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792/2/251

MEMORANDUM FOR THE RECORD

Fourth Meeting to Discuss Governors' Speech, June 20, 1977

Present: Messrs. McNamara, Knapp, Cargill, Clark, Stern, Chenery, Karaosmanoglu, Haq, Wood, Maddux

Mr. Knapp said that the speech dealt more with world problems than with the Bank. However, the present international atmosphere presented a fine opportunity to review world development problems. The review of the past record of development was a healthy counterweight to what the pessimists tended to say about development efforts. He suggested that the algebra be included in the discussion of income gaps. More work was needed on how governments were supposed to intervene in supply management in LDCs. Some of the more inflammatory language should be deleted.

Mr. Wood said that the structure of the speech was good. The section on policies for accelerated growth could be more focussed and include more about the Bank's Role. In particular, the trade and debt areas needed improvement. The distinction between the least-developed countries and the middle-income countries should be sharpened in section 4 and the cost effectiveness of the delivery system for basic needs should be described. The Bank also had something to say about the effects of intervention in markets. Mr. van der Tak had made quite extensive analyses of the use of shadow prices for project appraisal.

Mr. Clark said that some of the novel ideas from earlier drafts had been cut and should be included. Too much emphasis was given to redistribution of income, both internally in the LDCs and between LDCs and developed countries. More should be said about creating wealth at the bottom of society through increasing the productivity of the poor. The section on the Future Role of the Bank was too short. We could not assume that all readers or listeners were familiar with the argument in the Population Speech so more should be said about population problems.

Mr. Karaosmanoglu said that the optimistic start on the speech was not followed up. Later sections showed that growth in the least-developed countries had declined, and why should this trend change? More should be said about required policies for trade expansion. Institutional arrangements for basic needs were not adequately described. The global framework of common interests was too general.

Mr. Stern said that this version of the speech was a step back from former drafts. It was now difficult to see what the substance of the speech was and what line was being pushed. The gap analysis should be deleted. He agreed with Mr. Wood's views on section 3 and with Mr. Knapp on supply management in section 4. All in all, too much emphasis was given to government intervention. This might be required for the provision of services but otherwise more emphasis should be given to the need for providing private incentives. Donors should not be asked to target their assistance to basic needs' objectives. The section on a framework for assessing world development alternatives was too detailed and should be reviewed after the Board discussion of the matter.

Mr. Chenery agreed with Mr. Stern that the gap analysis should be eliminated. The speech was too pessimistic on the growth prospects for the least developed countries. India might be ready for sustained growth. Supply management was undoubtedly needed in the field of nutrition.

Mr. McNamara said that he disagreed with Messrs. Stern's and Chenery's comments on the quality of the speech. It might be appropriate to insert more about the Bank's role, in particular stressing the virtual financial certainty we were now facing, and the substantial increases in net disbursements which could be foreseen. He asked for eight specific revisions of the speech:

1. A statement and a table on ODA disbursements based on Mrs. Hardy's memorandum of June 15 should be inserted;
2. Table 5 should be replaced with the format from pages 11 and 17 of the Manila Speech;
3. The trade section should be rewritten in view of the discussion of the Policy Review Committee of the trade papers;
4. A footnote on the algebra of the gap analysis should be inserted;
5. Messrs. Wood and Haq should expand the statement on debt;
6. Messrs. Wood and Haq should give the reasons for the increase in Bank commitments;
7. Messrs. Chenery and Haq should rewrite the unduly pessimistic growth section for the least developed countries; and
8. Messrs. Chenery and Haq should prepare a technical note on government intervention in supply management and rewrite the section accordingly.

Mr. Haq said that he would try to have a revision ready by the end of the week.

SB
June 21, 1977

MEMORANDUM FOR THE RECO

Meeting to Discuss the FY78 Budget Memorandum, June 17, 1977 792/2/250

Present: Messrs. McNamara, Knapp, Cargill, Damry, Gabriel, Nichols

General

Mr. McNamara said that the U.S., Germany and Japan would remain conservative with respect to budget expansion, but a highly desirable change in climate had taken place. Mr. Knapp said that the Bank's proposed involvement in the mineral and energy sector might make it necessary to go back to the Board for a supplementary increase in the budget.

Budget Authority

Mr. McNamara stressed that the Board approval of the budget was not an appropriation. He asked Mr. Damry to research what had been said in the past on budget authority.

Basic Needs

Mr. McNamara hoped that this subject would not come up during the budget discussion, but, if it did, we should be prepared to send a paper to the Board.

FY78 Lending

Mr. Drake had urged that EDs should have access to the Bank Group's Future Lending Programs for each country. The participants strongly disagreed since this would lead to political problems and it was very difficult to give a precise program for any country even one year in advance.

Operations Evaluation

Mr. McNamara said that we should stand ready to take up any specific operations evaluation task proposed by the Board. However, there were limits to our absorptive capacity and any such specific task would require that the over-all operations evaluation work be reduced accordingly.

Disbursements

Mr. Gabriel said that the main factor in the slow-down in disbursements was local currency constraints in the borrowing countries. He proposed to answer any questions on the matter in a general way and, if the problem should persist, to promise that we would make a special report on the subject.

IDA Net Income

Mr. McNamara said that there would be no loss in IDA's projected net income for the next three years. Hence there was no need for action at this stage but later we should be prepared either to accept accummulated deficits or increase the service charge or introduce a commitment charge.

IFC

Mr. Damry mentioned that the paper on IFC's involvement in Africa would be discussed along with the budget memorandum. He would also check with Mr. Qureshi with respect to other potential problems related to IFC.

Economic Rate of Return

Mr. Damry said that Mr. Johnston felt that our economic rate of return calculations seemed to be self-serving. Mr. McNamara said that we had very precise instructions for economic rate of return calculations and these could be mentioned to the Board if the matter were raised.

Liquidity

Mr. McNamara asked Mr. Gabriel to prepare a cable of the cost of carrying liquidity year-by-year expressed in basis points.

Supervision

Mr. McNamara would like to have Mr. Gabriel's tables on supervision costs.

Bunching

Mr. Chadenet had been asked to prepare a formula on how to reduce bunching over the coming years. He should be asked to send a copy of the formula to all participants.

Contingency Allowance

Mr. McNamara would like to have a table of the contingency allowance in dollars and man-years for previous years.

Advanced Borrowing

Mr. McNamara would like to know the amount of advanced borrowing in FY76.

Support Services

The increase in the cost of support services as shown in Table 2 in the budget memorandum should be explained, possibly in comparison with other agencies.

Travel

Mr. Sen had said that our missions often were too large and were sent out too frequently. He proposed that the EDs approve Bank missions in advance as in the IMF. Mr. McNamara doubted that such a process really took place in the IMF, but asked Mr. Damry to investigate the matter.

SB
June 20, 1977

792/2/249

MEMORANDUM FOR THE RECORD

Third Meeting to Discuss Governors' Speech, May 27, 1977

Present: Messrs. McNamara, Chenery, Stern, Wood, Maddux

Mr. McNamara said that he liked Mr. Chenery's outline on basic needs. However, the policies on increasing the productivity of the poor within a growth strategy, providing linkages between growth and employment opportunities, and improving the effectiveness of delivery of government services needed to be fleshed out. The past evolution of the World Bank should be omitted in the next draft. The section on the Future Role of the Bank should be shortened and concentrate on the financial future of the Bank. The discussion of workers' remittances should be eliminated. Kuznets' theory should be explained in more detail. The section the the World Development Program should be shortened and the Third Development Decade should not be mentioned.

It was decided that Mr. Haq would prepare a new draft by June 15.

SB
May 31, 1977

MEMORANDUM FOR THE RECORD

792/2/248

Second Meeting to Discuss Governors' Speech, May 19, 1977

Present: Messrs. McNamara, Chenery, Stern, Haq, Karaosmanoglu, Wood, Maddux

Mr. Chenery said that too many subjects were included in Mr. Haq's draft of the speech and that the speech consequently should be trimmed. He found the tone too shrill. Basic needs were over-emphasized and should be seen as an addition to our previous work rather than a replacement.

Mr. Karaosmanoglu felt that in particular the Past Record of Development was repetitive. He said that most LDC leaders would say that they were already following a basic need policy and only needed external resources to achieve their objectives. In any event they would be reluctant to follow our advice. He felt that the description of the past evolution of the World Bank was very useful.

Mr. Stern said that the speech exceeded the proper balance between rhetoric and substance. Part of the rhetoric was haircurling. Substantive progress in development should be described in Section 2 rather than the absolute and relative gaps. He could not understand what it was Mr. Haq was driving at in the chapter on Basic Needs. What, in fact, was it that governments should do differently from what they were doing now? It seemed that we were substituting our myths for theirs. The costs of meeting basic needs were grossly underestimated and nothing was said about the required delivery systems. The past history of the World Bank was too heavily concentrated on the borrowing countries and should say more about the Bank's role as a financial intermediary and its relationship with the donors.

Mr. Wood said that more should be included about the difference between the slow- and fast-growing countries. Such matters as trade, protectionism, and possibly debt should be mentioned. While investment in human capital might be desirable, it should be complemented by physical capital. The description of the proposed World Development Program was too loose.

Mr. McNamara said that the middle-income countries had been totally omitted and something about their problems should be included. The chapter on Basic Needs was too vague. More could be said about the WDP after it had been discussed by the President's Council and the EDs. The Future Role of the Bank was not adequately described. It was decided that Mr. Chenery would prepare another draft of the Basic Needs chapter, that Messrs. Haq and Wood would flesh out the outline of the speech and that Mr. Wood would prepare an outline for the Future Role of the Bank, all by May 26 for a new meeting by the group on May 27.

SB
May 20, 1977

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Programs Functions Report, May 16, 1977

Present: Messrs. McNamara, Knapp, Chadenet, Sommers, Cargill, Kearns, and Richardson

Mr. Cargill favored the introduction of program aides. He did not think that Project Officers could perform the crucial Loan Officer tasks of deciding when to make a loan and which conditions should be imposed. A panel review of the report was not appropriate. RVPs should be approached individually before a general meeting on the matter.

Mr. Knapp was also in favor of program aides. He did not feel it would be wise for Mr. McNamara to endorse the conclusions of the report.

Mr. McNamara said that he would not decide on the appropriate numbers of Program Officers at all levels before he and Mr. Knapp had received a detailed list of present vs. proposed positions. It was decided that the report should be sent to the RVPs on a personal and confidential basis and that Messrs. Knapp and Kearns should meet individually with the RVPs before a common meeting which would take place on June 3 at 2:00 p.m.

SB

May 17, 1977

MEMORANDUM FOR THE RECORD

792/2/246

Second Meeting to Discuss the ACC Task Force on Development Objectives and Programs of the United Nations System, May 2, 1977

Present: Messrs. McNamara, Clark, Grenfell, Mrs. Boskey

The meeting was based on Mr. Grenfell's paper dated May 2 on a proposal for the work of the ACC Task Force. The paper concluded that the most manageable and functional procedure would be for the Task Force to work closely with the Secretariat of the Committee for Development Planning. The originally envisaged steering group would not be formally convened but key members would comment on the draft paper for the Task Force which would be convened in mid-June. Mr. McNamara asked Mr. Grenfell to talk to the chairman of the Committee for Development Planning, Mr. Germanico Salgado. If he were agreeable to cooperation between the Task Force and the CDP, Mr. Grenfell could proceed as outlined in his discussion paper. Mr. McNamara emphasized once again that the Bank should be willing to contribute to the UN System and be constructive but that the Bank in no way could take the responsibility for the proper functioning of the UN System.

SB
May 3, 1977

MEMORANDUM FOR THE RECORD

Second Meeting to Discuss Strategy for Long-Term Office Space Needs, April 20, 1977

Present: Messrs. McNamara, Knapp, Broches, Cargill, Chadenet and de Silva

The meeting discussed Mr. de Silva's memorandum of April 14, 1977. It was felt that a decision on long-term acquisition of office space would have to await the result of the Economic Summit in London. However, the participants leaned toward buying the Jacobs land while maintaining the option for GW. A moral obligation towards GW was not acceptable and we should be careful about not giving any further legal commitments to GW. Mr. McNamara asked Mr. de Silva to prepare a page of data showing: (a) the cost per square foot of land for IMF, GW and Jacobs; (b) the cost of buildings for GW, Jacobs as proposed by Jacobs himself, a World Bank building on the Jacobs land, and for 801 - 19th Street; and (c) the cost per square foot for GW, 801 - 19th Street, the potential Jacobs building, and leased space.

SB

April 21, 1977

792/2/244

MEMORANDUM FOR THE RECORD

Meeting to Discuss an Approach to a World Development Program, April 14, 1977

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Stern, Clark

Mr. McNamara said that Mr. Fried in Brookings Institution had suggested that a World Development budget be prepared emphasizing the need for concessional aid from the developed countries. People within the U.S. Administration had felt that such a proposal could boomerang in form of pressure for further U.S. aid. Mr. McNamara and Mr. Stern had discussed the proposal with some members of the U.S. Administration and had stressed that in our opinion the concept should be widened to include both structural adjustments required in the developing countries themselves and the external capital flows associated with achieving a range of development objectives. Mr. McNamara intended to send our proposal to the U.S. Administration for discussion within the working group preparing the agenda for the Economic Summit meeting in London. It was then hoped that the Summit would endorse the concept and that a first version of the World Development Program could be prepared by September 1978 for discussion in the Development Committee and possibly other fora like ECOSOC, the Annual Meeting and within national governments.

Mr. Chenery said that the proposal in its present form was directed towards the advanced countries. If a couple of the advanced countries would support the concept and others at least tolerated it, he felt that it was worthwhile to go ahead. However, if other than advanced countries were to be involved, the concept would have to be restated. Mr. McNamara asked Mr. Chenery to prepare a draft restatement for use within a wider group of countries.

On a question from Mr. Cargill, Mr. McNamara said that he did not foresee any overlap between the World Development Program and the Brandt Commission, since the Brandt Commission would be a one-shot affair, whereas the WDP would continue over the years. However, if the Economic Summit did not take up the matter, the Brandt Commission could possibly propose the establishment of the WDP.

Mr. Knapp wondered whether the WDP would be established country-by-country and how we would coordinate its preparation with other international agencies. Mr. McNamara said that such subjects as food production and population should be considered for the largest individual LDCs. He felt that the Bank should put the WDP together and then show it to other interested agencies, such as the IMF and FAO, for comment. Mr. Chenery suggested that it might also be appropriate to have individual experts evaluate the WDP.

SB
April 15, 1977

792/2/243

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Proposed Moroccan Steel Mill Project, April 14, 1977

Present: Messrs. McNamara, Knapp, Baum, Knox, Fuchs, Bart

Mr. McNamara said that in general he was opposed to financing steel mills in developing countries, since such projects often were marginal and would divert funds from higher priority projects. In the Moroccan case local savings would be used for the steel mill and the foreign exchange loans would eventually influence the country's creditworthiness. However, if Messrs. Knapp and Baum agreed, he would be willing to consider the project on the following conditions:

(a) The project should meet usual Bank standards of efficiency and effectiveness, in particular the economic rate of return should be at least 10%;

(b) The next Moroccan Five-Year Plan (1978-82) should specifically address policies to advance the social and economic level of the poorest people of Morocco, including targets and the finance to meet such targets. Bank staff should lay out which targets it would consider appropriate and evaluate whether the necessary funds were available to achieve such targets in light of the findings of the forthcoming economic mission to Morocco; and

(c) Total Bank Group investment for the project should not exceed $20 million.

It was agreed that the appraisal mission for the Steel Mill Project could be dispatched as soon as feasible.

cc: Messrs. Knapp, Baum, Knox, Fuchs, Bart

SB
April 15, 1977

792/2/242

MEMORANDUM FOR THE RECORD

Subject: Meeting to Discuss Fiscal '78 Budget, April 13, 1977

Present: Messrs. McNamara, Knapp, Cargill, Gabriel, Blaxall and Nichols

It was decided that 2 professional man-years would be added to P&B's recommendation for West Africa, 1 for East Asia and Pacific, 3 for South Asia, and 1 for CPS, for a total of 7. With these allocations of professional man-years East Africa, West Africa, EMENA, and East Asia and Pacific would be expected to carry out the work program recommended by P&B, while Latin America, South Asia and CPS should do the work program they had proposed themselves. A contingency allowance of 20 professional man-years would be included in the budget.

Mr. Gabriel would prepare notes on the budget decision for all departments. The notes to the operating departments would be signed by Mr. Knapp and those to the support departments by Mr. McNamara.

Over the coming year the Vice President, Finance would introduce a proper work planning system for non-lending activities.

P&B would carry out a series of studies to reduce future budgets. Potential items for cuts were the Program Staff, the Paris Office and the Thailand and Indonesia Missions. Finally, P&B would study the possibility of introducing zero-based budgeting.

SB

April 14, 1977

792/2/ 241

MEMORANDUM FOR THE RECORD

Subject: Meeting to Discuss the ACC Task Force on Development Objectives and Programs of the UN System, April 13, 1977

Present: Messrs. McNamara, Clark, Haq, Grenfell and Mrs. Boskey

Mr. McNamara said that it would be complicated but extremely important to lay out a procedure for orienting and integrating the UN system towards development planning; hence the proposed Steering Group under Bank chairmanship should be as powerful as possible. It was decided that Mr. Grenfell would be the Bank representative and Chairman of the Steering Group and that a condition for establishing the group would be that either Mr. Diego Cordovez or Mr. Waldheim's Chef de Cabinet would become a member. When this had been achieved, the other Steering Group members would be informed by letter. Mr. Grenfell, assisted by appropriate members from Mr. Haq's department, would then write the procedures over the next two or three weeks and call the first meeting of the Steering Group, which would then be followed by a meeting of the full Task Force. The Steering Group would consult with Mr. Lewis, the Chairman of the Committee for Development Planning, as appropriate. Mr. McNamara was reluctant to accept the chairmanship of the Task Force. He did not feel that the strategy for the Third Development Decade could come out of the Bank since we could not behave as a free agent in this matter due to the need for Board clearance of our actions.

It was decided that the Steering Group should meet in New York and that Mr. Grenfell should arrange for the participants in the present meeting and Mr. Chenery to get together as appropriate over the next six weeks.

Mr. McNamara urged Mr. Clark to establish a system to control Bank participation in international conferences, and to insure that Bank participants were properly briefed and would report back on their observations.

SB

April 14, 1977

MEMORANDUM FOR THE RECORD

792/2/240

Policy Review Committee Meeting to Discuss Export Credit from Developing Countries --an Experimental Role for IFC, April 12, 1977

Present: Messrs. McNamara, Knapp, Baum, Nurick, Goodman, Chenery, Qureshi, Parmar, Kuczynski, Knox, Guetta, Votaw, Krieger, Stern, Wapenhans, Haq, Karaosmanoglu, Gabriel, Burki

Mr. Knapp said that the subject of export credit finance was an old one within the Bank Group and the field was somewhat dangerous to enter. However, if IFC saw a role for itself within the evident need for stimulating LDC capital goods exports, he had no objection. Mr. Qureshi said that IFC would never become the largest vehicle in the field of export credit finance but could probably play a useful catalytic role, and thereby stimulate capital goods exports among LDCs.

Mr. Chenery said that it was important to increase capital goods exports from developing countries and that the LDCs under present circumstances of export credit finance often were competing with developed countries' exporters on unequal terms. If IFC could improve this situation, its role would be very useful.

Mr. Karaosmanoglu said that a substantial proportion of the trade in capital goods among LDCs was through multinational corporations, or simply consisted of re-exporting capital goods from developed countries. Mr. Kuczynski said that this type of trade would, of course, never be financed by IFC.

Mr. Stern said that private businessmen in LDCs always stressed the need for export credit; so, at least on the rhetorical level, the demand was very high. If real demand showed to be less, we could simply fold up the IFC scheme.

Mr. Goodman said that exporters in developed countries often obtained credit on concessional terms. He, therefore, felt that the Bank, rather than IFC, might get involved in this field since IFC could not extend credit on concessional terms.

On a question from Mr. Wapenhans, Mr. Qureshi said that the credit paper would probably carry the signature of both the exporter and the importer and that IFC intervention would add creditworthiness to the paper. He also said that IFC might get involved in institution-building in some countries rather than finance and mentioned that Mr. Kuczynski had already been in contact with a Panamanian export credit facility.

Mr. McNamara felt that we should go ahead on an experimental basis as outlined in the paper but that before presenting the proposal to the Board Mr. Qureshi should contact the OECD Directors and ask for their opinion. In view of what he learned, Messrs. McNamara and Qureshi would then decide whether the paper should be distributed to the Board.

SB
April 13, 1977

792/2/239

MEMORANDUM FOR THE RECORD

Policy Review Committee Meeting to Discuss Development Issues in Rural Non-Farm Employment, April 8, 1977

Present: Messrs. McNamara, Knapp, Baum, Chenery, Chadenet, Damry, Knox, Gue, Kirmani, Goffin, Stern, Adler, Avramovic, Haq, van der Tak, Yudelman, Hofmeister, Leiserson, Anderson

Mr. Knapp said that he agreed with the conclusions of the paper, in particular that non-farm employment should not be dealt with as a separate sector in the Bank. Instead, non-farm employment considerations should be introduced in our rural development and rural infrastructure projects. However, we should be aware that we were adding a new dimension to our rural projects and that this would have a cost in manpower attached. He did not feel that much more research was required and that in any event governments should undertake such research rather than the Bank. He suggested that the paper be distributed to the Board for information.

There was general agreement with Mr. Knapp's comments. Mr. McNamara asked the staff to prepare a line-in line-out version for his review before distributing to the Board.

SB
April 11, 1977

792/2/238

MEMORANDUM FOR THE RECORD

Meeting to Discuss Strategy for Meeting Long-Term Office Space Needs, April 8, 1977

Present: Messrs. McNamara, Knapp, Broches, Cargill, Chadenet, Twining

Mr. McNamara said that he found it very difficult to buy office space for a Bank Group lending program which had not yet been approved by the Board. It would be more feasible to do so if the Economic Summit in May, 1977, would endorse a real increase in Bank lending. Mr. Chadenet said that we might foreclose our options if we did not go ahead with the strategy outlined by Mr. Twining in his memorandum of March 24, 1977. This would be our only chance to secure adequate space in the vicinity of the main complex and we could always sell the properties if the Board did not endorse an expansion of our program.

It was decided that Mr. Twining would prepare a paper outlining the following options: (a) to buy both the Jacobs and the GWU properties; (b) buy options to purchase 801 19th Street and Jacobs; (c) buy options to lease in other buildings with total office space for about 1,400 staff members; and (d) give up the GWU property and buy Jacobs. The consequences of delaying all action for one and ten months respectively would be considered. The participants would meet again after Mr. Twining had circulated his paper on about April 15.

SB
April 11, 1977

792/2/237

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Work Program of the Development Committee, March 25, 1977

Present: Messrs. Virata and King; and Messrs. McNamara, Knapp and Stern

Mr. Virata reported on meetings with the U.S. authorities and said that the U.S. has suggested that the Development Committee discuss: (a) the apparent bunching and lack of coordination among the international financial institutions to obtain adequate replenishment of their resources; and (b) ground rules for debt rescheduling for LDCs if so proposed by the CIEC meeting. The U.S. did not want to discuss ODA/GNP ratios and was not yet prepared to discuss the International Resources Bank or the Investment Trust. The U.S. also shared the French and German reluctance to have the Development Committee discuss trade matters. Mr. McNamara did not think that there was much of a bunching problem for the replenishment of resources of the international financial institutions. For IDA the timetable was clear and the need for IBRD capital increases was largely determined by inflation. He felt that discussions of coordination among IFIs could be directly harmful if they led to the lowest common denominator for replenishment of their resources. He therefore urged the Development Committee Secretariat to be very cautious when proceeding with this matter. Mr. King agreed and said that he would avoid giving the opponents to the IFIs an opportunity to mobilize their resistance. Mr. Stern said that the alleged bunching problem was a unique U.S. appropriation problem related to the U.S. being behind in appropriations for the regional development banks and IDA. On debt Mr. McNamara said that it was his impression that the U.S. would not go beyond a case-by-case study of the debt problem so he found it difficult to see a role for the Development Committee in this matter, except if the problem were discussed within the adequacy of capital flows for a World Development Program. It was possible that such a World Development Program would be suggested by the U.S. at the Economic Summit in London in May for discussion at the CIEC meeting. Mr. McNamara wondered how the U.S. would establish a reasonable level of ODA if it were unwilling to discuss ODA/GNP ratios. Mr. Stern said that the U.S. held the opinion that the ODA/GNP ratio did not adequately measure U.S. contribution to world welfare which also included the U.S. security umbrella and what used to be liberal U.S. trade policies. Mr. McNamara felt that trade measures might be discussed within a WDP. The issues related to the International Resources Bank and the Investment Trust could in part be dealt with by the World Bank and other institutions by giving increased attention to mineral exploitation.

Mr. Virata had also talked to the Japanese authorities who did not want to have the IBRD capital increase discussed by the Development Committee before the matter had been dealt with by the Board of the Bank. Mr. McNamara agreed with this and said that Chairman Reuss of the House Banking Committee had asked the Administration not to raise the IBRD capital increase at the Economic Summit. However, Mr. McNamara was hopeful that something might be said at the Summit about the need to increase IBRD lending in real terms. Mr. Virata said that the Japanese had been interested in giving the LDCs access to Japan's capital market if bond issues were guaranteed by the World Bank. Mr. McNamara was willing to try such a procedure, although he thought it would only be important for a few relatively small countries within the middle-income group. Furthermore, it would not lead to additional capital flows since the guarantee would be counted within the IBRD lending ceiling. Mr. King said that a partial guarantee, however, would have some multiplier effect on capital flows.

Mr. Virata was somewhat concerned about the timing for the next Development Committee meeting in April. He felt that little could be accomplished aside from discussing the future work program of the Committee, since the CIEC meeting would not have taken place by then. Mr. King suggested that the April meeting might discuss the inadequate OPEC contribution to IDA and IDA's allocation policies. Mr. McNamara said that it would be wrong to deal with these two subjects in a Development Committee meeting and also shared Mr. Virata's concern about the timing. He wondered whether a Development Committee meeting could be tied to the CIEC meeting in Paris. Mr. Stern said that this would be difficult since the constituencies for LDCs at CIEC were not the same as in the Development Committee and that countries, furthermore, tended to be represented by their Ministers of Foreign Affairs and not their Ministers of Finance at the CIEC.

Mr. McNamara said that the most useful thing that the Development Committee could do would be to have a yearly policy discussion of the World Development Program if such a program were proposed by CIEC. Within such a program, matters like capital flows, trade, and structural economic policies of the LDCs could be fruitfully discussed. Mr. Virata suggested that, if the WDP were proposed by the CIEC, Mr. McNamara should shape his Governors' speech towards this subject and the printed version of the speech could then be used as a basis for discussion at the Development Committee meeting at the Annual Meeting. Mr. Stern said that it would be difficult to present much more than a format of the WDP for the Annual Meeting this year. But such a format could usefully be discussed in September 1977 and annual papers then be prepared thereafter.

Mr. Virata asked about a possible relationship between the Brandt Commission and the Development Committee. Mr. McNamara emphasized that the main idea of the Brandt Commission was to achieve a loosening up of the thought processes in both OECD and less developed countries. He did not see any direct link between the Brandt Commission and the Development Committee but it would, of course, be possible that the WDP would take up some of the ideas of the Brandt Commission for later discussion within the Development Committee.

Mr. King said that he would accompany Mr. Virata on a visit to Europe and would report back to Mr. McNamara on reactions by the European authorities to the Development Committee work program.

cc: Mr. Stern

Sven Burmester
March 28, 1977

MEMORANDUM FOR THE RECORD

792/2/238

Meeting to Discuss the Work Program of the Development Committee, March 25, 1977

Present: Messrs. Virata and King; and Messrs. McNamara, Knapp and Stern

Mr. Virata reported on meetings with the U.S. authorities and said that the U.S. has suggested that the Development Committee discuss: (a) the apparent bunching and lack of coordination among the international financial institutions to obtain adequate replenishment of their resources; and (b) ground rules for debt rescheduling for LDCs if so proposed by the CIEC meeting. The U.S. did not want to discuss ODA/GNP ratios and was not yet prepared to discuss the International Resources Bank or the Investment Trust. The U.S. also shared the French and German reluctance to have the Development Committee discuss trade matters. Mr. McNamara did not think that there was much of a bunching problem for the replenishment of resources of the international financial institutions. For IDA the timetable was clear and the need for IBRD capital increases was largely determined by inflation. He felt that discussions of coordination among IFIs could be directly harmful if they led to the lowest common denominator for replenishment of their resources. He therefore urged the Development Committee Secretariat to be very cautious when proceeding with this matter. Mr. King agreed and said that he would avoid giving the opponents to the IFIs an opportunity to mobilize their resistance. Mr. Stern said that the alleged bunching problem was a unique U.S. appropriation problem related to the U.S. being behind in appropriations for the regional development banks and IDA. On debt Mr. McNamara said that it was his impression that the U.S. would not go beyond a case-by-case study of the debt problem so he found it difficult to see a role for the Development Committee in this matter, except if the problem were discussed within the adequacy of capital flows for a World Development Program. It was possible that such a World Development Program would be suggested by the U.S. at the Economic Summit in London in May for discussion at the CIEC meeting. Mr. McNamara wondered how the U.S. would establish a reasonable level of ODA if it were unwilling to discuss ODA/GNP ratios. Mr. Stern said that the U.S. held the opinion that the ODA/GNP ratio did not adequately measure U.S. contribution to world welfare which also included the U.S. security umbrella and what used to be liberal U.S. trade policies. Mr. McNamara felt that trade measures might be discussed within a WDP. The issues related to the International Resources Bank and the Investment Trust could in part be dealt with by the World Bank and other institutions by giving increased attention to mineral exploitation.

Mr. Virata had also talked to the Japanese authorities who did not want to have the IBRD capital increase discussed by the Development Committee before the matter had been dealt with by the Board of the Bank. Mr. McNamara agreed with this and said that Chairman Reuss of the House Banking Committee had asked the Administration not to raise the IBRD capital increase at the Economic Summit. However, Mr. McNamara was hopeful that something might be said at the Summit about the need to increase IBRD lending in real terms. Mr. Virata said that the Japanese had been interested in giving the LDCs access to Japan's capital market if bond issues were guaranteed by the World Bank. Mr. McNamara was willing to try such a procedure, although he thought it would only be important for a few relatively small countries within the middle-income group. Furthermore, it would not lead to additional capital flows since the guarantee would be counted within the IBRD lending ceiling. Mr. King said that a partial guarantee, however, would have some multiplier effect on capital flows.

Mr. Virata was somewhat concerned about the timing for the next Development Committee meeting in April. He felt that little could be accomplished aside from discussing the future work program of the Committee, since the CIEC meeting would not have taken place by then. Mr. King suggested that the April meeting might discuss the inadequate OPEC contribution to IDA and IDA's allocation policies. Mr. McNamara said that it would be wrong to deal with these two subjects in a Development Committee meeting and also shared Mr. Virata's concern about the timing. He wondered whether a Development Committee meeting could be tied to the CIEC meeting in Paris. Mr. Stern said that this would be difficult since the constituencies for LDCs at CIEC were not the same as in the Development Committee and that countries, furthermore, tended to be represented by their Ministers of Foreign Affairs and not their Ministers of Finance at the CIEC.

Mr. McNamara said that the most useful thing that the Development Committee could do would be to have a yearly policy discussion of the World Development Program if such a program were proposed by CIEC. Within such a program, matters like capital flows, trade, and structural economic policies of the LDCs could be fruitfully discussed. Mr. Virata suggested that, if the WDP were proposed by the CIEC, Mr. McNamara should shape his Governors' speech towards this subject and the printed version of the speech could then be used as a basis for discussion at the Development Committee meeting at the Annual Meeting. Mr. Stern said that it would be difficult to present much more than a format of the WDP for the Annual Meeting this year. But such a format could usefully be discussed in September 1977 and annual papers then be prepared thereafter.

Mr. Virata asked about a possible relationship between the Brandt Commission and the Development Committee. Mr. McNamara emphasized that the main idea of the Brandt Commission was to achieve a loosening up of the thought processes in both OECD and less developed countries. He did not see any direct link between the Brandt Commission and the Development Committee but it would, of course, be possible that the WDP would take up some of the ideas of the Brandt Commission for later discussion within the Development Committee.

Mr. King said that he would accompany Mr. Virata on a visit to Europe and would report back to Mr. McNamara on reactions by the European authorities to the Development Committee work program.

cc: Mr. Stern

Sven Burmester
March 28, 1977

792/2/236

MEMORANDUM FOR THE RECORD

First Meeting to Discuss Governors' Speech, March 21, 1977

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

The meeting discussed Mr. Haq's memorandum of March 15. Mr. Chenery said that the themes for the annual speech have been put together very well and adequately reflected the policy work which was now going on in DPS. Mr. Stern said that we should be very careful of any spelling out of recipient responsibility in the Global Compact since that would lead to expectations among donor countries for expeditious action which were bound to be frustrated. Mr. Clark generally agreed with Mr. Stern but said that the responsibilities of both sides in the North/South dialogue should be described and the need for monitoring performance should be mentioned. Mr. Karaosmanoglu said that we should not be too specific in spelling out the action which individual countries should take nor in describing action for the third development decade.

Mr. McNamara said that we should not establish quid pro quos for the developing countries in the Global Compact, but what he called a "world development program" should be established and periodically monitored. Such a program would include strategies and objectives for items like malnutrition and population. The role of the World Bank should be discussed along the lines of the "Future Role of the World Bank" paper but not in so much detail. With respect to mentioning individual countries and strategies for the third development decade, we should be specific enough to mean something.

It was agreed that Mr. Haq would prepare an outline for the speech by the end of April and that the first draft would be ready on June 1.

SB
March 22, 1977

792/2/235

MEMORANDUM FOR THE RECORD

Meeting to Discuss Basic Needs Issues Paper, March 16, 1977

Present: Messrs. McNamara, Stern, Chenery, Clark, Haq, Karaosmanoglu, Streeten, Srinivasan

Mr. McNamara said that he found Mr. Streeten's paper useful and that the Bank should give specific attention to meeting basic needs as an element of its growth strategy. Mr. Chenery said that it would make a difference for our borrowing countries whether they followed a strict basic needs strategy or focused on increasing the productivity of the less-productive elements in society. In one case, government interference was important, and in the other one could, to a large extent, rely on the market mechanism. Our project evaluation methods would also depend on which strategy was followed. Mr. Haq said that our concentration on increasing productivity had left out the rural poor, particularly the landless and the urban poor. Mr. Streeten said that economic growth should be a result rather than an aim of a correct economic strategy. Mr. Srinivasan said that India in its latest development plans had attempted to follow a basic needs strategy but had not been able to deliver. Mr. McNamara said that our objective should be both growth and basic needs, and that we should identify those basic needs which could not be met through the market system, and tell our borrowing countries how these needs could be met.

It was agreed that Mr. Streeten should proceed with his work on basic needs and prepare a full paper by June. At the same time, Mr. Srinivasan would evaluate all existing research on basic needs. Mr. McNamara also asked Mr. Chenery to arrange a series of seminars within the Bank starting at the end of April 1977.

SB
March 29, 1977

792/2/234

MEMORANDUM FOR THE RECORD

Policy Review Committee Meeting to Discuss "The World Bank and the Settlement of Agricultural Lands", March 3, 1977

Present: Messrs. McNamara, Knapp, Baum, Chadenet, Damry, Kapur, Knox, Gue, Husain, Goffin, Stern, Hendry, Gabriel, Haq, Karaosmanoglu, van der Tak, Yudelman, Burki, Sadove

Mr. Knapp said that he was pleased that the paper had not decided on whether we should put the emphasis on economic efficiency or income distribution in our settlement projects, since whether we would do one or the other would vary from country to country. He was also pleased that no firm guideline, in terms of cost per beneficiary, had been included in the paper. A target income for beneficiaries of 25% greater than expected average rural incomes might not be appropriate, although he felt that settlers should be self-selected and hence not necessarily belong to the lowest income group. The size of holding should be determined more by the intensity of cultivation than by the desired income level. Clearing and housing construction should, to a large extent, be done by the settlers themselves.

Mr. Karaosmanoglu said that we should distinguish between settlement projects which were undertaken mainly to employ landless people and those where a natural advantage of the soil was being profitably exploited. In the first instance, a guideline for cost per beneficiary might be appropriate and it was also possible that the Bank should not be involved at all in some of these projects, since they might be undertaken by the governments to avoid land reform. In the second case, the profitability of the project per se made cost per beneficiary guidelines less important.

Mr. Husain said that he had serious concern about the paper. 75% of all settlement in the world was spontaneous and the paper did not suggest at all that we should help in this spontaneous settlement. Planned settlement was often too expensive and not replicable. Target incomes did not have to be larger than expected average rural incomes. He also felt that we were biased in favor of cash crops and more emphasis should be put on food crops. We seemed to be infatuated by technically elegant solutions which were not always the most appropriate ones.

Mr. McNamara said that we should consider what an appropriate income would be in relation to our investment when properly managed. In this connection, the target income should be seen as a limit and not a requirement. Whenever a project with high capital investment per capita or per unit of land was considered, it should be related to a national agricultural sectoral program. He shared Mr. Husain's concern about our lack of involvement in spontaneous settlement and asked CPS to study the matter. He asked Mr. Baum to redraft the paper, taking into account the comments of the meeting and review it with Mr. Knapp before distribution to staff and Board for information.

SB
March 4, 1977

MEMORANDUM FOR THE RECORD

792/2/233

Meeting to Discuss Preparation of a White Paper on IDA, March 3, 1977

Present: Messrs. McNamara, Knapp, Cargill, Vibert, Gabriel, Adler, Broches, Nurick, Clark, Merriam, Riddleberger, Stern, Damry

Mr. McNamara said that opposition had been voiced in the U.S. Congress towards the sudden jump in required U.S. appropriations for IDA from $320 million to $1230 million. He therefore would like Mr. Adler, with the help of Messrs. Goodman and Gabriel, to prepare what he called the "definitive statement" on IDA in a scholarly but readable way. The paper should be prepared within two weeks. The introduction should state that questions have been raised about U.S. support for IDA to which all other OECD countries contributed. It would be followed by chapters on the formation of IDA; the use of IDA funds for development; the evolution of the U.S. share in IDA replenishments; how the level of the Fifth Replenishment had been determined; the current position of other traditional donors with respect to IDA5; the size of the proposed U.S. contribution to IDA5 including a time schedule for appropriations and outlays; the relationship of U.S. outlays to U.S. official development assistance and a comparison of the U.S. official development assistance with the one of other donors; and, finally, such other considerations as the influence of IDA procurement on the U.S. balance of payments, the relevance of IDA in the North/South Dialogue, and the moral justification for IDA.

SB
March 4, 1977

MEMORANDUM FOR THE RECORD

792/2/232

Fourth Meeting to Discuss Future Work on Development, February 14, 1977

Present: Messrs. McNamara, Chenery, Clark, Karaosmanoglu, Haq

The meeting discussed Mr. Chenery's memorandum on the DPS work program for CY77 dated January 19, 1977. The following comments were made:

1. Prospects Paper. Mr. Haq said that it would probably not be possible to have a "new style" prospects paper this year as discussed in the meeting on December 22, 1976. Mr. McNamara said that we would need an updated version of the old prospects paper by June 1, 1977. He urged Mr. Chenery to have someone in DPS establish appropriate tables on the basis of the 1976 prospects paper and send him these tables for review. The paper could then be written around the tables.

2. Debt. Mr. Karaosmanoglu said that the debt paper would be ready by the end of February 1977. He also said that the IMF had prepared a paper on debt problems of the LDCs. Mr. McNamara asked him to send a summary of the IMF paper to Messrs. Cargill, Gabriel, Wood and himself.

3. Basic Needs. Mr. McNamara said that he was very interested in the work in this area. He felt that basic needs could be divided into three categories: those which could be met through productivity increases of the poor; those which could be solved through reallocation of public goods and services; and finally those for which we did not have a solution and which would go unmet by 1985.

4. Trade. Mr. McNamara emphasized that constraints on trade by importing countries should be analyzed. He did not think that a specific assessment of the UNCTAD IV resolution would be very useful.

5. Governors' Speech 1977. Mr. McNamara asked Mr. Haq to prepare outlines for alternative themes before March 15 for discussion within the group.

6. Timing. Mr. McNamara asked that the policy papers be sent to him one week after they had been reviewed at the staff level.

Finally Mr. McNamara again emphasized that the policy papers and, in particular the trade, basic needs, and "new style" prospects papers, should be written in an understandable and readable form for policy-makers and not as technical papers for development economists.

cc: Mr. Chenery

SB
February 15, 1977

792/2/231

MEMORANDUM FOR THE RECORD

Meeting to Discuss Program Functions Paper, February 14, 1977

Present: Messrs. McNamara, Knapp, Cargill, Sommers, Kearns

After some discussion it was decided that the paper should be kept highly confidential and discussed again after the Staff Compensation issues had been resolved and the FY78 budget paper prepared.

SB
February 15, 1977

792/2/230

MEMORANDUM FOR THE RECORD

Meeting to Discuss Staff Compensation, February 10, 1977

Present: Messrs. McNamara, Damry, Clarke, Trott

Mr. McNamara asked Mr. Trott to prepare a paper for distribution to the EDs by Monday, February 14. The paper should list four or five options for compensation action, clearly showing the percentage increase in compensation costs for all options including salary related benefits, for both U.S. nationals and others. The paper would be discussed informally with the EDs later in the week, asking for their opinions and requesting other options if they did not find the presented options sufficiently inclusive. A second informal meeting would then take place later hopefully to reach agreement with the EDs on a compensation action. The agreed upon proposal would then be presented to the Staff Association for comment.

Mr. Clarke outlined the benefit package that he had in mind. Mr. McNamara said that the cost of these benefits to the Bank, and particularly the monetary rewards to the staff of these benefits, should be clearly stated so that we would get recognition for these by the staff.

SB
February 11, 1977

MEMORANDUM FOR THE RECORD

792/2/229

Policy Review Committee Meeting on IBRD Policy vis-a-vis Higher-Income Countries, February 4, 1977

Present: Messrs. McNamara, Knapp, Baum, Broches, Goodman, Chenery, Qureshi, Bart, Gue, Husain, van der Meer, Blobel, Wiehen, Haq, Edelman, Chernick

Mr. Knapp said that the paper should be considered an internal document and not go to the Board. The information on which countries to phase out could be highly controversial. He felt that a ten-year phase-out period was far too long and we should think on the order of 2-3 years instead. He would consider countries for which we had full offset arrangements as already phased out. He did not consider program lending during a graduation phase was appropriate. 25% of average OECD North income could be used as a trigger level for phase-out examination, but the 33% level should not necessarily lead to a phase out. He did not think that a further detailed study of the graduation policy package was required. The Regions should handle this through the CPP process. However, a DPS study, using Bank-wide allocation criteria for eligible borrowers, for the next five years of Bank lending would be a good idea.

Mr. Goodman said that the oil-surplus countries warranted separate treatment. He also felt that 25% of OECD North income was a fairly low trigger level. 25% was today equivalent to a per capita income of $1570 which was roughly equivalent to the previous level of $1000 per capita in 1970 prices.

Mr. Baum was not sure that Portugal, Argentina, Yugoslavia and Romania in fact were candidates for the recommended graduation policy, since we had not been very successful, either in the social sectors nor in institution building in those countries.

Mr. Broches said that comparison with the past policy was not relevant, since we were today facing a ceiling on Bank lending and, hence, an allocation problem. If there were no ceiling, the appropriate policy would be the country's access to capital markets.

Mr. Qureshi said that he would prepare a special paper for IFC graduation policy. He said that access to capital markets was a very difficult criterion for graduation, particularly since the candidates mentioned had borrowed very little. The amounts involved for the Bank were fairly small but the subject itself was politically very sensitive.

Mr. Chenery said that we paid a cost by not having an upper limit for Bank lending when funds were to be rationed. We might usefully defer consideration of the graduation policy until we knew the outcome of the Bank capital increase discussion.

Mr. Bart said that the criteria mentioned in paragraph 9(vi) of the summary were difficult to apply. Our offset policy would also soon have to be revised, since countries like Iran would cease to be capital-surplus countries.

Mr. van der Meer said that the 25% level could be a useful trigger but that the graduation policy itself should be handled through the CPP process.

Mr. McNamara said that the paper should be treated as confidential and, in no way, should any of the countries mentioned in paragraph 7 of the summary be informed that they were potential candidates for graduation. DPS should prepare its five-year program for IBRD lending country-by-country for the April 1977 review. If there were major differences with the P&B program, the matter should be considered again, and we might prepare a paper to the Board for a review of the present policy to be discussed at some appropriate time.

SB
February 7, 1977

792/2/228

MEMORANDUM FOR THE RECORD

Meeting to Discuss Bank/IFAD Relations, February 4, 1977

Present: Messrs. McNamara, Knapp, Baum, Yudelman, Dosik

The meeting discussed Mr. Knapp's memorandum on Bank/IFAD Relations dated February 3.

Mr. Knapp said that the simple thing was to stick to cofinancing but he doubted that this would be acceptable to IFAD, particularly after the initial period of IFAD activity was over. Mr. Baum felt that we should go ahead as proposed with the best of intentions and the least of expectations. Mr. McNamara agreed and said that we should show our willingness to be helpful but we should in no way compromise our standards. He found Mr. Knapp's paper very good and thought we should proceed as outlined.

SB
February 4, 1977

792/2/227

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Draft Agenda for the Development Committee Meeting in April, 1977, February 3, 1977

Present: Messrs. McNamara, Damry and Sir Richard King

Sir Richard referred to his memorandum to Mr. McNamara dated January 27 and said that the French in the IMF Board discussion of the draft agenda had objected to (a) any discussion of a general capital increase for the Bank; (b) inclusion of a report on GATT multilateral trade negotiations; and (c) convening of the working group on development finance and policy. On (a) Mr. McNamara said that this would not be a problem since we could simply say that the matter would be discussed in the Board of the Bank for decision within 17 months. On (b) Sir Richard said that he had deferred the item to other business on the draft agenda, and on (c) he said that the French attitude was due to fear that the working group might disturb the CIEC negotiations in Paris. He was personally concerned that the CIEC might not wind up on time. Mr. McNamara shared his concern since this could also influence the Brandt Commission. Sir Richard stated that the working group on development finance and policy might agree on a recommendation to the Development Committee that donor countries should agree to take immediate action to ensure that the ratio of their ODA to GNP did not decline. Mr. McNamara doubted that such an agreement could be achieved but said that it would be very constructive if it could. Sir Richard said that Germany was already moving in that direction and that he was preparing a draft paper on the matter which he would send to Mr. McNamara.

Mr. McNamara referred to Mr. Virata's telex to the members of the Development Committee dated January 28, and said that he hoped the Development Committee could become a forum for discussion of the most important issues of development. If the Brandt Commission was indeed launched, he would wish to see its report discussed by the Development Committee. Sir Richard agreed and said that he hoped Mr. McNamara could meet with Mr. Virata when he visited Washington towards the end of March. Mr. McNamara said that he would be looking forward to doing so provided he was in Washington at that time.

It was agreed that Sir Richard would be present to present the draft agenda for the Development Committee to the Board on February 8.

On a question from Sir Richard about access to capital markets, Mr. McNamara said that he was willing to extend guarantees to Bank borrowing countries as a dollar for dollar substitution within their lending programs. He did not think that very many borrowing countries would be interested in such a scheme.

cc: Mr. Stern
Mr. Karaosmanoglu

SB
February 4, 1977

792/2/226

MEMORANDUM FOR THE RECORD

Meeting to Discuss Relations with African EDs, February 1, 1977

Present: Messrs. McNamara, Knapp, Damry, Chaufournier, Wapenhans, Bart, Clarke

The meeting discussed my Memorandum for the Record dated January 26, 1977, on Mr. McNamara's meeting with African Executive Directors and Alternates. Mr. McNamara said that the EDs did not feel that we were responsive to their requests for information or communicating adequately with them. He felt that we had been unreasonably restrictive and should be more sensitive and willing to make personal contacts in an informal way but on substantive matters. The RVPs agreed that a change in attitude and sensitivity might be required, although they already had close contacts with the African EDs. More could, however, be done at little cost and they would take steps to do so.

SB
February 2, 1977

MEMORANDUM FOR THE RECORD

792/2/225

Policy Review Committee Meeting on Employment Creation and Small-Scale Enterprise Development, January 27, 1977

Present: Messrs. McNamara, Baum, Qureshi, Bell, Bart, Chaufournier, Glaessner, Blobel, Wapenhans, Weiner, Alter, Gordon, Haq, Karaosmanoglu, van der Tak, Burki, Chanmugam, Hyde, Dunkerley

Mr. Baum relayed his own and Mr. Knapp's views to the Committee. He said that directing institutional procurement to SSE could be useful. He had doubts about the proposed technical referral service and thought that UNIDO might handle this. The cost of guarantees and technical assistance to SSEs might be considered a business-extension service and, hence, be covered on the government budget. Mr. McNamara should, in his opinion, not write to DFC managers about our concern for SSE development. He was not sure that the suggested targets for SSE lending could be met. In appropriate cases, passing on Bank funds to DFCs at lower than normal interest rates could be acceptable.

Mr. Karaosmanoglu said that in the field of SSE development we should learn by doing. He was convinced that there would be a direct employment effect by supporting SSEs but not necessarily an increase in the productivity of capital. He did not agree with the proposed technical referral service and thought that UNCTAD might already be implementing a similar proposal.

Mr. Bell and Mr. Wapenhans did not think that Mr. McNamara should write letters to DFC managers and they had doubts that the suggested lending targets would be useful. It was unnecessary to say that the main justification for SSE development was employment creation. In many cases SSEs were more efficient than big companies.

Mr. Chaufournier said that the suggested interest rate policy might create problems with FAC and FED which wanted to subsidize SSE development through low interest rates.

Mr. Qureshi said that capital was important for SSE development but might not be the most important element in such an effort. Technical assistance was at least as important and he had some doubts that it would be practical for the World Bank Group to be involved in such an effort. If we were, we should not only deal with DFCs but also with other financial institutions. We should not give concessional interest rates to DFCs since, in most cases, this would only increase their margins and it would be impossible to trace whether, in fact, the concessions benefited SSEs. Mr. Glaessner disagreed with Mr. Qureshi's last point and said that large margins were required. He also hoped that the Bank would be liberal in financing local-currency costs and working capital.

Mr. McNamara had doubts about the technical referral service. After some discussion, it was decided to do a pre-feasibility study and not include any reference to a technical referral service in the paper. He felt that it might be useful to send letters to DFCs but not necessarily under his signature. He was concerned about giving concessionary rates to DFCs. In exceptional cases this might happen, but as a matter of policy we should not agree to substantial and wide-spread subsidization. Bank funds should be lent to DFCs at standard rates and DFCs should attempt to recover costs when lending to their borrowers. When this was in the way of promotion of SSEs, subsidies for specified costs could be covered from the government's budget as a business extension service.

Mr. McNamara asked the Committee to send their comments to Mr. Gordon and have him prepare a line-in-line-out revision for Mr. McNamara's review.

Mr. McNamara thought that the paper was excellent and deserved wide-spread circulation and Board discussion after the revision.

SB
January 28, 1977

792/2/224

MEMORANDUM FOR THE RECORD

Meeting with African Executive Directors and Alternates, January 26, 1977

Present: Messrs. Khelif, Thahane, Razafindrabe, Gyasi-Twum, Abdulai, Kpognon, and Messrs. McNamara, Damry, Burmester

Mr. Thahane said that he considered the meeting as a follow-up on the memorandum to the Governors of the African Group countries which he still considered a useful means of communication. In particular, the African EDs would like to discuss the following issues with Mr. McNamara:

(a) The volume of Bank Group lending to Africa--the EDs would like to have indicative figures for the volume of IDA lending over the Fifth Replenishment period and the next five years of IBRD lending. This, in their opinion, would take away the emphasis given to yearly lending figures and would instead show the trend in lending. The Bank Group should attempt to have at least one project per year in each African country;

(b) Employment of Africans in senior positions in the Bank--the EDs would like to review progress on this matter with Mr. Chadenet and would also like to see the age limit for African Young Professionals increased to 35 years;

(c) The possibility of disclosing the lending program and the Bank Group's strategy to each Executive Director for his countries; and

(d) How the African Executive Directors could assist Mr. McNamara and the institution over the coming year.

With respect to (a), Mr. McNamara stressed that we did not allocate Bank Group funds by Region but only by country along criteria determined by the Board. He said that he was very reluctant to disclose Regional figures since other Regions would request similar figures when this became known and this could reduce the unity, both within the Bank and among the LDCs themselves. However, on an experimental basis, he would be willing to give the African EDs IDA4 allocations by country and tentative figures for IDA5. He stressed that such figures would be given only to the African EDs and on a strictly confidential and experimental basis. He would not wish to see the issue discussed in the Board. He asked Mr. Damry to find and appropriate date for disclosing these figures, probably some time between the end of the negotiations on IDA5 and the date for the next African Caucus.

As concerns (b), Mr. McNamara said that we had unfortunately not made much progress with respect to hiring Africans for senior positions. We had recently made an offer and we had also received a letter from an African Governor about another potential African candidate. Mr. McNamara said that the African EDs could help us by alerting us of potential candidates. The Personnel Department would then examine the availability of the candidates. Personally Mr. McNamara felt that the problem was only political and psychological. It was at least as important to strengthen the role of the EDs by giving them longer-terms in the Board. He accepted that the EDs could talk to Mr. Chadenet about the employment of Africans in the Bank and about flexibility with respect to the age limit on YPs. Mr. Razafindrabe suggested that Africans could be promoted from within on a fixed schedule. Mr. McNamara said that he was reluctant to do so and it would be better to try and hire Africans directly. Mr. Khelif said that Vice Presidents and Program Directors, during their visits to African countries, should indicate to governments their interest in hiring Africans. He would also like to see an African employed in the Secretariat of the Development Committee, although this did not appear possible at this moment. Mr. McNamara said he would talk to the Vice Presidents about contacting

African governments and with Mr. King at some appropriate time.

On (c) Mr. McNamara said that he did not see any reason why an ED should not know the lending program and Bank strategy for his constituency to the extent it had been disclosed to the country and with the qualification that some countries had specifically asked us not to disclose the lending program to the ED. He also stressed that, in some cases, information, particularly of a political nature, could be too sensitive to be disclosed to the ED. Mr. McNamara said that he would talk to the Vice Presidents and inform the EDs how the information could be conveyed to them. Messrs. Razafindrabe and Khelif said that at times it was important for their credibility to have access to sensitive information as well. Mr. McNamara again stressed that such information could not be disclosed but he asked the EDs, in cases where they considered it justified before their visits to their constituencies, to call him personally to discuss the possibility of relaying information.

Finally on (d) Mr. McNamara urged the African EDs to establish better contacts with Part I Directors to make them better understand the views of the LDCs. He also urged them to persuade their own governments to have closer contacts on policy matters of interest to the Bank Group with governments of Part I countries.

Sven Burmester
January 27, 1977

cc: Messrs. Knapp
Chadenet
Damry
Benjenk
Wapenhans
Chaufournier
Please
Wiehen
de la Renaudiere
Wright
Bart
Paijmans

MEMORANDUM FOR THE RECORD

792/2/223

Policy Review Committee Meeting on Lending for Foodgrains, January 19, 1977

Present: Messrs. McNamara, Knapp, Baum, Chenery, Bell, Bart, Chaufournier, Goffin, Stern, Wapenhans, Haq, Karaosmanoglu, van der Tak, Yudelman, Burki

Mr. McNamara said that 75% of the projected deficit of 45 million tons of foodgrains by 1985 could be found in India, Pakistan, Bangladesh and Indonesia. He would therefore like to have Messrs. Stern's and Bell's opinion of the paper.

Mr. Stern said that the main problem in India was wheat. The coarse grain demand was being met and the Government was pursuing sound policies with respect to rice cultivation. On wheat he questioned whether the demand was in fact as large as outlined in the paper. With respect to the nutritional deficit, he felt that it could best be solved by increasing the productivity and purchasing power of the small-scale farmers, as we are now doing. Except for Pakistan he was not sure that more external capital was required. It was much more a domestic problem requiring internal resource mobilization and different policies.

Mr. Bell said that Indonesia, in cooperation with the Bank, had almost met its demand for foodgrains. Rice production had increased by 50% in the last six years. He would not deny that there was a resource constraint but the Government seemed to be able to keep pace with requirements and even make a dent in the nutritional problem.

Mr. Knapp said that he agreed with the general recommendations of the paper except with the quantified capital requirements outlined in para 43(i). He wondered whether capital inflows were <u>the</u> requirement and suggested that we proceed on a country-by-country basis.

Mr. Chenery said that the demand projections of the paper seemed all right, but the capital requirements for obtaining an adequate supply seemed extremely high.

Mr. Wapenhans asked whether a good deal of the problem could not be solved by rotation of crops and better storage facilities.

Mr. Yudelman responded to Messrs. Chenery and Wapenhans and said that investments in agriculture were becoming increasingly expensive and that we were in close contact with FAO on their studies of crop rotation and storage.

Mr. Baum did not think we could dismiss the problem as lightly as Messrs. Stern and Bell had done. He agreed with Mr. Knapp that we should proceed on a country-by-country basis and consider foodgrain investment within the overall investment plans for the countries concerned.

Mr. Haq said that he had wanted to illustrate how unmanageable the foodgrain problem could become if sufficient attention, both domestically and through foreign assistance, were not given to the problem.

Mr. McNamara said that over the next year we should proceed on a country-by-country basis, particularly for India, Pakistan, Bangladesh and Indonesia. For those four countries he wanted special sections dealing with the foodgrain problem both in the economic reports and in the CPPs. CPS and DPS should continue their work on agricultural subsidies and prices and should report back within a year on whether satisfactory progress had been made on the foodgrain problem.

SB
January 20, 1977

792/2/222

MEMORANDUM FOR THE RECORD

Meeting to Discuss the FY78 Budget, December 23, 1976

Present: Messrs. McNamara, Knapp, Cargill, Goodman, Gabriel, Adler, Blaxall

It was decided that the FY78, FY79 and FY80 programs for IBRD and IDA should be as shown in the table below:

| | FY78 | FY79 | FY80 |
|---|---|---|---|
| IBRD-Amount-Curr $ | 6.1 | 6.8 | 7.7 |
| '77 $ | 5.8 | 6.15 | 6.6 |
| Per Proj-'77 $ | 37.4 | 37.4 | 37.4 |
| No. of Proj | 155 | 164 | 174 |
| IDA-Amount-Curr $ | 2,300 | 2,600 | 2,900 |
| '77 $ | 2,186 | 2,350 | 2,496 |
| Per Proj-'77 $ | 25. | 25. | 25. |
| No. of Proj. | 88 | 94 | 100 |
| Total No. of Proj. | 243 | 258 | 274 |

During the week of December 27, Mr. Knapp would disaggregate the figures by Region and Mr. Blaxall would draft a memorandum to the Regions explaining how to include appropriate slippage factors in the budget.

SB
January 3, 1977