement vulnerable to LDC criticism. The targets should be presented as a two-step policy; namely, first to arrest the present trends of protectionism and, second, to go beyond this by eliminating remaining trade barriers. This would prevent the argument that the statements of this year's Governors' speech constituted a retreat from previous speeches. Mr. McNamara agreed. However, it had to be recognized that a definite step back had occurred and that the danger of protectionism had increased. Mr. Haq agreed with the statements of reciprocity. However, one had to allow for protection of infant industry. The Tokyo round had already accepted the principle of non-reciprocity for developing countries. With regard to the absolute poverty section, he argued that the objective of eliminating poverty had come through more forcefully in earlier speeches. The earlier proposal of a "global compact" should be repeated.

Mr. Broches enquired whether the speech should not contain a stronger statement on the required action on IDA and the IBRD capital increase. Mr. McNamara agreed that this might turn out to be necessary; if there was no Congressional action by September, it would have to be stated that by August 31 the largest source of concession aid went out of business.

Mr. McNamara asked Mr. Cargill to initiate work on the development of more usable data on private capital flows. In about two weeks, he would have another draft of the speech ready for review.

CKW
August 2, 1978

7 92/3/63

MEMORANDUM FOR THE RECORD

Meeting on the Governors' Speech 1978, July 21, 1978

Present: Messrs. McNamara, Cargill, Chenery, Broches, Clark, Damry, Haq and Wood.

Mr. McNamara handed copies of his draft of the annual speech to the attendees and asked them to give him their comments at a meeting to be scheduled for Monday, July 24 at 4:00 p.m. He explained that he had prepared this first draft based on contributions from Messrs. Haq and Wood and based on the WDR. His objective was to have his speech finalized three weeks from today; because of the time needed for translation and printing, no changes could be made after Labor day. The speech would stand independently from the WDR and it contained a section on the Bank which the WDR did not have.

Mr. Clark inquired whether the content of the speech would be communicated to the members of the Development Committee before the Development Committee met on September 23. This was important in view of Mr. Ramphal's harsh criticism of the WDR. Mr. McNamara explained that Mr. Ramphal had criticized the WDR for endorsing as desirable a totally unacceptable situation. He would follow past practice as to dissemination of the speech, i.e. a handful of Ministers would be informed in advance of the statements he would make. This year, he would be much more frank and critical of Germany, Japan, and the US with regard to their lack of action.

CKW
July 26, 1978

792/3/62

MEMORANDUM FOR THE RECORD

Meeting on Grace Periods and Final Maturities on IBRD Loans in FY78 and FY79, July 20, 1978

Present: Messrs. McNamara, Cargill, Wood and Bock.

The meeting discussed the draft memorandum to the Executive Directors on Grace Periods and Final Maturities on IBRD Loans in FY78 and FY79.

Mr. Cargill reported that Mr. Conesa had agreed to distributing the memorandum to the EDs on a no-objection basis. Mr. McNamara agreed with the proposed greater flexibility in the application of guidelines because, as the memorandum made clear, it did not cost much in terms of amounts of lending. It was agreed to circulate the memorandum to the Executive Directors on a no-objection basis.

CKW
July 26, 1978

MEMORANDUM FOR THE RECO

792/3/61

Meeting on Summit Communique on Energy, July 18, 1978

Present: Messrs. McNamara, Cargill, Stern, Baum, Rovani

The meeting discussed Bank actions to be taken following the declaration at the Bonn Summit Meeting of Heads of State which stated in paragraph 16: "We stress the need for improvement and coordination of assistance for developing countries in the energy field. We suggest that the World Bank explore ways in which its activities in this field can be made increasingly responsive to the needs of the developing countries, and to examine whether new approaches, particularly to financing hydrocarbon exploration would be useful."

Mr. McNamara said that the Bank, in view of the lack of technical and financial capacity in LDCs for hydrocarbon exploration, should examine further whether it had the expertise to assist LDCs in this field. He suggested the following approach. Mr. Stern would be charged with putting together a draft paper to the Board which would (a) refer to the Summit statement on the Bank's mandate; (b) contain all available information on exploration in developing countries on a country-by-country basis, and, to the extent that this information was not available, lay out the action needed for obtaining such information; and (c) in case the conclusion was drawn that exploration needs were not met, propose a plan of action.

Mr. Stern handed Mr. McNamara the paper prepared by Mr. Hindermeyer on Petroleum Exploration Activity in non-OPEC Developing Countries, dated July 10, 1978, which contained information on the status of exploration on a country-by-country basis. He agreed that it was necessary to put forward a thoroughly studied paper on exploration needs and bottlenecks in LDCs. If staff constraints permitted, the paper should be done rapidly while interest was still high. The amounts needed for exploration in LDCs were in the order of $500 million over 5 years and could probably be raised through voluntary contributions. Mr. Baum said that the Bank's position had been that exploration funds were needed but could not be financed through Bank loans because of the high risks involved. Mr. McNamara said that it might be possible to raise the needed amounts on an equity participation, revolving fund basis. The Bank might consider a 10% equity participation up to $50 million in such a fund. Mr. Rovani mentioned that the UN was now studying the possibility of such an exploration fund in preparation for the next General Assembly meeting.

Mr. McNamara said that the Board paper should be produced before the UNGA, i.e., by the second week of September, if this were feasible without staff working unreasonable hours. Mr. Rovani said that it was not possible to document the need for exploration work from the Bank inhouse knowledge and that outside views differed widely. Mr. McNamara replied that the paper should state this clearly. Mr. Rovani pointed to the manpower constraints faced by his Department. The energy work was seriously understaffed. The Bank had only 14 staff working on energy; only one or two staff members worked on energy policy versus 25 in AID. At present all resources were locked into projects work, although engagement in substantial preinvestment work was clearly needed. Mr. McNamara asked Mr. Rovani to put down his requirements and send him his request through P&B.

It was agreed that Messrs. Stern, Baum and Rovani would consider further the timing of the Board paper and then send a memo to Mr. McNamara.

CKW
July 19, 1978

MEMORANDUM FOR THE RECOR

792/3/60

Meeting on WDR II, July 14, 1978

Present: Messrs. McNamara, Chenery, Stern, Karaosmanoglu, Acharya

Mr. McNamara said that a more detailed timetable than the one submitted by Mr. Acharya should be developed which would include the dates of regular monthly meetings on WDR II as well as the different actions to be defined by the detailed work program. The work program should be developed by August 15 for the August 17 meeting and should (i) list the papers to be produced by subject, (ii) designate the core staff member responsible for the different papers, (iii) give the date by which first drafts and discussion drafts would be prepared and by which the discussion drafts would be sent to him, (iv) indicate in detail the different steps of the work on the economic models, and (v) lay out in detail the contribution to be made by the DPS and CPS units to the work on energy. The timetable should also include the follow-up meetings on WDR I which would be organized by Mr. Chenery and which would be of three types: (a) critique of WDR I with intellectual leaders, (b) technical seminars on the underlying assumptions and methodology used, etc., and (c) seminars with selected Bank staff. The latter meetings were important because he had frequently heard that DPS staff were critical of the entire WDR exercise.

Mr. McNamara asked for the following working papers to be developed: first, on capital flows, papers on (a) debt, (b) outlook for private commercial flows, and (c) factors influencing direct investment; and second, on trade, working papers on (a) the adjustment process in developed countries (a number of commentators had argued that WDR I dealt facilely with this issue), (b) trend of protectionism by country and product and its impact, and (c) potential trade expansion resulting from the dismantling of trade and non-trade barriers.

Mr. McNamara asked Mr. Clark to prepare an evaluation of the distribution and discussion of WDR I by November 1, 1978.

With respect to the outline of WDR II, Mr. McNamara suggested that each individual WDR should have a standard section which would restate what the previous report had projected on the development of LDCs and would then discuss the changes introduced in the projections as they related to growth and alleviation of poverty, as well as to the implications for ODA, trade, etc. Only after this section, the report would then deal with new items, such as transformation in MICs in the case of WDR II. This structure of the report should be maintained. Mr. Acharya objected that such a structure would lead to a report which resembled the earlier prospects paper. On international economic issues, such a yearly updating was justified; however, on poverty issues, not much new could be said on a year-by-year basis. Mr. Chenery suggested introducing a standardized annex for this purpose so that the report would not begin with a repetitious section. Mr. Karaosmanoglu said that a long introduction could contain such a standardized section. Mr. McNamara agreed that this was a possibility. Mr. Stern observed that such a section would not so much focus on numbers but rather on policy changes. Mr. McNamara agreed. This question involved a policy issue as to the purpose of WDR. He suggested that the purpose of the report should be to inform the world of (a) progress of LDCs, (b) the potential of LDCs, and (c) the actions required in order to use that potential. He asked Mr. Acharya to develop an alternative outline reflecting his suggestions on a standardized section. The section should deal with rates of growth, alleviation of poverty, trade, ODA and commercial capital flows.

Mr. Stern commented that the theme of transformation as put forward by the outline constituted a very broad subject and did not make very clear which policy issues the report would focus upon. Second, the information available on many of the issues suggested by the outline was very limited, e.g., on multinational corporations and technology transfer. Third, the possibilities for intra-LDC trade should be treated more extensively. Fourth, the urbanization section proposed a number of broad subjects, e.g., on spatial development; here the typology question was very important since these issues could not be dealt with globally.

Mr. McNamara said that the outline read like a textbook rather than an action stimulant. The proposal was not sufficiently action-oriented. He did not believe in the concept of technology transfer. He had never talked about the role of multinational corporations because there was so much theology and ignorance in this field. This subject required a technical note. Mr. Chenery said that, at this stage, policy issues should be identified. On controversial issues, e.g., multinational corporations, at minimum a survey of our knowledge had to be carried out. Mr. McNamara asked for the section on brain drain to be taken out.

Mr. Stern observed that the report would have to steer a course between on the one hand not getting locked into a single typology of countries, and on the other hand not applying a different typology for each subject. Development of a typology should be linked to the model. Mr. Chenery commented that his work had shown that the main factors were size and resource endowment of countries. Mr. Acharya said that the group of MICs would need to be broken down into primary producers and semi-industrialized countries.

Mr. McNamara said that the work program should contain a technical note on definition of absolute poverty. He was amazed by the Kravis figure of $363 per capita.

Mr. Stern said that a working group on data should look at the consistency of data feeding into indicators. Mr. McNamara agreed. He asked Mr. Chenery to organize work in the Bank on assuring data consistency. Mr. Chenery replied that he would submit a realistic statement of what could be done with the resources available in Mrs. Hughes' Department.

Finally, Mr. Stern urged insulating Mr. Acharya because he would otherwise soon be overwhelmed by administrative responsiblities.

CKW
July 19, 1978

MEMORANDUM FOR THE RECORD

792/3/59

Meeting on Board Discussion of WDR I, July 10, 1978

Present: Messrs. McNamara, Cargill, Damry, Stern, DCRao

Mr. Stern said that Mr. Rao and he had completed their rounds of EDs. On the whole, the reactions to the WDR were positive, with two exceptions: the French argued that trade policy was not the Bank's business and that inadequate credit had been given by the report to the efforts of developed countries in this area; however, they were not opposed to publication; and Mr. El-Naggar argued that for the first time the Bank had implicitly discarded the objective of closing the gap; the report should at least have contained cost estimates of relieving poverty by the year 2000. Messrs. Looijen, Magnussen, Drake, Thahane, Fried, Franco, Razafindrabe and Murayama were strongly in favor of publication. Three points were still at issue: (i) the British objection to the reference to a 5% real growth rate of Bank lending in coming years, mentioned on page 114; (ii) the French demand for a number of changes, particularly on protectionism; he had told Mr. Cassou that the Bank would be willing to make changes only in the case of errors of fact; and (iii) the gap point of Mr. El-Naggar, mentioned above.

Mr. McNamara said that he was willing to take out the reference to the 5% growth rate of Bank lending in order to meet the British objection. In the case of the Annual Report, he had deliberately stated to the Board that management could not publish it if some EDs opposed, because it was their Report. In contrast, management should take the opposite position on the WDR. It was a report by management which could be repudiated by a majority of the Board only if the report violated major principles of the institution or contained errors of fact. He asked Mr. Damry to ask three EDs to support such a statement at the end of the meeting. Possibly the issue would be raised whether publication should be delayed until the Development Committee had considered the report. Management should argue that this was an informational paper to the Board for the EDs to consider and to derive actions for the Bank. In response to a question by Mr. Stern, Mr. McNamara said that Sir Richard King should be invited to attend the Board discussion only if it was assured that he supported publication before the Development Committee discussion. Finally, he asked Mr. Stern for a list of changes made in the report.

CKW
July 14, 1978

MEMORANDUM FOR THE RECORD

792/3/58

Meeting on 1978 Governors' Speech, June 26, 1978

Present: Messrs. McNamara, Cargill, Gabriel, Wood

Mr. McNamara asked for suggestions for the Bank section of this year's Governors' speech. Mr. Cargill said that the speech should deal with the general capital increase, IDA VI and possibly IDAV. It should come out with a figure for the IDA VI replenishment. Mr. McNamara disagreed. The speech should refer only to the need for an appropriate increase of IDA VI in real terms. The Bank should then at the Annual Meeting have one of the finance ministers state the need for a 50%-60% increase in IDA VI over IDAV.

Mr. Wood suggested that the speech should deal with the Bank's supportive actions on cofinancing and should reflect the statements by the Board on the "presence of the Bank" in countries in terms of reasoned assessments of economic policy. Mr. McNamara concluded that the Bank section should deal with the following four points: (i) general capital increase, why and when; it should be stated that the agreement reached in principle on a Bank lending growth of 5% in real terms implied an increase of \$30-\$40 billion, and that formulation was required in the near future; (ii) IDA VI replenishment; this section should follow the format of three years ago; (iii) "Nairobi Revisited," i.e., the Bank's progress in carrying out new-style projects; it should be stated that these projects posed more serious problems in urban areas than they did in the rural sector; and (iv) outlook for the Bank's commitments and disbursements 1979-83. The speech should then deal with page 40 of the WDR. The Bank's role as a catalytic agent for intermediation with regard to capital flows should be stated. The speech should emphasize that capital flows would have to be closely monitored and further multilateral actions considered if the required flows were not forthcoming.

It was agreed that Mr. Wood would provide this draft section of the Governors' speech by July 11.

CKW
July 14, 1978

MEMORANDUM FOR THE RECC

792/3/57

Meeting on Allocation of IBRD and IDA Lending FY78-FY83, June 23, 1978

Present: Messrs. McNamara, Knapp, Cargill, Stern

Mr. Knapp said that only a few issues were left for today's allocation meeting. He planned to have the discussion deal with the different allocations in the following order (i) IBRD, (ii) IDAV, (iii) the overprogramming issue, and (iv) IDA VI. With regard to IBRD, the issues were (a) how high the Bank should go in high-income countries, particularly Romania, Yugoslavia and Portugal, and (b) how high the Bank should go in creditworthiness risk countries, e.g., Indonesia, Egypt and Tanzania. He was inclined to reduce slightly allocations to high-income countries and to adopt lower figures than proposed by the Regions for countries with creditworthiness risks.

Mr. McNamara said that there was no need to act on IDA VI now; IDA VI allocations should be left at present levels and be reconsidered a year from now. He was aiming at an IDA VI increase of 50%-60% in current US dollars which would imply a large increase in real terms. Mr. Cargill recommended keeping IDA VI for planning purposes at the IDAV level in real terms. He was not sure that the Bank would obtain more than that amount. As to high-income countries, he argued that the Bank should not reduce allocations if the funds could be absorbed productively and if no substitute funds were available. However, in the cases of Romania and Portugal, the Bank's contribution was not substantial and allocations should be held down.

Finally, with respect to countries with creditworthiness risks, Mr. McNamara said that the proposed changes in amounts were only very marginal and did therefore not really deal with the problem. If serious problems of creditworthiness arose in these countries, then the entire program would have to be cut. One should look instead at the absorptive capacity of these countries; e.g., Indonesia clearly needed more resources. Mr. Cargill agreed that the Bank operated at the margin with respect to creditworthiness. However, there were a number of serious risk countries, e.g., Turkey, which worried him. Mr. McNamara said that he was prepared to lend to Turkey, if the Government addressed the fundamental issues. He enquired whether the Bank should not introduce a more formal approach to conditionality, i.e., clearly determining the specific policy issues which had to be addressed in order to ensure Government action. The growing size of the Bank resulted in increased leverage; also, there was wider acceptance now than 10 years ago that international institutions should exert leverage.

The meeting then reviewed and revised the country allocations proposed by the Regions, PPR and P&B. In particular, the cases of Yugoslavia, Romania, Portugal, Indonesia, Ethiopia, Zaire, Egypt and Vietnam were considered. In the case of Vietnam, it was decided to take the per capita figure for large IDA countries and apply it to the country. It should be argued that the Bank had no experience in working with Vietnam and would therefore face problems on conditionality and in its macroeconomic policy work. Further, it was agreed not to consider the Philippines, Thailand and Bolivia for IDA VI allocations.

CKW
July 19, 1978

792/3/56

MEMORANDUM FOR THE RECORD

Meeting on Mr. McNamara's Luncheon with the Congressional Agriculture Committee, June 23, 1978

Present: Messrs. McNamara, Fried, Dixon

The meeting discussed the briefing material which had been put together in preparation for Mr. McNamara's luncheon with the Agriculture Committee of the U.S. Congress.

Mr. Fried said that the point should be made that the Bank had financed an amount of $3.5 billion for small farmers in low-income countries; most of these loans had been for rural development. A drop in Bank financing would reduce basic consumption in those countries and not U.S. imports from those countries. Mr. Dixon said that the only possible non-agriculture question would be on human rights.

Mr. Fried reported that a count on the Foreign Aid Appropriations Bill showed that, at this point, the Bill would lose by 56 votes on money and amendments. Mr. McNamara said that the recent Reston article and the Washington Post editorial on the Bank were very good. He asked whether he should go on a "Today" show, making clear to the audience that the Bank would collapse if the Bill were not passed. Mr. Fried said that an appearance on the "Today" show would be most useful. Mr. McNamara should take the line that the Bank had been most successful, that it faced no problems in any other country, that the other countries contributed 70% of Bank resources, and that he, as a U.S. citizen, would urge the voters to influence their Congressmen. Otherwise, the Bank programs might well collapse.

CKW
July 17, 1978

MEMORANDUM FOR THE RECORD

792/3/55

Meeting with Mr. Howard Wriggins, U.S. Ambassador to Sri Lanka, June 21, 1978

Present: Mr. McNamara, Ambassador Wriggins

Ambassador Wriggins said that Mr. Hopper's recent visit to Sri Lanka had been very successful. There had been a good coincidence with the IMF action. He was surprised that the Paris meeting went so well. The new Government tried to move the country from an Eastern European model of development towards the Singapore model; a large number of light-industry projects was being executed. The country had produced the best rice crop ever. Also, the production of cash-crops, such as tobacco, onions and chile, was promising. He hoped that Mr. McNamara would visit Sri Lanka in connection with his visit to India in early October. It would help the Government enormously. The Prime Minister was constrained in his development efforts by the Tamil radical and violent movement. The Government was working on balancing racial relationships along the lines Malaysia followed.

Mr. McNamara said that he had the impression of the new Government dispensing with ideology and, based on the social advance of the past, building a sound economic development program. There had been many disincentives to agriculture in the past; however, the new price system introduced by the new Government was more favorable. He would try to visit the country after his visit to India, if this were considered useful by the Government.

CKW
July 18, 1978

MEMORANDUM FOR THE RECORD

792/3/54

Meeting on FY78 Governors' Speech, June 21, 1978

Present: Messrs. McNamara, Stern, DCRao

Mr. Stern commented that Mr. Rao's draft outline constituted a reasonable set of messages. Mr. McNamara complimented Mr. Rao for a great job in a limited period of time. The draft speech should use country-specific illustrations on trade, since barriers were very subtle. It should stress the catalyzation of action to expand portfolios and the need of government assistance through the IFIs or through new programs in order to facilitate the intermediation process. The table on page 40 of the WDR should be included in the speech. With regard to the role of the Bank, IDA VI should be mentioned. The Bank's specific sections would be obtained from a different author. It was agreed that Mr. Rao would produce a draft version of the speech by June 29.

CKW
July 13, 1978

MEMORANDUM FOR THE RECORD

792/3/53

Follow-up Meeting on Board Discussion of Budget and Liquidity, 6/20, 1978

Present: Messrs. McNamara, Knapp, Cargill, Broches, Damry, Gabriel, Stern, Wood, Bock

Mr. McNamara asked (i) Messrs. Damry and Gabriel to publish the revised Interim Plan during the week after next; the Plan should be reviewed with him next week, and would consist essentially of Table 1 attached to the budget document; (ii) Mr. Gabriel to talk to Mr. Cassou about the questions the French chair had raised during the meeting; Mr. Cassou had been insulting; and (iii) Mr. Gabriel to review with Mr. Chadenet the statements of Mr. Magnussen on excessive demands on staff; the transcript of Mr. Magnussen's statement should be distributed to PC and the matter be discussed at next Monday's PC meeting.

Mr. Cargill said that he had heard complaints about undue pressures--generated at the end of the fiscal year--changing the conduct of loan negotiations in undesirable ways. Mr. Stern said that Mr. Magnussen had stated nothing new and had received his views from staff. Obviously, bunching was also reflected in staff workloads. Mr. Damry said that it was new to raise this issue in the context of commitment levels. Mr. Stern said that Mr. Magnussen had emphasized that he had no evidence of excessive demands on staff, but, even if there were no undue pressures, there certainly was a communication gap. Mr. McNamara said that, if there were a processing bottleneck, the conclusion should be to hire more staff rather than cutting commitment levels. The RVPs had stated to him that they were satisfied with the program; it was their program and not imposed by senior management. The PC would have to address the two points made by Mr. Magnussen, namely, that (i) work was done improperly, and (ii) staff was unfairly pressured.

CKW
July 18, 1978

792/3/52

MEMORANDUM FOR THE RECORD

Meetings in Preparation of Board Discussion on FY78 Budget and Liquidity, June 19 & 20

Present: Mr. McNamara, Knapp, Cargill, Stern, Rotberg, Gabriel, Vergin, Damry, Wood, Bock, and Messrs. Chadenet and RClarke at the 6/20 meeting only

June 19

Disbursement

In reviewing the 1978 disbursement shortfalls and the projected shortfalls for FY79, the meeting discussed P&B's disbursement methodology. Mr. McNamara said that management created problems with the Board on this issue by setting wrong expectations in the first place. The Bank's projections had not been based on any sophisticated methodology and the Bank had not experienced any catastrophic shortfalls in disbursements. In response to questions by the Board, (a) it should be stated that disbursement levels were 10% below the standard pattern on historically experienced levels for this year and 7% for next year; (b) reasons for the 10% shortfall this year should be given; and (c) it should be argued that there was no reason to reduce commitment levels. He asked Mr. Bock to figure out whether, from a methodology point of view, there was justification in giving the Board the actual shortfall versus the standard disbursement pattern, and to check whether IDA figures were comparable to IBRD figures for FY78 and FY79.

Mr. Wood reported on the disbursement performance of other donors. There were considerable shortfalls in the case of U.S. ExImBank, the bilateral aid programs of Japan, Germany and the U.S., and the regional banks. According to DAC speculations, both the poor administrative capacity in LDCs and shortage of local funds in LDCs accounted for these shortfalls. Mr. McNamara agreed that a number of LDCs, e.g., Mexico and Turkey, seemed to have been slowing up projects because of budget deficits. Mr. Stern said that there had been a significant drop in real levels of investment in LDCs; the situation should improve with the general recovery process. Also, in the past 3-4 years, there had been a tremendous burst in international liquidity. Many LDCs had a diversity of foreign exchange resources at their disposal. This affected Bank disbursements. Mr. McNamara concluded that it should be argued that (a) many if not most LDCs had been slowing up their investment programs, (b) Bank projects suffered least from this because of project covenants and Bank pressure, (c) a gradual shift back towards more normal investment patterns was taking place, and (d) other programs would probably improve faster than Bank programs because the former had suffered more; this would explain the 7% projected shortfall for FY79. He urged P&B not to overestimate next year's disbursement levels.

With regard to action to be taken, Mr. McNamara asked Mr. Cargill to assume responsibility for further analysis to be carried out on the disbursement problem. Management should consider (i) special analyses to be carried out by a special team on a country-by-country basis, focussing on important projects, etc., and (ii) field visits by a special team of senior staff which would discuss the results with the more important countries. Mr. Stern observed that the Bank lacked insight into how its aid programs related to changes in the countries' investment programs. The linkages to country economic conditions had to be established. Two questions needed to be disentangled: (a) whether the Bank's performance had deteriorated, and (b) how country economic conditions affected disbursements.

Commitments

Mr. McNamara said that the likely arguments against the proposed commitment level would be (a) poor disbursement performance, (b) excessive concentration of lending in high-income countries, (c) uncertainty of the capital increase, and (d) limited absorptive capacity of LDCs. As to (c), the steady state commitment level after the selective increase, assuming a $6.8 billion FY79 program, would be $6.3 billion, i.e., there would be no dramatic reduction in commitments if a general capital increase were never achieved. As to (d), the expansion of commercial bank lending clearly indicated that there was no lack of absorptive capacity. The Bank could not justify reduced commitment targets at a time when different fora discussed the need for increased capital flows and a shifting balance of private versus public flows.

Exchange Rate Risk

With regard to possibilities of pooling the exchange rate risk among borrowers, Mr. McNamara said that the discussion should await a paper to be prepared for the Board.

Borrowing and Liquidity

Mr. McNamara said that the paper on the cost and benefits of borrowing $4.3 billion in FY79 should be distributed to the EDs today as Technical Note #1. Management was in a weak position in terms of justifying the $4.3 billion borrowing program because it had developed a new procedure for calculating liquidity costs without applying it. Mr. Rotberg should go ahead with a $4.3 billion borrowing program, borrowing in foreign currencies and concentrating borrowings over the next few months. Although the logic for this decision could be demonstrated, political problems would remain.

Bunching

Mr. McNamara said that, with respect to bunching, two points had to be re-examined: (i) the plans for reducing bunching levels; it was unsatisfactory to reach 40% only by 1982; and (ii) the proposed pipeline figures of 130% by 1982 were probably too high and implied too high a safety factor.

Grade Creep

Mr. McNamara asked Mr. Gabriel to have Messrs. Chadenet and Kearns examine Annex Table II on grade creep and the cost per average professional manyear today versus past years.

Cofinancing

Mr. McNamara asked Mr. Gabriel to calculate the additional amounts flowing to LDCs through Bank cofinancing efforts, assuming that none of the Bank resources dropped out in the process. Also, it should be calculated how much additional work had been carried out for cofinancing. Finally, he said that a pamphlet should be written during the next year describing the budget process. The full integration of the budget review process could now be completed.

June 20

The meeting discussed the grade creep issue. Mr. McNamara concluded that Messrs. Chadenet and Clarke had apparently effectively controlled grade creep.

On cofinancing, it was concluded that 30 projects were added in 1978 and the budget had been increased by about $7 million because of cofinancing activities. Mr. McNamara said that the Bank should consider a charge to commercial banks in the case of large cofinancings.

Mr. Gabriel said that, with regard to local-cost financing, IBRD was doing less and IDA was doing more than in the past.

CKW
July 18, 1978

MEMORANDUM FOR THE RECORD

792/3/51

Meeting on 1978 Governors' Speech, June 19, 1978

Present: Messrs. McNamara, Chenery, Stern, Haq, Clark, Maddux

The meeting discussed Mr. Haq's draft of the Governors' speech.

Mr. Stern commented that (i) he did not fully understand the description of interdependence; the concept had been overstated by the paper and its relationship to equality had conceptually not been handled convincingly; (ii) the major problems posed by the evolution of the private capital markets had not been dealt with at all; and (iii) he had great difficulty with the proposed global plan of action which had no foundation whatsoever. Mr. Chenery said that the strong areas of analysis of the WDR were (a) poverty in South Asia and sub-Saharan Africa, and (b) trade and related issues of protectionism. He had thought that the draft would build on this strength. Interdependence was a good framework but empty as a general slogan; it needed to be related to concrete action. Also, he would have stayed away from the basic needs concept. He concluded that he was generally disappointed with the draft. Mr. Clark commented that the concepts of equality and interdependence were not treated convincingly.

Mr. McNamara asked for the draft to be rewritten within the next week. On interdependence, it should be stated that the effects of national policy decisions were transferred to a larger extent than in the past. The concepts of equality and interdependence should be delinked. Trade and capital transfer should be emphasized. The paper should dispense with the global plan of action of the first draft. With regard to the organization of the speech, the first section should build on the analysis of the WDR, the second part should point to the required action on trade and capital flows, and the third section should deal with the role of the Bank in terms of accelerating growth and alleviating poverty.

Mr. Chenery said that interdependence was a dangerous concept because, in the case of many countries, it led only to increased vulnerability (e.g., to price swings). It was a meaningless concept without better conceptualization. Mr. Haq said that interdependence should be related to equality because LDCs might otherwise think that the concept of interdependence established the status quo, i.e., continued dependence. Mr. Stern said that equality was not a separable objective; the NICs became more equal in areas where interdependence operated. Mr. Haq said that, in the case of the poorest countries, however, there was little interdependence and little equality; the G77 should be prevented from saying that interdependence had now become a substitute for NIEO. Mr. Stern replied that, unless productivity in the poorest countries was increased, neither interdependence nor equality could be increased.

Mr. McNamara asked (a) Mr. Chenery to write 3-4 pages on interdependence by Wednesday noon, and (b) Mr. Haq to redraft the speech within the next week. He should make greater use of, but lesser reference to, the WDR.

CKW
July 14, 1978

MEMORANDUM FOR THE RECORD

7012/3/50

Meeting on Cost of Liquidity Paper, June 15, 1978

Present: Messrs. McNamara, Rotberg, Gabriel, Wood, Bock

The meeting did a line-by-line review of the paper. Mr. McNamara said that a careful course had to be steered between errors of underestimating and overestimating cost of carrying liquidity. With regard to the level of liquidity, it should be emphasized that the Bank's borrowings had to be sold on the grounds of the Bank's performance on (a) liquidity, (b) income, and (c) the fact that no rescheduling or defaults on Bank loans had ever occurred. It should be pointed out that a borrowing program of some $6 billion in the private market year after year had never been accomplished before by non-government organizations.

Mr. Rotberg said that Mr. Janssen felt that the 40% liquidity level was not sufficient. Mr. McNamara said that Mr. Janssen believed the German banks were on the line. However, the Bank's spreads in Germany were better than in the U.S. and benefitted the institution. He concluded that he was now confident of getting the $4.3 billion borrowing program for FY79 approved by the Board. Its detailed composition would now have to be developed.

CKW
July 18, 1978

MEMORANDUM FOR THE RECORD

792/3/49

Meeting on FY79 Borrowing Program, June 3, 1978

Present: Messrs. McNamara, Cargill, Gabriel, Rotberg, Wood, Bock

Mr. McNamara explained to Mr. Rotberg the two concepts adopted for calculating the cost of liquidity, namely, (i) accounted cost to the institution, and (ii) financial cost to the system. The problem remained as to how to quantify the latter. In theory, the incremental borrowing could be done in U.S. dollars and be kept in U.S. dollars, or be borrowed in other currencies because this would be expected to have a lower system cost. He suggested that the maximum cost would result from incremental borrowing and holding in dollars, i.e., quantification of the cost would show that non-dollar incremental borrowing would result in a lower system cost and would therefore be justified on those grounds. In addition, the impact of the time dimension factor or cost would have to be considered, i.e., the cost of incremental borrowing carried out today vs. some future date. The total borrowing for FY79 would have to be decided today. The proposed $4.3 billion level was $1.8 billion over the 40% liquidity level.

After discussing these concepts and the methodology, the meeting reviewed the list of borrowings as proposed by Mr. Rotberg and decided on the borrowings to be carried out over the next few months.

Mr. McNamara concluded that he was leaning towards a $4.3 billion FY79 borrowing target, that further work was needed on alternative compositions of the program, that the meeting had decided only on those borrowings which needed action now and left flexibility wherever possible, and that the decisions taken assured that Mr. Rotberg would not experience difficulty with regard to standing commitments.

Mr. Cargill said that management had begun consideration of long-term borrowing prospects. Possibly a premium was justified in terms of present borrowing versus future borrowing in view of the Bank's potential problems to finance its dramatically increased lending program between 1980 and 1987.

CKW
July 18, 1978

MEMORANDUM FOR THE RECORD

792/3/47

Meeting on FY79 Borrowing Program, May 31, 1978

Present: Messrs. McNamara, Knapp, Cargill, Gabriel

Mr. McNamara said that management was in no position to get Board approval for a specific borrowing program before agreeing on the level of total borrowing; on this in turn there would be no agreement before the issue of cost of liquidity was addressed. As a foundation for the individual borrowing program, a borrowing program paper had to be written and to be discussed before the end of the week. He was much more comfortable to determine the currency of borrowing on a break-even and interest rate projection basis than on the new cost to the system basis. This new approach required the prediction by currency of exchange rate changes, interest rates changes and earnings. He was not certain that the method of calculation was already refined enough to determine the level of borrowing and its composition. The Bank probably should undertake some borrowing in July but keep its flexibility to change the composition of the program later.

Mr. Cargill said that, under Mr. Rotberg's proposed borrowing program, the Bank would have committed itself by the end of August. Management needed approval of the borrowing program in principle by mid-July. Under the new approach, sensitivity analyses would become an important tool.

Mr. McNamara emphasized that the primary consideration of the Bank was to transfer resources to LDCs at a level which would come close to an optimum transfer, to develop sound projects and to provide economic advice. He would not reduce the insurance of high liquidity and satisfactory earnings if the cost of maintaining such an insurance remained reasonable.

CKW
June 2, 1978

MEMORANDUM FOR THE RECORD

7912/3/48

Meeting on Termination of Tourism Lending, May 31, 1978

Present: Messrs. McNamara, Knapp, Cargill, Damry, Stern

Mr. Damry reported that, as of yesterday, his vote count indicated a majority of 67.4% for termination; Messrs. Fried (23.9%), de Groote (3.6%), Aburn (3%), Iwasaki (3.7%), Janssen (4.9%), Khelif (3.1%), Looijen (4.6%), Magnussen (3.9%), Deare (9.2%), Narasimham (4.1%), and Thahane (3.4%), would support management's view. However, since yesterday, intensive lobbying had taken place and it was possible that only 48% of the votes would be cast for management's proposal. Mr. El-Naggar would probably ask for a vote to be taken. Mr. McNamara said that, in view of the fact that violent opposition would be voiced by the LDCs and in particular by Messrs. El-Naggar and Franco, it would be difficult for him to state that he sensed a consensus in the opposite direction. Mr. Stern said that management faced these problems because it did not put the cards on the table, explaining that tourism project performance had not been good and that the pipeline was weak. Mr. McNamara agreed. The Bank had not made an effective contribution to development through its tourism lending. In 10 years, there had only been 18 projects in 14 countries with an amount of $300 million.

Mr. Damry suggested putting the discussion of management's proposal into Executive Session in order to lay these facts on the table. Mr. McNamara agreed.

CKW
June 2, 1978

MEMORANDUM FOR THE REC

792/3/46

Meeting of Steering Group on Compensation, May 30, 1978

Present: Messrs. McNamara, Knapp, Broches, Cargill, Chadenet, Chenery, Damry, Gabriel, Stern, RClarke, Sommers

Mr. Chadenet reported on his discussions with the Kafka Subcommittee on management's proposal that Hewitt should extend its work downstream and arrive at recommendations on the compensation of professional and non-professional staff. Initially, the response of the majority of the Subcommittee members had been negative. However, he had received support from the Chairman and Mr. Wahl and it had finally been decided to ask Hewitt for this additional work.

The meeting then reviewed issue paper Number 1 on support staff. It was agreed that the various issue papers produced for the Steering Group should be regarded as internal documents which, after discussion and agreement within the group, would provide the background for formulating management's views on over-all compensation issues when the survey data became available. The Steering Group would be advised before any issue paper was released to the Kafka Committee. The views expressed in the issues papers might obviously be changed during the iteration process of the Steering Group's deliberations.

Mr. McNamara said that he agreed with the conclusions of the paper, except for the dichotomy in calculating gross salaries. Under the present system, gross salaries were reduced to an after-tax equivalent by the average deductions approach but were then grossed-up for U.S. nationals on the standard deduction basis for tax reimbursement purposes. This practice could not be continued. As to his technical comments, he said that para 3 should mention outside income as a third factor affecting total tax burden. He asked Mr. Chadenet to involve Arthur Anderson in a review of the tax issues addressed by the paper. Arthur Anderson should be asked (i) whether--on the assumption that the average deductions hitherto used are those applicable to U.S. taxpayers generally at the particular income level, regardless of whether income is earned or unearned--it would be possible to derive from IRS statistics the average deductions applicable to earned income alone and, if so, would there be any significant difference; (ii) to advise whether it was necessary and, if so, feasible to devise some method of overcoming the two-year lag involved in applying the latest IRS statistics to a current situation; and (iii) to advise whether the average deductions approach outlined in the issue paper was appropriate for the purpose indicated.

In view of his forthcoming trip to Japan, Mr. McNamara asked Mr. Knapp to chair the next two meetings of the Steering Group which would deal with the issues of Social Security and benefits of expatriate support staff.

CKW
June 2, 1978

MEMORANDUM FOR THE RECORD

792/3/45

Tourism Lending and Cofinancing, May 26, 1978

Present: Messrs. McNamara, Knapp, Cargill, Damry, Stern

Tourism

Mr. Damry reported that the U.S., the UK and Messrs. Looijen, Magnussen, Narasimhan, Thahane would vote for management's proposel. Mr. McNamara said that it would be important to emphasize that the Bank was maintaining its capacity to conduct sector work and to lend for tourism-related infrastructure, as well as--through IFC--for tourism superstructure. He asked Mr. Cargill to talk to Messrs. Bilget, de Groote, Aburn, Iwasaki and Janssen. He asked Mr. Damry to talk to Messrs. Khelif and Thavil and Mr. Knapp to talk to the Latin American EDs. Mr. Knapp reported that Mr. Rota believed in the great future of the tourism industry in LDCs and the need for the Bank association with this development. Mr. Stern said that EDs had enquired why the Bank had not considered termination of tourism lending at the time of the tourism sector paper, i.e., about six years ago. Mr. McNamara said that the Bank's involvement in tourism had begun with Mr. Woods' announcement to the Board shortly before his arrival at the Bank.

Cofinancing

Mr. McNamara said that Messrs. Cargill and Stern had serious questions about the amount of intended cofinancing. Mr. Stern explained that his question did not relate to the current practice but to the future. The present ideas could be nurtured into substantial flows. In the view of IDB, the 10% limit imposed by the Comptroller of the Currency on private bank portfolios in a given country would be exempted in the case of cofinancing, provided the IFIs provided 25% of the financing. This would lead to a substantial increase in demand for cofinancing with the Bank by the commercial banks, which might well be in the order of \$2-\$3 billion above present levels. Also Mr. McNamara's idea of a line-of-credit with the commercial banks would foster that development.

Mr. McNamara emphasized that (a) the Bank was not to change its lending program as a result of increased cofinancing; i.e., it would not cut back; (b) cofinancing would therefore be in addition to, for example, next year's \$6.8 billion; (c) there would be a real benefit to the LDCs provided that additionality and good projects were ensured; (d) such a development of cofinancing was only possible with an appropriate lead time; (e) the Bank should consider charging for its cofinancing services. He thought that a, say, 1% charge would cover the cost to the Bank from identification through appraisal. Mr. Knapp said that the cost of cofinancing would only be substantial if it resulted in a large number of additional projects, i.e., if the Bank's part were reduced; cofinancing on top of existing projects would result in a minimal cost. At present the lending officer did not get credit for cofinancing efforts, i.e., there was a disincentive.

Mr. Cargill argued that cofinancing efforts would result in a major cost to the Bank. He would soon send a paper to Mr. McNamara which proved his point. He was worried about the rescheduling at hand for Zaire, Peru, Turkey, Egypt and Zambia; he queried whether, in such a situation, the Bank should embark on a vast cofinancing program. Mr. McNamara replied that a program of, say, \$2-\$3 billion did not constitute a vast undertaking. The Bank would move responsibly. Management should not be concerned about the cost of cofinancing for its operations; if the LDCs needed such cofinancing the Bank could carry the cost. It was a different issue whether such cofinancing would be in the interest of the LDCs. This should be further discussed in the context of risk and debt service capacity. Also, the important issue of a strong cross default clause would have to be addressed further. It was agreed to wait for Mr. Cargill's paper and then to schedule a further meeting on the subject.

CKW
June 1, 1978

MEMORANDUM FOR THE RECO[illegible]

792/3/44

Meetings on Liquidity Paper, May 22, 23 and 26, 1978

Present: Messrs. McNamara, Cargill, Gabriel, Wood, Bock, and Mr. Knapp on 5/26 only

May 22

The meeting reviewed the draft liquidity paper scheduled for Board discussion on June 20.

Mr. McNamara made the following points: First, the paper needed redrafting because it was too long, contained too much detail and raised issues which did not need to be raised. This was bad from the political point of view. Also, it implied a liquidity target of 50%, although the Bank should not go beyond 40%. Second, he enquired why currency management issues had to be pushed into this liquidity paper. There were three different problems: (a) what currencies to borrow (which had nothing to do with liquidity); (b) what currencies to disburse (which was more a function of government requests); and (c) the total cost of alternative currency borrowing programs to the group of Bank borrowers (which may not differ). Management should avoid introducing consideration of the disbursement and cost to borrowers issues into the liquidity discussion. This was a problem of incidence and alternative approaches might well lead to no significant difference over a 20-year period of time. He stated that management's principal objective was to maintain a strong bank at minimum cost to all borrowers. The subsidiary objective was to allocate such cost equitably among borrowers. He had not focussed on this latter objective because he knew no system which could accomplish this. Mr. Wahl argued that the Bank failed to distinguish between the cost to the Bank and the cost to the borrower which he would call cost "system." Third, he had always argued not to underestimate the cost of carrying liquidity. Management had to put forward a paper which had the answer to the problems of costing liquidity; this paper did not. It had to be precise about the method. Fourth, the most important factors determining public acceptance of this institution in financial markets, were (a) liquidity, (b) income, (c) perception of U.S. support, and (d) the generally high reputation of the Bank. The issue was how to hold all these factors together. Compared to this task, it was not too important whether $1 billion of additional liquidity cost the Bank $15 million more. He concluded that further work should be focussed on (a) the cost of liquidity to the Bank, versus (b) the cost of liquidity to the system.

May 23

Mr. McNamara said that he was now more concerned than at the last meeting about the implication of liquidity issues for the borrowing program. The issue was how to cost alternative borrowing programs. He suggested that the paper should contain as alternatives (a) the continuation of past procedures, i.e., accounted cost to the institution, and (b) cost to the system, on which more work was needed. The paper should present two alternative borrowing programs for FY79 and cost them to the entire system. The "cost to the system" alternative had to take into account the lending rate paid by borrowers and the exchange rate risk. The cost to the system concerned him in planning for the proposed borrowing program over the next 60 days. However, in view of the difficulties found in calculating this cost, he enquired whether, at this point, the cost of liquidity issues should not be eliminated from the paper. Mr. Wood warned that many EDs had gotten far into the problem; they were convinced that the Bank's accounting of costs of liquidity was incomplete. Mr. McNamara said that management was not sufficiently prepared for such a discussion. Mr. Wood replied that, at minimum, management should acknowledge Mr. Wahl's point that there is a cost to others. However, the EDs probably wanted to hear more. He argued that management did not need to know the exact cost; rather it was important to move into the right direction. The Bank's borrowing objectives were (a) to build future markets; (b) to maintain a reasonable mix of currencies; and (c) to allow for

Mr. Rotberg's insights as to yield differentials vis-a-vis longer-term relative exchange rates.

Mr. McNamara concluded that management badly needed guidelines for action over the next 90 days. The paper should exclude the issue of equity among borrowers but deal with the concepts of cost to the institution versus cost to the system.

May 26

The meeting reviewed the redrafted version of the liquidity paper.

Mr. McNamara said that this was now an excellent paper which made clear the concepts of accounted cost to the Bank versus cost to the system. However, it left management with many problems of implementation. He asked for an application of the new concept to the FY79 borrowing program alternatives on a pilot run basis. He said that he would have to get together with Messrs. Cargill and Rotberg before June 20 to consider the entire set of alternatives relating to the borrowing program.

CKW
July 18, 1978