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Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

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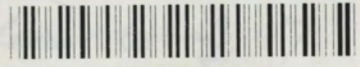
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PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

Mr. McNamara's (IPA) Chronological file (Incoming)
from January - December, 1973

 **Archives** 10

 **1771540**

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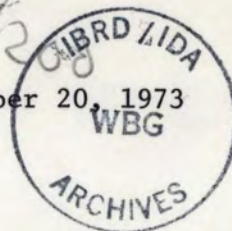
President's papers - Robert S. McNamara Chronological files (incoming) - Chrons 10

DECLASSIFIED
WBG Archives

490/2/16

OFFICE MEMORANDUM

N. 42



TO: Mr. Robert S. McNamara

DATE: December 20, 1973

FROM: M.M. Islam *M.M.*

SUBJECT: PAKISTAN: Amendments to the Credit Documents for Credit
No. 177-PAK for Industrial Development Bank
of Pakistan

12/20

I intended to make a statement at the Board meeting today on the above subject. The point I wanted to raise is given in the attached note. Since, however, this affects my country and it is not customary for any Director to raise a point affecting his own country, I refrained from making the statement. I also did not want to put words in some other Director's mouth.

Instead, I thought of addressing this note to you personally. I shall be obliged if you could kindly respond to this query which I would like to pass on to my government for their information.

Attachment

PAKISTAN: Amendments to the Credit Documents for Credit
No. 177-PAK for Industrial Development Bank
of Pakistan

The proposal before us seems to be to reactivate an old credit to IDBP and to authorize the unspent or unallocated balance of \$10 million approximately out of a total of \$20 million which was the original credit. Apparently this credit was sanctioned in the context of Pakistan when East Pakistan was one of the two wings and the intention of the credit was to meet the needs for industrialization of both the wings of the country.

IDA credits for projects physically located in East Pakistan have been revalidated and separate agreements signed with Bangladesh. But in respect of joint credits/loans like the present one where the intention was to benefit both wings of the country we would like to know exactly what has been the policy of the Bank with regard to revalidation or re-allocation where the operation of credits/loans were not suspended. Is this the policy of the Bank to authorize the unspent balance to be spent in Pakistan? Would it not be proper or logical that a portion of the unspent credits/loans be renegotiated with Bangladesh?

490/2/75

BANQUE AFRICAINE DE DÉVELOPPEMENT
AFRICAN DEVELOPMENT BANK

ADRESSE TÉLÉGRAPHIQUE
AFDEV ABIDJAN
TÉLÉPHONE 256-60
TELEX 717



B. P. N° 1387 ABIDJAN
CÔTE D'IVOIRE

RÉFÉRENCE
DATE

12th November, 1973.



Dear Mr. McNamara,

Thank you for your letter of October 31st, regarding the desirability of having consultations between our two institutions at an early date. Unfortunately, I am not able to accept your kind invitation to come to Washington next month but would suggest a visit starting January 28th, 1974. If that date is agreeable to you, I will come to Washington accompanied by a small number of my senior staff for comprehensive consultations covering all aspects of possible collaboration to help us achieve our expanded programme for ADB and ADF.

My staff have recently held preparatory meetings with your Permanent Mission in Abidjan, and I am asking them to arrange for similar meetings with your Permanent Mission in Nairobi before the end of the year.

I am looking forward to hearing from you at an early date so that I may be able to firm up my travel plans accordingly.

With kind regards.

Yours sincerely,

A. Labidi
President

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

SECTION COMMUNICATIONS
NOV 12 1973

RECEIVED

BANQUE AFRICAINE DE DÉVELOPPEMENT
AFRICAN DEVELOPMENT BANK

ADRESSE TÉLÉGRAPHIQUE
AFDEV ABIDJAN
TÉLÉPHONE 258-60
TELEX 217



B. P. N° 1387 ABIDJAN
CÔTE D'IVOIRE



RÉFÉRENCE
DATE

Dear Mr. McNamara,

Thank you for your letter of October 31st, regarding the desirability of having consultations between our two institutions at an early date. Unfortunately, I am not able to accept your kind invitation to come to Washington next month but would suggest a visit starting January 28th, 1974. If that date is agreeable to you, I will come to Washington accompanied by a small number of my senior staff for comprehensive consultations covering all aspects of possible collaboration to help us achieve our expanded programme for ADB and ADF.

My staff have recently held preparatory meetings with your Permanent Mission in Abidjan, and I am asking them to arrange for similar meetings with your Permanent Mission in Nairobi before the end of the year.

I am looking forward to hearing from you at an early date so that I may be able to firm up my travel plans accordingly.

With kind regards,

Yours sincerely,

A. Laidi
President

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

RECEIVED

NOV 19 11 2:10

COMMUNICATIONS SECTION

190/5/12

For Mr. McNamara's office

APR 25 1973

Dear Mr. Labidi:

By letter of March 21, 1973, Mr. Negre invited the Bank to send an observer to the Ninth Annual Meeting of the African Development Bank in Lusaka, July 2-7, 1973.

We welcome this opportunity to be represented at the Annual Meeting of the ADB. Although I will not be able to participate personally, the Bank will, as in the past, be represented by a senior official. As soon as such person has been designated, we will write to inform you of his name.

Once again, allow me to thank you for your kind invitation and assure you of our continuing cooperation.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. Abdelwahab Labidi
President
African Development Bank
Abidjan, Ivory Coast

SCSchott:msw

cc: Mr. Chauffournier
Mr. Hoffman
Mr. Barry

APR 2 1973

Dear Mr. Labidi:

I thank you for the invitation which you sent jointly with Mr. Gardiner, Executive Secretary of the Economic Commission for Africa, and Mr. Ekangaki, Administrative Secretary-General of the Organization of African Unity, concerning the Conference of African Ministers on Trade, Development and Monetary Problems which will be held in Abidjan from May 9 to 13, 1973.

I greatly regret that I cannot accept your kind invitation because of prior commitments. I fully realize the importance attached to this undertaking, which I understand is designed to arrive at a common African position on some important world problems. I hope I will have an early occasion to discuss these matters with you.

I understand that your invitation is a personal one. If, however, you wish to have a senior official of the World Bank as an observer, I would be happy to assign someone to represent me.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. A. Labidi
President
African Development Bank
B. P. 1387
Abidjan
Ivory Coast

cleared in substance & cc: Mr. Bell
" " & cc: Mr. Benjenk
" " & cc: Messrs. Chauffournier/de Vries
" " & cc: Mr. de la Renaudiere
cc: Mr. Wyss (abidjan)
Mr. McNamara's Office (2)

Typed on March 30, 1973
Central Files with incoming letter
LPChatenay/MLHoffman:mcj

DEC 7 1970

Dear Mr. Labidi:

I understand from your letter of November 9, 1970, that you will not be going to New York in late January as you had expected, and I therefore wonder if you could advance your visit to Washington by one week so that I would be able to see you on Wednesday morning, January 27, 1971, instead of February 3 as originally contemplated. I now realize that I may have to be away during the first week of February.

Mr. Knapp and his colleagues will also be available during the last week of January.

I hope that the suggested time is convenient to you. I certainly look forward to meeting you again.

With best regards,

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. A. Labidi
President
African Development Bank
B.P. 1387
Abidjan, Ivory Coast

cc: Messrs. El Emery
Knapp

AGE:Emery:ea/MLHoffman:mcj

December 4, 1970

Shoaib
Chaufournier
Office of the President (2) ✓

Copy for President's Office

JUN 11 1970

Dear Mr. Labidi:

Mr. El Emery has transmitted to me the substance of your letter to him of May 25 concerning the possibility of a special trip by you to Washington in July on behalf of the African Development Fund.

As I am sure you know, I believe that an African Development Fund, available for lending on concessional terms, would be a very useful adjunct to the facilities of the African Development Bank. I have recently taken this position in a letter which I wrote to Mr. Robert Gardiner, a copy of which is attached for your information. I think it is preferable that my support of the proposed African Development Fund be expressed in a general statement of this type, which you are free to quote if you feel that it would be useful, rather than through direct personal intervention with any specific donor country. Accordingly, I do not believe there is any need for you to make a special trip to Washington in July to discuss this matter with me. I prefer, rather, that we adhere to our earlier arrangement of a meeting in Washington in the fall.

With kind regards,

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Attachment

Mr. A. D. Labidi
Acting President
African Development Bank
B.P. No. 1387
Abidjan, Ivory Coast

RHDemuth:tf
June 11, 1970

Cleared with and cc: Messrs. Chauffournier and Lejeune
cc: Mr. El Emery

June 4, 1969

Mr. McNamara's Meeting with Messrs. Shoaib, Mamoun Beheiry, President of the African Development Bank, and Robert K.A. Gardiner, Executive Secretary of ECA, June 2, 1969

Mr. McNamara welcomed Messrs. Beheiry and Gardiner to the Bank and asked about the lending program of the African Development Bank. In response Mr. Beheiry explained that total commitments amounted to about \$10 million and were expected to go up to a total of \$30 million by the beginning of next year. Mr. Beheiry added that the rate of commitment had to be slowed down because of the uncertain prospects of replenishing ADB funds and the competition in Africa for good projects among bilateral and international (excluding the World Bank) aid givers. Referring to the latter argument, Mr. McNamara pointed out that he would be happy to turn over to ADB for financing as many projects as ADB could effectively handle. Messrs. Beheiry and Gardiner concurred with Mr. McNamara's evaluation that Africa could effectively absorb more capital.

Turning to another subject, Mr. McNamara asked whether ADB was getting sufficient cooperation from the World Bank. Mr. Beheiry replied that cooperation between ADB and IBRD had much improved, although he could not say he was always getting every cooperation he wished. When Mr. McNamara asked Mr. Beheiry for particular suggestions to further improve relations between the two organizations, Mr. Beheiry did not comment other than to say that he was "quite happy the way things were going."

After a short pause, Mr. McNamara explained that the World Bank had substantially expanded its operations in Africa and made appropriate organizational changes. As a result lending to Africa had gone up very rapidly this year and was expected to continue to increase. Mr. Beheiry felt this was a very encouraging sign indeed. Mr. McNamara also emphasized increased Bank Group lending for education and agriculture and both Messrs. Beheiry and Gardiner agreed with the importance of education. They also agreed that it was difficult to determine the types of education needed particularly in Africa. Mr. Beheiry pointed to the dangers of white-collar unemployment which was spreading rapidly all over Africa. To give an example, a country like Sudan had exported 750 teachers to Saudi Arabia and another 500 teachers to Libya.

Mr. McNamara then asked his visitors for suggestions as to what else the Bank could usefully do in Africa. Mr. Gardiner felt that one should start with some of the regional transportation projects resulting from the recent review of the 350 transport studies undertaken so far in Africa. Similarly, the Bank could usefully handle projects resulting from the telecommunications study at present being undertaken. Mr. Gardiner felt that the meetings between UNDP, IBRD, ECA and ADB were useful in avoiding duplication of studies. Hopefully, African countries would also begin to allocate resources in the industrial field in a more efficient manner. He realized, however, that industrialization policies were a highly sensitive issue in Africa. Mr. Beheiry sensed a growing "economic maturity" among African leaders.

Mr. McNamara concluded the meeting by expressing the hope that Mr. Beheiry and Mr. Gardiner would feel free to draw to his personal attention areas where the Bank could improve its contribution to African development.

cc: Mr. Shoaib
Mr. Chaufournier
Mr. El Emary

Rainer B. Steckhan

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 20, 1970

FROM: A. G. El Emery *ag el s*SUBJECT: Cooperation between IBRD and ADB

In a private meeting in Abidjan Mr. Labidi, Acting President of ADB, told me that he and the Board of ADB felt that the relations between IBRD and their bank had been very frigid. They understand that IBRD was not to blame. He said that he had read their files on that matter and he understood how the coolness in the relations had developed. However, he would like the World Bank not to take the past as an indication for the present or the future. He added that the ADB Board and himself feel that they need the cooperation and the help of the World Bank. He said that they lack the experience and are only beginners in the field of development investment, and in a small way. They would like to go into projects that would require joint financing from both institutions. One of the main reasons is that they would like their officers to join our appraisal missions and work under our guidance and thus get trained in the field. The same thing applies to the supervision missions. As to the economic missions, Mr. Labidi said that so far ADB has not many economists but when these are available he would like to send an economist on some of our missions in Africa to be one of the team under the leadership of the Bank mission head. ✓

He requested that the Bank lend to them a good financial analyst. He said that he knew that the World Bank needs all its staff members and particularly in these days, but nevertheless he repeatedly requested the Bank's help in this respect. They need a good financial analyst for one or two years, particularly to train their young officers. ✓

He said that meanwhile he would like to send two categories of officers to the Bank, the first to EDI and the second to the Area and Projects Departments to be trained. Actually one name was submitted to EDI for the coming Agricultural Course in July of this year. As to the second category, he said that he would like to have the Bank's agreement that his officers would work in the departments and be considered as belonging to the department. I told him that in our meetings and correspondence with them we had suggested the EDI courses; also we had agreed to train in the Bank one ADB officer at a time. He was asking if we could accommodate two at a time for a period of six months to a year. I told him that I would have to find out. ✓

He asked if it would be convenient for you to see him in the near future. He would be prepared to come over and explain to you the situation of ADB and their desire to collaborate fully with the Bank. I told him that I was not sure that this would be the best time for a meeting. I explained to him that until the end of July you would be busy with the budget, the third IDA replenishment, the annual report and the many projects that are scheduled for Board presentation. I suggested that sometime after our Annual Meeting, towards the end of October or during November, would be a better time. In giving

for you Bank

this reply I had in mind that by then the ADB would have had its annual meeting when its Board of Governors would elect the new President. However, if you would like to see Mr. Labidi during the coming weeks I am sure he would be prepared to come on short notice.

Mr. Labidi is Tunisian, is one of the four ADB Vice-Presidents and was chosen by the Board to act as President. He is one of the four candidates, so far, for the presidency; the other three are Dr. Kaissouni of U.A.R., Mr. Nègre of Mali and Mr. Vincent, the Nigerian Vice-President of ADB.

In conclusion, I found that the atmosphere among the management of ADB and its executive directors has changed a good deal. They talk more realistically than they did in the past. Some of them go as far as saying that they would be prepared to modify the Charter of ADB to allow non-African countries to participate in its equity capital. They realize that unless they get soft money the ADB will always be in trouble; and some of them say that if the participation of non-Africans in the equity capital and their representation on the Board are the necessary conditions for getting soft funds they would be prepared to agree to do it, although this would mean another two years' delay, the time required to get the Charter modified and the modifications rectified.

Going back to the cooperation between the two institutions, my recommendation is that we should go out of our way to help ADB in any way we can. This is an institution worth maintaining for the good of Africa. If it became active it would be a good instrument for getting the small African countries together. In fact, the modest work they did in trying to form a community of Ghana and the Entente countries promises some results in the near future that are bound to be beneficial to the six countries and it may form a nucleus for a bigger group.

✓
El Emery to J. Now
as a special
request

cc: Messrs. Knapp
Aldewereld
Demuth
Friedman
Shoaib
Cope

cc: Messrs. Benjenk
Chaufournier
Krishnaswamy
Lejeune
de Wilde
Engelmann

cc. Mr. McNamara's office

SEP 16 1976

Dear Mr. Labidi:

I would like to thank you for your letter of August 20 in which you indicated your appreciation for the cooperation that has developed over the years between the African Development Bank and the World Bank Group.

We too would like to express our thanks for the efforts made by the ADB since its creation and particularly during your term as President, toward the development of smooth and effective working relations between our two institutions. This cooperation has, of course, been highly beneficial to our member countries.

I would like to wish you all success in your new endeavors.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. Abdelwahab Labidi
62 Bis Rue de la Tour
75016 Paris
France

September 15, 1976
cc. Mr. Chaffey
XdelaRenaudiere:tp

WORLD BANK / IFC
OUTGOING MESSAGE FORM
(TELEGRAM/CABLE/TELEX)

IBRD
 IDA
 IFC
 ICSID

TO: DR. KWAME FORDWOR
C/O SECRETARIAT DES ASSEMBLEES ANNUELLES
BAD ET FAD
DEPARTEMENT DES FINANCES

DATE: MAY 5 1975

ORIGINATOR'S EXT.: 3535

COUNTRY: KINSHASA
ZAIRE

CLASS OF SERVICE: Telex: 939 KIN

CABLE NO. & TEXT:

HEARTIEST CONGRATULATIONS ON YOUR ELECTION AS PRESIDENT OF
AFRICAN DEVELOPMENT BANK STOP

(Signed) Robert S. McNamara

ROBERT S. MC NAMARA

INTBAFRAD

NOT TO BE TRANSMITTED

REFERENCE: African Development Bank	AUTHORIZED BY (Name): Robert S. McNamara	
DRAFTED BY: EPWright/lgl	DEPARTMENT:	
CLEARANCES AND COPY DISTRIBUTION: cc Messrs: Baum, Please, L. von Hoffman de la Renaudiere, Merriam Dutt	SIGNATURE (Of individual authorized to approve):	
	SECTION BELOW FOR USE OF CABLE SECTION	
	CHECKED FOR DISPATCH:	

February 12, 1975

Dear Mr. Labidi:

Thank you for your letter of January 13, 1975 (Ref: ORG 3/1 obs), inviting me to attend the Eleventh Annual Meeting of the Board of Governors of the African Development Bank and the Second Annual Meeting of the African Development Fund, to be held in Dakar from May 5 to 9, 1975.

I regret very much that I will not be in a position to travel to Dakar on those dates. I am therefore nominating Mr. Roger Chaufournier, Regional Vice President, Western Africa, to represent the World Bank Group at the Annual Meetings in Dakar.

I extend to you my best wishes for a successful session.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. A. Labidi
President
African Development Bank
B. P. No. 1387
Abidjan, Ivory Coast

Mahmud Burney:RMcN:mss

JUL 9 1974

Dear Mr. Labidi:

Thank you for your letter dated June 10, 1974 on the subject of the tenth anniversary of the African Development Bank to be celebrated in Abidjan on November 14 to 16, 1974.

I am particularly appreciative of the invitation extended to me personally to attend the anniversary meetings and would have been honored to participate. However, plans for a visit to several member states at that time of the year are already well advanced. I shall not be in a position, therefore, to be in Abidjan on the dates in question and must regretfully decline your invitation.

I want to assure you of the World Bank's continuing interest in the progress of the African Development Bank and would be pleased to nominate a senior World Bank officer to take part in the anniversary celebrations, if you so desire.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. A. Labidi
President
African Development Bank
B.P. No. 1387
Abidjan, Ivory Coast

cc: Mr. McNamara's Office (2)
Mr. Chauffournier
Mr. Husain

Central Files with incoming letter

LPChatenay/SEBoskey:mmcd
July 2, 1974

APR 29 1974

Mr. A. Labidi
President
African Development Bank
P.O. Box 1387
Abidjan
Ivory Coast

Dear Mr. Labidi:

I am writing to you about the program for the control of river-blindness (onchocerciasis) in the Volta river basin. You know, I think, about the establishment of an initial fund of \$7.5 million to cover the first year's commitments which is made up of contributions from six Governments and the World Bank. This is all grant money and available to finance procurement in any part of the world. The fund will be administered by the World Bank and will be used to finance the expenses incurred by the World Health Organization as executing agency for the program of vector control. The UNDP and FAO are also giving the program their full support.

We are now giving our attention to the organization of the external financing required for the remainder of the first six years of the program (1974-79), and we are planning to convene another meeting of donor and participating governments and international agencies in Paris on June 26-27. I very much hope that you will be able to send a representative to this meeting, as you did last year, and we shall be issuing formal invitations early in May. The purpose of the meeting will be to review progress to date, to discuss the inter-governmental machinery for the management of the campaign and to review the costs and financing for the first six-year phase on the basis of revised cost estimates which the WHO is currently preparing (to take account of inflation).

The total cost for the first six years is now likely to work out at around \$50 million, including allowances for price escalation and contingencies, and we would hope to obtain about three-quarters of this amount from the initial contributors, all of whom have indicated an interest in continuing to support the program. However, we will need additional donors to provide the remaining \$10-15 million, and I wonder whether you might be able to consider recommending to your Board a small grant of up to, say, \$2 million from the African Development Fund. The program has the full

Mr. A. Labidi

- 2 -

backing of the seven African Governments directly involved, and I am sure that participation by the Fund in this important regional project would be widely welcomed.

Mr. Peter Wright of our West Africa Regional Office has already discussed the program with Mr. Sakaf and he will be happy to provide any further information your staff may require.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

cc: Mr. J. Burke Knapp
Mr. R. Chauffournier o/r
Mr. X. de la Renaudiere o/r
Mr. M.L. Hoffman
Mr. Delaume
Mr. Bazin
Mr. Wyss (PMWA)
Mr. Ljungh (2)

EPWright:vr

April 23, 1974

Re: Riverblindness



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



OFFICE OF THE PRESIDENT

APR 3 1974

Dear Mr. Labidi:

Thank you for your letter of January 30, 1974 (Ref: ORG 3/1 obs), inviting me to attend the Tenth Annual Meeting of the Board of Governors of the African Development Bank and the First Annual Meeting of the African Development Fund, to be held in Rabat from July 1 to 6, 1974.

I do not expect to be in a position to travel to Morocco on those dates. I am therefore nominating Mr. Roger Chauffournier, Regional Vice President, Western Africa, to represent the World Bank Group at the Annual Meetings in Rabat.

I extend to you my best wishes for a successful session.

Sincerely,

Robert S. McNamara

Robert S. McNamara

Mr. A. Labidi
 President
 African Development Bank
 B.P. No. 1387 Abidjan
 Ivory Coast

I enjoyed visiting with you in Washington - many thanks for the opportunity

LABIDI
PRESIDENT
AFRICAN DEVELOPMENT BANK
TELEX 717
ABIDJAN

FEBRUARY 26, 1974

TELEX

IVORY COAST

I HAVE JUST RETURNED FROM OVERSEAS TRIP AND FOUND YOUR MESSAGES ABOUT YOUR VISIT MARCH 9-13 STOP I LOOK FORWARD VERY MUCH TO MEETING YOU AFTER MY RETURN TO OFFICE ON MARCH 12 STOP WITH REGARD TO YOUR PROPOSED MEETING WITH REGIONAL BANK PRESIDENTS ON THAT TUESDAY I REGRET THAT I MUST BE IN THE CHAIR AT MEETING OF BANK BOARD OF EXECUTIVE DIRECTORS THAT MORNING STOP I WOULD BE GLAD TO WELCOME YOU AND YOUR COLLEAGUES TO LUNCH HERE AND WE COULD CONTINUE DISCUSSIONS AFTERWARDS STOP IF THIS ACCEPTABLE TO YOU MY OFFICE WILL MAKE CONTACT WITH YOUR COLLEAGUES STOP REGARDS

ROBERT S. MCNAMARA

Mr. William Clark
External Relations

cc. and cleared :
Mr. A. Ljungh
Mr. P. Wright

WDClark:sf

December 6, 1973

Dear Mr. President:

Thank you for your letter of November 12 which arrived when I was travelling in Asia. I very much regret to say that again it seems to be difficult to find a mutually convenient time for a meeting which I consider very important. My problem is that I have a long-standing commitment to visit a number of countries in Eastern Asia and the Pacific during the latter half of January and early February 1974. I plan to return to Washington about February 5, and would suggest any date during the remainder of the first half of February for our meeting. If that is not convenient, could we plan on the first half of March.

I very much hope that you would be able to come in one or the other of these periods. My staff and I are looking forward to your visit.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. A. Labidi
President
African Development Bank
B.P. No. 1387
Abidjan, Ivory Coast

ALjungh:ml

Mr McNamara

Mervin Weiner is
meeting with Isbister
and you will have a
report before next
Board meeting.

ithj 11/28

3311

OFFICE MEMORANDUM

N. 490/2/74
200
BRD/IDA
WBG
18/11/73

TO: Mr. Robert S. McNamara through Mr. P.N. Damry DATE: November 20, 1973

FROM: Claude M. Isbister *C.M.I.*

SUBJECT: INDIA: Financing of Indigenously Manufactured Tractors under Six
Agricultural Credit Projects - IDA/R73-116 of November 27, 1973

The following questions have been received from my Canadian authorities concerning the tractor component of the Agricultural Credit Projects covered in the subject memorandum.

- 1/27
1. It is proposed that IDA resources be used to finance locally manufactured tractors and this is being brought forward as an amendment to several agricultural credit projects. The question is whether this is merely condoning protectionism or is it a considered policy of industrialization in India? Tariffs on tractors have been increased since some of these agricultural credit projects were approved by the Board and it appears from Paragraph 12 that tariffs on tractors and parts, and price control, are not very well articulated. Not much is said about this in the report. If IDA or IFC were appraising a project for the manufacture of tractors in India, these relevant questions would be examined to see whether this is a good use of resources. Are the normal standards of IDA grants being relaxed in this case because of the form of the proposal?
 2. Could IFC or domestic sources of finance be used instead of IDA financing for the local manufacture of tractors? Are the factories which will receive credit funds owned by the Government, local private sources or jointly with foreigners?
 3. What type of tractors are going to be manufactured? What about standardization? Where will spare parts come from? Are there licensing arrangements involved and if so, what is the national origin of the associates?
 4. Does part of the justification for the proposed change relate to the excess cost of imported tractors over those produced locally? If so, how has this price differential been effected by the tariffs and excise taxes referred to in Paragraph 8 imposed after the Gujarat, Punjab and Andra Pradesh projects were signed?
 5. In reference to the delay on tractor procurement, what is the exact status of this procurement? Have tenders been called and received?

President has seen

490/2/13

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: William M. Gilmartin *WMB*

SUBJECT: Mrs. Gandhi's Economic Options and Political Inhibitions

DATE: November 1, 1973

Introduction

The theme of this note is India's difficulty in planning for accelerated economic growth and greater social justice in current circumstances of supply shortages and sluggish production, severe resource constraints, and inflation. Attention is also given to policy options for improvement of the economic situation in the near term and the political as well as economic complications which surround consideration of these options.

The inhibitions which seem to beset Mrs. Gandhi and her Government in dealing with India's currently and chronically difficult economic problems appear to be strong and perhaps puzzling. While the nature of these inhibitions is complex, a starting point for understanding them must be India's economic problems themselves which are certainly formidable enough to give any Government or politician pause. As explained in recent Bank papers, India's economic situation of the last two years has been one of serious short-run adversities piled onto all of the longstanding obstacles to a more dynamic economy and better living standards. Poor harvests, power and other industrial shortages and unmanageable budgets and their inflationary consequences have been both manifestations and aggravation of India's chronic economic disabilities - its harsh, unreliable and over-populated environment; slow, uneven and poorly distributed agricultural development; technology, administration, and management which does not measure up to development requirements; low saving; declining opportunities for import substitution; sluggish exports; and the prospect of rapidly mounting import requirements and deteriorating terms of trade.

Current Problems

There are a few bright spots in this rather gloomy panorama. A very good Autumn harvest is predicted not only for food crops but also for agricultural raw materials including cotton, jute, sugar and vegetable oils. Exports have also been doing well and have made it possible so far to avoid serious inroads on reserves despite sharply increased food imports and adverse movements in the terms of trade. (Reserves are still equivalent to about five months imports).

Furthermore, on the food front there has been a sensible reversal of nationalization policy with regard to trade in rice after the debacle of recent nationalization of the wholesale trade in wheat. Rice procurement prices have been substantially raised to facilitate procurement and it is the apparent intention of the Government to pass the increase on to consumers

rather than further distort the lop-sided budget. Food supplies will nevertheless continue to be tight for at least another six months, even allowing for a good rice crop, the cash imports purchased this year, and for the recent USSR wheat loan of 2 million tons.^{1/} The next wheat harvest starting in April 1974 will, if it is favorable, provide the first opportunity for raising official food distribution from the current low levels (of 7 or 800,000 tons a month compared with the need for about a million tons). The rebuilding of surplus food stocks used during last year's shortages will have to await further favorable harvests probably combined with imports. (The obligation to repay the USSR wheat loan in kind from 1976 will add to the problem of stock accumulation). Indian food self-sufficiency thus remains an elusive but increasingly important goal in a world of uncertain food surpluses. With continuing food shortages and increased procurement prices, it will for the time being be difficult to hold the food price line (up by 23 percent in the last year).

There have also been recent favorable policy moves affecting industry. These have however been modest; less restrictive interpretation and administration of existing regulations of private industry rather than marked changes in policy direction. The object is to give a boost to the sluggish industrial sector where growth has averaged less than 5 percent for the last five years and has currently slowed even further after a brief spurt in the first half of last year.

The problems of industry are manifold. They include both supply constraints and demand constraints - industrial activity which is curbed for lack of inputs of goods and services and activity which is below capacity for lack of sufficient demand. Supply shortages have been widespread in critical requirements like steel, non-ferrous metals, cement, fertilizer and other chemicals, paper, vegetable oils, coal, power and transport. Import supplements have not been feasible, or at least available, because of the non-tradeable nature of some of the shortages (power and transport in the short run), world-wide shortages (fertilizer and for a time steel), and foreign exchange constraints. Some of these shortages are attributable in part to operations below rated capacity for technical and management reasons as in the cases of steel, fertilizer and power. In few of these cases of crucial shortage is there prospects of easier supplies vis-a-vis demand in the near future. Construction is underway of a large steel mill, more than a dozen fertilizer plants and additional power capacity. Power and fertilizer output will be rising in the near future but it will be another two years before new steel capacity is in production. In none of these however, nor in coal, cement, non-ferrous metals, paper and most probably petroleum is the supply situation likely to be adequate in relation to demand within a five year span.

New projects for increased production of critical raw materials seem destined to move slowly for several reasons - the generally preliminary state of project preparation, shortage of financial resources for major expansions, insistence on domestic procurement wherever possible, and in the case of the private sector inadequate incentives because of the pressure of costs against price ceilings as well as all the uncertainties associated with material shortages, labor relations and industrial policies.

^{1/} This is an interest free loan repayable in kind, after two years grace, over a five year period.

It would not be correct, however, to think of industrial problems only in terms of supply constraints. Along with this there is also extensive and usable capacity for which there is insufficient demand. Most of this is in intermediate and capital goods industries and reflects slow-growing and currently sagging levels of public investment (mainly for budget reasons) as well as limited private investment activity because of problems of incentives and uncertainties mentioned above. Some of these industries have been finding export outlets for their capacity and this has been one element of the recent export improvement. But this export development is minor in overall industrial demand. Severe competition in export markets still seems a serious deterrent and there are undoubtedly other obstacles to industrial exports about which we are currently conducting a special study with the help of Indian consultants.

Of course, industries with usable excess capacity would probably also soon run into supply constraints if they were to try to expand in response to a revival of demand. Consequently the use of this capacity would require, along with greater demand, an increase in imports of necessary raw and intermediate materials, an effective system of priority material allocations, and short term measures to improve power supply by means of imports of quickly operable generating equipment.

In the above probably overly brief account of India's economic difficulties, I have tried to emphasize short term problems. The reason for this is the necessity, as I see it, to make a start on raising production as soon as possible through whatever practical potentials and feasible measures are available in the short-run. This should be considered an essential first step in any longer term strategy to achieve a widely contributed and widely shared acceleration of economic development.

Longer Term Planning

Even assuming effective short-run measures for output stimulation, much still remain to be done in the planning and preparation of operational programs to meet longer run objectives of growth with social justice. The heart of India's Fifth Plan strategy is likely to consist of programs to raise agricultural productivity and employment on rain-fed as well as irrigated areas, with wide participation of small farmers as one of the main means to achieve the redistributive objectives; to raise substantially industrial production and employment through a large program of industrial investment (about two-thirds public and one-third private); reduce the shortcomings of the infrastructure, especially the gap between demand and supply in power and transport; raise export capability especially in manufactures which, with further import substitution, could improve the balance of payments; and finally extend social services with emphasis on the "minimum needs" of the poor as another means of meeting redistributive objectives.

Whether there is as yet practical operational content to this strategy remains to be seen when the Plan reaches its overdue completion. There are reasons to be skeptical. Many of the critical paths toward Plan objectives remain to be charted, their interrelationships to be reconciled, and their feasibility to be demonstrated. The internal consistency of final year objectives has undoubtedly been formally established but this is only as relevant as the probability of reaching the objectives which in major cases

appears low (steel, coal, power, cement, fertilizer are conspicuous examples). Furthermore, in the difficult areas of small-farm development, especially in rain-fed agriculture, there are technological problems still to be overcome, as well as weakness of institutional and administrative capacities for the assessment of local potentials and the transmission of the technologies and inputs, the rearrangement of cropping patterns and the provision of infrastructure. Went

One can also be skeptical about meeting the resource requirements, both domestic and foreign, of forthcoming development plans. These, even after some probable juggling for internal consistency's sake, are likely to show sharply rising resource requirements. In contrast the current actual trend of resource availabilities for development is down and is likely to continue so or at best to flatten out during at least the early part the new Plan period (1974/75 - 1978/79). Development expenditure, especially on social programs including family planning and new project starts is taking the brunt of current efforts (still of only limited effectiveness), to limit monetary expansion (running at an annual increase of 15 per cent compared with less than 2 percent in real output in the last two years and probably 5 percent this year). ↙

Finally, administrative ineffectiveness, an essential characteristic of a "soft-state" as Gunnar Myrdal has described India, is of course another pervasive obstacle to planned and centrally guided development. 1/

With all this, it is probably only realistic to expect the Fifth Plan to be a need-based indicative Plan, even in the public sector, rather than a comprehensive layout of integrated development programs for the next five years. This is nothing new. It is really what all of India's Plans have been. Production and welfare goals have never been reached. Resource assessments have always been high and inter-related material paths have never been charted over time let alone followed. Nevertheless, there is nothing wrong with indicative planning as guidance toward social and economic aspirations, provided it is recognized as such and done with some realism. ↙

The need for realism in the current Indian context suggests again the emphasis on short run policy options to create conditions conducive to the pursuit of longer term production and distributive aims. Doubt about the feasibility of such pursuit in currently prevailing circumstances has prompted some responsible suggestion that the next Plan should be deferred

1/ As the central bank has recently noted, "What has gone wrong in the past is not so much the enunciation of tasks to be done as the manner of doing them. This has been apparent in the execution of public sector investments in industry, transport, power, in the organization of distribution of essential commodities, in resource mobilization, control of monetary and credit operations, tax collections and so forth. The point is not that these difficulties exist but that effort to remove them have been impeded by political and social factors". ↙

while improving the climate and the preparation for faster development. This would seem unfortunate since there is no reason why planning should exclude first steps and realistic assessment of constraints in working toward longer term objectives.

Economic Policy Options

The short run imperatives would appear to be first, an improvement in the domestic and foreign resource situation; second, an increase in production based on the unutilized potentials of existing productive capacity and a revival of investment activity; and third, to take whatever measures, including price stabilization, which are at hand to give substance to the social justice commitments of the present Government. The important question, of course, is what feasible options are open for early and positive moves in these directions - excluding for the moment the question of political feasibility. Conditions conducive to improvement have been recently enhanced by the good crop prospects and the Russian contribution to food imports. There are a number of other moves which would seem economically feasible and probably effective in advancing the process of improvement. Some of these are as follows:

1. Possibilities for greater resource mobilization and control include (a) curbs on non-essential expenditure and improved revenue administration (of probably fairly limited scope in the near term); (b) pressure for greater fiscal discipline in the states; (c) measures of credit control including higher interest rates to attract savings; (d) heavier taxation of luxuries and luxury property; and (e) perhaps most important, the inclusion in the tax system of medium and upper agricultural incomes which are now hardly taxed at all (procedures for effective agricultural taxation have been devised but for the most part not adopted).

2. The second category of current options are those to boost production and investment in the short run. Beyond the immediate food outlook prospects for the next Spring harvest are less clear. This is not quite so dependent as the Autumn harvest on weather and hinges a great deal on availabilities of fertilizer, tube well and lift irrigation and electric power to operate the wells and pumps. Fertilizer is expected to be in better supply than last Spring but still insufficient because of lagging domestic production and world supply constraints. There should still be time however, to ensure fuller operation of pumps and wells through priority power allocations. Meanwhile it is important to plan and order more generously if possible, the fertilizer requirements for the Autumn and Spring crops of 1974/1975.

In industry the prime need is to start an investment revival. For the moment the budget allows little room for boosting public investment to stimulate private activity. However, a private revival could probably be started in other ways - firstly by removing the severe disincentives caused by pervasive and increasingly unrealistic price ceilings (accompanied not only by disinterest in new capacity but by flourishing black-markets where margins are high and untaxed); secondly, as in the case of fertilizer by larger imports of scarce materials and balancing equipment (including power

generators) even at the expense of some drop in foreign exchange reserves; thirdly, expeditious processing of industrial licensing applications (for which a promising program has just been announced) along with further relaxation of restrictions on larger firms; and finally high level protection for political attack of officials who in the process of more liberal industrial licensing and pricing administration are vulnerable to accusations of "overly zealous and unduly sympathetic" consideration for larger firms.

There is of course no guarantee that such measures as part of clearly stated policy support for private industrial expansion will necessarily generate an industrial boom. The private industrial community is not particularly aggressive or competitive (although with numerous exceptions), and after years of shelter behind India's highly protected market, industrial success is more apt to go with agility in the maze of government controls and restriction on competition than with drive for expansion and efficiency. Nevertheless some and perhaps a large response in industrial investment could be expected to follow relief from price and other policy restrictions and supply shortages. This is of course a self reinforcing process which should also take up some of the slack in intermediate and capital goods capacity and all this as it picked up momentum would help not only with a larger real output but also a larger generation of fiscal resources.

One further option for industrial improvement lies in the possibility and the urgency for promotion of industrial exports. The potential for this is large because of India's large industrial capacity and the fact that manufactured exports (except in a few cases like cotton and jute textiles) are very small in relation both to Indian capacity and world trade. The need here is for a review of export incentives, removal of disincentives (of which there are many), and efficient administration of export procedures (where room for improvement is still considerable).

The above is not of course meant to exhaust the problems of Indian industry and the possibilities for more industrial dynamism. It is again focussed on some of the measures which could be pursued in the near future.

3. The third category of policy options are those which could have early benefit for the poor. Of course financial stabilization and output promotion, would to the extent of anti-inflation effectiveness, be of particular benefit to the very poor on whom the burden of rising prices and lagging wages has been heavy. This is true not only of the urban poor but also of the large part of the rural population which depends on wages and on markets for most subsistence. Agrarian reform is another major opportunity at hand for improving the lot of large numbers of rural poor. It would present procedural and institutional difficulties but these are surmountable and the real obstacles are political.

The above catalogue of options is not unfamiliar to the Indian Government. There has been extensive public discussion and a fair consensus outside of professional political circles about measures to improve the economic situation. The consensus has included leftists who accept the need to relax private industrial restraints for the time being as a necessary compromise with goals for redistribution of economic power. Nevertheless, policy in these directions has been hesitant and limited.

The question then is: Why these inhibitions of the political leadership about positive economic policy moves? An answer to this must in part be speculative and for such speculation possible policy options may be considered according to the kinds of inhibitions they arouse.

Some of the options are just plainly difficult, like some of the suggested fiscal measures, and others are risky, like options which would impinge on reserves. Concern about adverse reserve effects of more liberal imports of crucial materials and equipment is understandable. Real relief here could add \$ 200 million or so, a year to reserve utilization at current aid levels. Reluctance in this direction arises from food and aid uncertainties, rising import prospects and distaste for involvements with the IMF. Except for the anti-IMF bias, these are the concerns which constitute the case for continuing and increasing aid (US Embassy personnel here are strongly questioning this case these days). On a need basis, exchange deficits are likely to increase and "zero net aid" seems increasingly elusive in calculations of the Planning Commission although this is not yet reflected in official pronouncements. The injunction, therefore, to import more critical supplies (as part of a production oriented package) does involve a gamble but one which seems worth taking for a time at present reserve levels and with the second line of support available from the Fund.

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should I
encourage
P.M.

Ideological and Political Complications

Other economic policy inhibitions appear to be ideologically or politically motivated. On the ideological front much has been made of the political dangers for Mrs Gandhi and her government of departures from their commitments to socialism and social justice. Such political dangers are said to inhere partly in widespread impatience with the lack of social achievements, but more especially mass disillusion which would allegedly be aroused by signs of departure from social commitments.

I doubt that there is much substance to this explanation. In the first place except in Tamil Nadu there is now no strong political opposition outside the Congress Party, either from left or right. Political controversy certainly exists but is of real political significance mainly within the Congress itself and threats from outside arise as in U.P. only where the Congress is weakened by internal dissension. There is a vocal left wing of the Congress which constitutes itself as the Party conscience in adhering to ideological commitments. But this wing has only limited real political strength based mainly in West Bengal and Kerala. Mrs Gandhi has had no qualms about crossing this part of the party when it suited her purpose and on two occasions has done so openly with impunity and with hardly a murmur of dissent (when she ordered the dissolution of the so-called Socialist Forum within the Party, and when she drew back from nationalization of the rice trade after a stern warning against intra-party dissent on this or other issues). The notion that Mrs Gandhi has built a mass political following on the basis of her commitment to social justice and that such support is vulnerable to any signs of retreat from this commitment seems to me a misreading of the political awareness of the Indian masses and of the structure of the Congress Party. (I will return to this point below.) There has been recent popular political dissatisfaction over food shortages and high prices. But this has been almost entirely urban. In the countryside, which is where most of the mass strength of the Congress lies, there has been little sign of political dissent vis-a-vis Mrs Gandhi despite the static and unsatisfactory state of rural conditions.

Nevertheless, Mrs Gandhi does clearly appear reluctant to take the wraps off private industry, especially large private industry, in the interest of industrial revival. And the best explanation for this seems to me to be her deep personal attachment to socialist objectives within a democratic framework and the means thereto which appear to include an ever diminishing role of private industrial and commercial enterprise. With this probably goes a suspicion that expedient temporizing with powerful private interests could start processes which would be difficult to reverse or control and therefore inimical to India's longer run social interest. 1/

1/ Particular private interests can be, and apparently are, reconciled to the system of licenses and controls and to an ostensibly unsympathetic governing party and bureaucracy by means of favored treatment in return for bribes and party contributions. One has the impression on the unreliable basis of hearsay and consensus that this is widespread and increasing. A common bond among business, bureaucrat and party is the considerable advantages to be gained all around from the purchase of special favors within a restrictive system.

This I think may be a more convincing explanation of the modest, tentative and grudging nature of recent industrial concessions, than concern about endangering the Party's political image or the ideological underpinnings on which Party strength is supposed to rest. There is no real basis for an assessment of the influence of Indo-Soviet relations on economic policy.

Ideology is however no explanation for virtual paralysis of policy when it comes to agricultural measures with potential for positive contribution to both social justice and resource mobilization - agrarian reform and agricultural taxation. These are measures which run head-on into the interests of those who constitute the real power foundations of the Congress Party; the larger and better off farmers and land owners of rural India. And a word may be said about their role in the Congress for a better understanding of the nature and social outlook of the Party and the government.

In the first place, the Party is not a monolithic structure united under the leadership of Mrs Gandhi. It is rather a collection of diverse regional and local concentrations of political power built upon parochial interests of region, language, race, religion and caste. Within this parochial context leadership also depends on the economic power that goes with land ownership and affluence. In the States, political processes consist of shifting alliances among these local and regional power constellations and their leaders. The latter are leaders by virtue of their ability to deliver the support and the vote of their following. There is not much to suggest that the political motivations of this following extends beyond personal support for individual leaders, grudging or otherwise, and the kind of economic power and parochial interests which they represent. The notion that political power can be built on ideological appeals to these mass followings over the heads of their leaders seems to have little basis in the Indian political context. In its foundations the Congress Party strength comes mainly from the better off elements of Indian agriculture, a "government of kulaks" as it has been called, and this explains a lot about economic policy or lack thereof. It also explains Mrs Gandhi's inhibitions about confrontation with important agricultural interests despite a two-thirds majority of the Congress in Parliament. The single largest grouping of Members of Parliament according to social and occupational origin are those from an agricultural background.

Following her landslide political victories of 1971 and 1972* and the country's adulation after the Pakistan war, Mrs Gandhi did make a serious effort to consolidate her control of Congress politics in the States through central influence in the selection of state leadership. This has not been effective and has only added a further central dimension to the factional struggles which go on for party power in most of the States. At present five states are under central administration ("President's Rule") after the collapse of Congress governments. Just recently it would appear that Mrs Gandhi has been unable to swing the necessary Party support for a new Chief Minister of her choice in Rajasthan and won acceptance for her selection in U.P. only with great difficulty.

All this is cited only to support the view that Mrs Gandhi's

* (with Congress majorities in 16 and Congress-led governments in another 3 of the 23 States)

political strength for independent policy leadership is circumscribed in many ways by the factional divisions of the Congress in all but two or perhaps three of the States. This is not to suggest any threat to Mrs Gandhi's leadership. There is none. It is only to indicate her continuing necessity to be preoccupied with the shifting political balances within the Party. It is important from this standpoint that the leaders of contending political forces within the Party, while divided by various personal and parochial loyalties, share in large part a common background of commanding positions within the complicated economic and social hierarchies of rural India. This upper rural background and outlook of the basic Congress structure is obviously of importance in understanding the inhibitions of Mrs Gandhi and her government in matters like agrarian reform and agricultural taxation. Characteristic conservative upper rural class suspicions of private urban industrial and commercial interests probably also coincide with some of the similar suspicions which Mrs Gandhi holds for different reasons. This may explain in part the vigilance and concern in Parliament which extends well beyond the left, for deviations from policy about curbs on larger scale industry. And while this may broadly coincide with Mrs Gandhi's views, it is probably also a limitation on her political flexibility to modify policies toward industry in the interest of current production needs. It is also a factor to be reckoned with, not only in land reform and agricultural taxation, but in other agricultural programs which may impinge on rural heirarchical relationships in the interest of those on the bottom rungs of the heirarchy.

490/2/12



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

OFFICE OF THE PRESIDENT

October 26, 1973



MEMORANDUM FOR MESSRS. BAUM AND YUDELMAN
CHENERY AND STERN (You may be interested only
in paragraph 2)

SUBJECT: Notes of Meeting with A. H. Boerma

This morning Boerma and I met to discuss the four points which are referred to in the attached papers, presented by him to me. I made the following comments on his proposals:

1. "Further strengthening of the FAO/IBRD Cooperative Program"

a. We would be prepared to support a 1974-75 biennium budget of more than \$9.1 million in order to provide for more than five additional professionals; we understand, however, that he is not in a position to accept such a budget increase.

b. Our formula for cost-sharing with UNIDO is exactly the same as that with FAO (I gave to Boerma a copy of the attached memorandum from Shirley Bosky).

c. Because it is not possible to increase the staff of the Cooperative Program to the level necessary to support operations, we do not believe that any of the budgeted personnel should be devoted, as he proposed, to "policy and program development."

2. "Proposed Bank/FAO Round Table in early 1974"

a. We would be happy to attend a meeting of the kind proposed by him.

b. We believe that 2, rather than 3, days should be sufficient.

c. We suggest a meeting be held on Thursday and Friday, and tentatively are prepared to agree to meet on February 21 and 22; it may be necessary to shift the dates to February 28-March 1.

d. We will comment upon the draft agenda promptly after we receive it.

e. I would hope that Messrs. Baum, Chenery or Stern, Yudelman, Christoffersen and McNamara could attend the meeting.

3. "World Conference on Agricultural Credit"

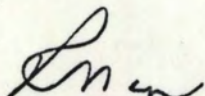
a. We would be willing to be associated with the conference.

b. The form of our association (financial and otherwise) should be discussed by members of our staffs.

c. It is unlikely that I would be able to give the keynote address because the press of business in July, following the close of our fiscal year on June 30, makes it impossible for me to travel.

4. "Ethiopia Study on Food Reserves"

We will be pleased to participate in the study and are prepared to contribute toward it \$25,000 plus the assignment of one professional.


Robert S. McNamara

RMcN:bmm

cc: Mr. Hoffman

FROM: Shirley Boskey, IRD 825

SUBJECT: Cost-Sharing Arrangements under FAO and UNIDO Cooperative Program Agreements

10/10
You recently sent Mr. Hoffman a note saying that Boerma had remarked to you that we had given UNIDO a better deal under its cooperative program agreement than we had given FAO. You asked whether that was true and, if it were, what it would cost to apply the same formula to FAO.

The short answer is that no difference in treatment is intended.

By a call to FAO, Mike learned that FAO had focussed on a difference in the language of the two agreements. While both require the partner agency to meet "indirect" costs of the program, the UNIDO agreement (but not the FAO agreement) provides that we will share what are categorized as "directly identifiable additional administrative costs". FAO says that its costs in this category would amount to \$100,000 over two years; the Bank would thus be contributing another \$75,000 by application of the 75/25% cost-sharing formula.

It does look as though we had been more generous to UNIDO. But in fact we have not been and do not intend to be. We started out in our negotiations with UNIDO with a draft agreement in which the cost-sharing language was the same as that of the other cooperative program agreements: we would share "direct" costs and UNIDO would meet "invisible and indirect overhead costs". We sent up to you for approval, prior to submission to the Executive Directors, an agreement which incorporated that provision. You may remember, however, that we had to hold up submission to the Board, because we learned that UNIDO was proposing changes in what we had thought was an agreed text. These changes included addition of the reference to "directly identifiable additional administrative costs". We did not see any need to refer specifically to these costs, since the text had included a general provision that "direct" costs would be shared. Moreover, we were reluctant to depart from language for which there were precedents. But because Abdel-Rahman had already put the redraft before his Executive Board, we accepted the change. However, we did so on the express understanding that the Bank and UNIDO would reach agreement on the specific items of cost to be shared under the provision, and that this agreement would be "based on arrangements worked out under other cooperative programs". UNIDO accepted that condition.

So far, UNIDO has proposed the sharing of two items of cost under the provision in question: the costs of long distance cables and phone calls originating with UNIDO, and the costs of interview travel of candidates for posts under the program. Our position has been that both of these

items fall into the category of "indirect overhead costs" which, under the other programs, are borne by the partner agency and are not subject to sharing. UNIDO has accepted the decision as to cables and phone calls; it has not yet acquiesced in the second.

We do not, at the moment, know what costs went into FAO's \$100,000 calculation. That figure might include some items which, were they claimed by UNIDO, we would have to conclude should be shared as "directly identifiable additional administrative costs". But it is unlikely that they could amount to very much; certainly they would not be of the order of \$100,000. Moreover, if we did conclude that the costs had to be shared with UNIDO, we would not take a different position if a similar claim were advanced by FAO.

SBoskey:tsb

cc: Mr. Hoffman, Dir., IRD
Mr. Fuchs, Dir. Indus. Projects
Mr. R. Jones, Controller's



FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

Via delle Terme di Caracalla, 00100-ROME

Cables: FOODAGRI ROME

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Ref.

19 October 1973

Dear Bob,

At our dinner meeting two weeks ago - which for me was most enjoyable and stimulating - I promised to let you have notes on four of the subjects we discussed. These have been prepared as informal Minutes which are attached.

...

You will of course want to discuss these matters with your staff and you may decide that follow-up consultations on the Agricultural Credit Conference and the Ethiopia Study on Food Reserves should be carried out at the technical level by our appropriate officers.

However, I would particularly like to have your personal views on my suggestions regarding the further strengthening of our cooperative arrangements and on the Round-Table meeting which I am now suggesting to be held in February.

With warmest regards,

Yours sincerely,

A.H. Boerma
Director-General

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

President has seen

Food and Agriculture Organization of the United Nations

Informal Meeting of Mr. McNamara and Mr. Boerma

5 October, 1973

1. Minute on Further Strengthening of the FAO/IBRD
Cooperative Programme

In expressing your appreciation of the work of the Cooperative Programme, you stressed the need for further strengthening of its staff resources with a view to enabling it to handle a heavier work load expected in 1974-75, particularly on projects involving credit, cooperatives, public services, land reform, extension and training within the framework of integrated rural development. You indicated your willingness to go above the budget level of \$9.1 million for the 1974-75 biennium upon which we had already agreed so as to provide for a few additional (perhaps five) posts of professionals, in addition to the five new posts already included in this budget.

While agreeing in principle to the need for this strengthening (which would require an increase in FAO's share of \$125-150,000), I indicated that there would be problems in revising my budget proposals at this stage. In this connection I suggested that, should it be possible for the Bank to share some of the additional administrative costs of the Programme which FAO was now bearing in full, the money thus released from FAO's share could be added to the total Programme budget. I enquired whether this would be possible by suitably modifying the FAO/IBRD Agreement to provide for joint sharing of the "directly identifiable additional administrative costs" as is apparently implied in the IBRD/UNIDO Agreement. You agreed to look into this proposal.

I drew your attention to the extremely tight programming of the staff-time available to the Cooperative Programme and suggested that a small amount, perhaps 3-5 man-years, should be set aside for joint work with FAO Divisions on policy and programme development which we both felt necessary and useful. The additional staff resources for which the proposed increase in the budget would provide could be 'liberated' for this purpose.

Food and Agriculture Organization of the United Nations

Informal Meeting of Mr. McNamara and Mr. Boerma

5 October, 1973

2. Minute on Proposed Bank/FAO Round Table in early 1974

Our discussion revealed that there was a convergence of interests between IBRD and FAO over a wide area of policies and programmes for assisting agricultural development in member countries. In this connection we discussed the present world state of food and agriculture and referred particularly to my proposals for a coordinated scheme for national food security reserves and for international agricultural adjustment. On your side, you stressed that the major development issue related to the removal of absolute poverty, for which a strategy geared to increasing the productivity of small farmers and integrated rural development was of urgent priority. You indicated that you planned not only to increase Bank lending in agriculture but also to improve the quality of technical and financial assistance of the Bank in fields like land reform, organization and institutions, credit, extension and training, rural works and irrigated as well as dry land farming. I expressed my full support of this policy and mentioned FAO's long involvement in these aspects of development strategy. We recognized the need for "pooling" the thinking of our two Organizations and for increased cooperation in pursuit of common policies and programmes.

Cooperation between our two Organizations has developed in a most satisfactory manner over the past ten years but inevitably it has been concentrated on operational programmes linked to the Bank's target of increased project lending to agriculture. In view of the broader area of joint action now opening up, we agreed to hold a Round Table with our senior staff to discuss where and how cooperation between our Organizations could and should be further strengthened.

Such a Round Table would provide us with an opportunity to exchange views on selected development problems, identify areas of mutual and urgent concern, establish common policies and programmes on issues to which both our Organizations attach priority, and to develop a mechanism for future consultations. We might, for example, review the world food situation with special reference to the proposal for a food security scheme and international agricultural adjustment. We might also discuss the spectrum of policies and programmes required for integrated rural development including small farmer productivity increase, land reform, agricultural credit, extension and research.

I would suggest that the Round Table be held at a suitable location near Rome during the three days of 20, 21 and 22 February 1974, if these dates are convenient for you. The FAO participants would be in general at Assistant Director-General and Director level and I would propose to designate a small number of these senior officers with substantive responsibility for the items which we agreed to include in the agenda.

I would suggest that a draft agenda be drawn up and agreed upon about two months before the meeting. With this in mind I am initiating arrangements within FAO for the preparation of such a draft agenda which I would send you around mid-December. I would further suggest that documentation for the discussion consist of very short papers focussed on major issues and based upon a brief analysis of each agenda item. The exact nature of these documents can of course be discussed after agreement on the draft agenda.

With regard to the actual site of the Round Table, I have asked my colleagues to see whether suitable accommodation can be found in the hills around Rome easily accessible by car. While there is ample time to work out the details of the meeting, it is necessary to reach an early agreement on timing in view of our own busy schedules.

Food and Agriculture Organization of the United Nations

Informal Meeting of Mr. McNamara and Mr. Boerma

5 October, 1973

3. Minute on World Conference on Agricultural Credit

You expressed interest in receiving a note on our plans for this Conference. This is prefaced by a summary of the background.

As part of the Regular Programme, FAO has been sponsoring a series of case studies in agricultural credit based on personal interviews with farmers, a special study with particular focus on Africa (financed by CARIPLO - Cassa di Risparmio delle Provincie Lombarde under the presidency of Prof. dell'Amore) and a series of regional seminars at which the reports on various studies mentioned above are presented. The Regional Seminar for the Near East Region and Mediterranean Basin, financed by FAO Coin sales proceeds, was held in Rome in January/February 1973. The Government of Finland is financing one for Africa to be held in Accra in December 1973. Arrangements for others to serve the Latin American and Asian Regions are in preparation, and they will be financed by FAO Coin sales proceeds. The reports on the seminars would serve as background documents for the proposed World Conference on Agricultural Credit. The necessary documentation and preparations for the World Conference are thus well in hand.

The costs of the Conference will be met in part from the Regular Programme (\$25,000) and possibly in part from the FAO/Finnish Cooperative Programme (\$30,000). Additional funds to support participation from developing countries are currently being sought.

We would welcome the association of the World Bank in this Conference which is scheduled to be held at FAO Headquarters early in July 1975.

The purpose of the Conference is to provide governments and their agricultural credit institutions (agricultural banks and credit cooperatives) and other financial and development institutions (central banks, developing authorities) with a forum for:

- (i) exchange of experience gained so far in formulating and implementing agricultural credit policies and programmes;
- (ii) exploration of new ways of effecting collaboration between credit programmes on the one hand and programmes for rural development, land reform, marketing, warehousing, input supply, processing and price support operations on the other;

- (iii) consideration of the actual and potential contribution of central banks (a) in development of lending and savings programmes in rural areas, and (b) in collaboration with international agencies in ensuring effective use of international development assistance;
- (iv) examination of the findings of agricultural credit studies prepared by FAO/CARIPLO Working Group and sponsored by the World Bank and others;
- (v) critical review and exploration of new and diverse methods for resolving conflicts, if any, between sound banking principles and social objectives of credit programmes aimed at meeting particularly the credit needs of the small farmer, the tenant and the landless worker in the rural areas, whose interests have so far been by-passed by the economic development process;
- (vi) detailed consideration by the central banks of the ways in which they can play a constructive role in financing storage and warehousing of food grains as part of the international effort toward maintaining adequate grain reserves.

The Conference would be open to all member countries of FAO. The participation would be sought of high-level executives and policy-framers in agricultural credit from agricultural ministries, finance ministries, agricultural credit institutes or commercial banks as well as senior representatives of central banks connected with agricultural credit. Regional Banks would also be represented and invitations would be extended as well to non-official institutions such as CICA and ICA.

As to the actual conduct of the Conference, we have tentatively planned for an Inaugural Session followed by a Plenary and meetings of a number of working groups. I would be pleased if you would accept my invitation to give a keynote address at the Inaugural Session. The basic documentation would include the FAO/CARIPLO Study Report, such studies as may be carried out in the same area by IBRD, reports on Regional Seminars, as well as a number of especially prepared papers.

The deliberations of this World Conference should prove of direct benefit to FAO, IBRD and, of course, to the member countries. The future role of agricultural credit institutions as possible channels for directing international development assistance, as well as the strengthening of these institutions, are of particular concern to IBRD and FAO. The Conference should help to foster better collaboration between agricultural ministries and agricultural credit institutions on one hand, and finance ministries, central banks and other credit and financial institutions on the other. The Conference should also result in a strengthening of the efforts by FAO and other international agencies to mobilize financial institutions in support of measures for world food security.

Food and Agriculture Organization of the United Nations

Informal Meeting of Mr. McNamara and Mr. Boerma

5 October, 1973

4. Minute on Ethiopia Study on Food Reserves

You expressed interest in the Bank's participation in the Ethiopia mission and wished to have a note on this subject.

The Minister of Agriculture of Ethiopia, Mr. Woldemariam, has conveyed to me, on two occasions this year, his great interest in the food security proposal and stressed that Ethiopia's distinct geographic location in relation to the main wheat exporting countries, its current acute shortage, and the changed world supply position, made it imperative for Ethiopia to adopt an effective policy of food reserves. The Minister therefore requested economic and technical advice on the subject from FAO, and he expressed the desire that this assistance should be coordinated with the Bank, in view of the IBRD intention to carry out a further study on grain reserves in Ethiopia. There has also been a WFP food stock project in the country. In view of these circumstances, and also the fact that Ethiopia is one of the "least developed" countries, I consider that this would be an ideal case with which the Bank and FAO (with the collaboration also of the WFP) could start the proposed inter-agency programme on food reserve policies.

I therefore propose that a Joint Mission be sent to Ethiopia to advise on their food reserve policy and programme and on the resources and financing required to implement these. For this purpose, the Mission would assess:

- (a) the general role of stocks of basic foods (i.e. cereals and pulses) in the national economy, in the context of national development priorities;
- (b) the medium term production potential and prospects and likely demand for food, and fluctuations in production and import requirements;

.../...

- (c) vulnerability to crop failure or interruption of supplies, normal internal market flows from surplus to deficit areas, proximity and access to normal and emergency sources of international supply, proportion of domestic supplies entering commercial markets, and role of government in storage and distribution system;
- (d) the food reserve stocks necessary and feasible in the light of the above and after considering costs and risks of alternative courses within development priorities, as well as the beneficial effects of food stocks on domestic stability;
- (e) storage requirements, including such questions as the role and efficiency of existing storage facilities; the location, types, costs and losses of storage and the technical problems involved in food stock management;
- (f) supporting marketing policies and organization required as well as institutional arrangements affecting food prices and food stock management;
- (g) the internal and external resources and financing required for implementing the proposed programme. The financial and budgetary implications of the proposed programme as regards requirements for storage facilities, commodity procurement, and storage management; general monetary effects and financial implications for the required agricultural production and price policy;
- (h) identification and to the extent possible preparation of specific investment projects, food aid projects and technical assistance programmes;
- (i) benefits, justification and impact of the proposed food reserve programme on the national economy.

I would suggest the Mission comprise a Grains Commodity Economist, a General Planning Economist, a Grains Storage Specialist, a Grains Marketing Specialist, Agronomist, Financial Analyst, and a Food Aid Specialist. FAO would bear the cost of three mission members. WFP would provide the Food Aid Specialist. I hope it will be possible for the Bank to finance the participation of the other members of the Mission and that at least one member could be from the Bank staff.

.../...

The proposed seven-man Mission would be for a 10 week period, including one month of on-the-spot investigation and 6 weeks of report writing. The cost of this Mission would be approximately \$75,000, including travel, based on current FAO Rome rates.

Providing there is time for briefing and other preparations, I suggest that the Mission visit Ethiopia in January/February 1974, subject to government approval.

ROUTING SLIP		DATE October 11, 1973	
NAME		ROOM NO.	
Mr. McNamara			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
COMMENT		PER OUR CONVERSATION	
FOR ACTION		PER YOUR REQUEST	
INFORMATION		PREPARE REPLY	
INITIAL		RECOMMENDATION	
NOTE AND FILE		SIGNATURE	
REMARKS			
<p>Please see the last paragraph of Ed Martin's letter to me. He is talking about your letter to him on the workings of the U.N. system. Since I shall be going to the High Level Meeting, I could deliver it if you will send it down to me.</p> <p style="text-align: right;"><i>12/12</i> <i>Boyer</i> <i>12/12</i> <i>Mr. Hoffman</i> <i>[Signature]</i></p> <p style="text-align: center;"><i>[Signature]</i></p>			
FROM	Michael L. Hoffman	ROOM NO.	D-1123
		EXTENSION	2173

490/2/11



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT
ASSOCIATION
INTERNATIONAL FINANCE
CORPORATION
OFFICE OF THE PRESIDENT

Oct. 12

Mr. McNamara:

For your signature, please.

10/12
B. [Handwritten signature]
[Handwritten signature]
[Handwritten signature]

OCDE

ORGANISATION DE COOPÉRATION ET
DE DÉVELOPPEMENT ÉCONOMIQUES

Téléphone : 524 90-70

463

Télégrammes : DEVELOPECONOMIE
Télex : 62.160 OCDE PARIS

Comité d'Aide au Développement
Le Président

OECD

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

2, rue André-Pascal, 75775 PARIS CEDEX 16

Development Assistance Committee
The Chairman

4th October, 1973

Mr. Michael L. Hoffman,
I.B.R.D.
1818 H Street, N.W.
Washington, D.C. 20433.

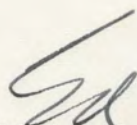
Dear Mike,

It was very good to have a chance to see you in Nairobi. I appreciated your comments on Chapter I, and a new text will be going out shortly.

I enclose a copy of the paper circulated by the Secretary-General with respect to the Future Role of D.A.C. in considering an integrated approach to development, about which there may be some discussion at the High-Level Meeting. I delayed sending it because the Council was discussing it this week. After a long discussion I think it can be said that the basic outlines have been confirmed. A re-draft, a copy of which is also enclosed, has been prepared for final action next week. I don't think it changes much of substance.

I forgot to tell you that Bob said he had forgotten to bring along the letter he had promised me. I suggested he had someone hand-carry it. Perhaps if you come to the High-Level Meeting you could bring it.

Sincerely,


Edwin M. Martin

Encs.

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1973 OCT -8 LN 3:30

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ORGANISATION FOR ECONOMIC
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1 rue Agha-Fachal, 75732 PARIS CEDEX 16

Development Assistance Committee
The Chairman

OCDE

ORGANISATION DE COOPÉRATION ET
DE DÉVELOPPEMENT ÉCONOMIQUES

4/3
Téléphone : 234 90 70

Comité d'Aide au Développement
Le Président

4th October, 1973

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Washington, D.C. 20433.

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Edwin M. Martin

Encls.

SECTION
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1973 OCT - 8 PM 3:38

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

OFFICE OF THE PRESIDENT

7/75

Dear Ed

I am reluctant to send them the
mails a copy to your very thoughtful
memo and letter of July 11. May I hand to
you typewritten comments when we
next meet.

Best wishes,

Bob

no do E

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: July 23, 1973

FROM: Michael L. Hoffman *MLH*

SUBJECT: Ed Martin's Letter on
Strengthening the UN System

William Clark managed to review this letter just before he left and pronounced it "admirable." He suggested adding the point about a strong successor to Philippe de Seynes.

MLHoffman: tsb

OCT 12 1973

Ambassador Edwin M. Martin
Chairman, Development Assistance
Committee
Organisation for Economic Co-operation
and Development
2, rue Andre-Pascal
Paris 16e, France

Dear Ed:

I am not sure that I have any very profound thoughts or reactions to your letter of the 11th and your outline of recent events in the UN system affecting its leadership capacity. However, for what they are worth here are a few observations.

I thoroughly agree that the Secretariat's first review and appraisal report and the paper of the Committee for Development Planning were first class. I think this is largely because both the Secretariat and the Committee decided to more or less ignore the formal DDII resolutions and produce as good a review as possible of the state of development in the time and with the data available. We have complimented both Philippe de Seynes and the Committee for Development Planning, in the person of its rapporteur, John Lewis, on the quality of these papers. But alas, look at what happened in the ECOSOC Committee on Review and Appraisal and in UNCTAD. The excellent documentation might as well have not existed. All of the old cliches and "demands" were brought out and the discussion was thoroughly political. I am afraid this is being repeated about now in ECOSOC. How long will the Secretariat and the experts feel it is worthwhile to go on producing plans and analytical documents if the political bodies of the system prove incapable of conducting a serious review procedure?

We are also involved, of course, in the "review of existing arrangements" referred to in your paragraph 3a. In fact we are

carrying out a comprehensive review of all our formal and informal arrangements with other parts of the UN system, something that we need to do in any case as a consequence of the increasing number and complexity of our inter-agency relationships. From this review we should be able to provide the Secretary-General with an adequate response. However, there is a shoal so far hidden, which we hope the Secretary-General will be able to avoid. So far he has managed to confine the exercise to a review of how existing arrangements are working and avoided turning it into a review of the basic agreements, where formal agreements exist. It is very much to be hoped that he can maintain this position because if our basic agreement with the UN were ever opened up by the General Assembly I don't think there is any chance whatever we could negotiate an agreement that would be acceptable to the General Assembly of today and to the Bank. Our agreement was approved in 1946 when the voting power in the General Assembly was very different and I am afraid that many features of the agreement, which confirms the Bank's autonomy vis-a-vis the political organs of the UN, would be rejected by the General Assembly as now constituted. So we are cooperating with the Secretary-General who is, I think, sincerely trying to avoid turning the exercise into an attack by the General Assembly on the autonomy of the Bank, and hoping for the best.

With respect to sub-paragraph (c) of your third point, do you really think that with ECOSOC's record on review and appraisal it is going to be able to carry out an effective review of agency activities by sectors? I very much doubt it. One thing that troubles me about this sort of exercise, and this applies even more to the one to which you refer in your paragraph 4 on "collective economic security," is that an immense amount of staff time and expense is incurred for very little result. You may not be fully aware of the extent to which UN exercises of this kind impose burdens on the rest of us in the system. We get repeated requests from the UN for comprehensive reports on our activities in various sectors to be used as a basis for some report by the Secretary-General. As the language in the resolutions to which he has to respond changes with trends and fashions as to what development issues need to be reviewed by ECOSOC, we have to go through a special exercise nearly every time we get one of these requests. Our staff naturally want to do a good professional job but there are limits, and I am concerned about the proliferation of exercises requiring us and the other specialized agencies to devote more and more staff time to this sort of work. I know Mr. Waldheim is also concerned about this because he raised the matter in the private session of the ACC last spring. But, of course, when he is faced with a General Assembly or ECOSOC resolution he has to comply. One bad effect of the situation is that it creates staff resistance to any form of cooperation with the UN.

We are watching very closely the UN's endeavor, referred to in your paragraph 5, to mount a coordination exercise for meeting the medium- and long-term measures needed in the face of the Sahelian disaster and, of course, we are feeding into Morse our plans and projects. Actually I think a better augury for an effective UN system response to this disaster is that Boerma of FAO is establishing direct inter-agency relationships with us, WHO and the other agencies that can mount action programs of assistance. But it is quite appropriate for the Secretary-General to establish a modest bit of machinery to keep himself adequately informed and, in effect, to preside over the various activities going forward. I am surprised, incidentally, that you don't mention the UN system's response to crises situations in Bangladesh and Zambia, both of which I think have been really well executed.

I am asking Mike Hoffman to send you a separate comment on your notes on the UNFPA. I do think, however, that in your paragraph 6 you exaggerate the extent to which the UNFPA is "integrated administratively" into the UNDP organization. The Fund and its Executive Director are now responsible to the UNDP Governing Council but Salas has the rank of an Under-Secretary-General and the Council explicitly rejected his proposal that project submissions to the Council be passed through Petersen. Actually I think the two organizations remain quite separate.

After a good deal of resistance of earlier drafts of Jenks proposals for an ACC sub-group on the employment problem, referred to in your paragraph 7, we heartily supported the paper he finally came out with in April. This is because he dropped the notion of setting up a new permanent ACC machinery, and accepted our view that he simply be encouraged to organize ad hoc groups on specific problems that appear ripe for action. I feel that this concept of "ad hoc functional groups," to borrow a phrase from Carrol Wilson (who set forth some very interesting ideas on this topic in his Elihu Root lectures at the Council of Foreign Relations earlier this year) has a promising future. This really is what we have done in the Consultative Group on International Agricultural Research and in the newly launched group to finance and supervise the long range campaign against onchocerciasis in Western Africa. These are not new international institutions but ad hoc groups sponsored by several UN agencies addressed to a specific objective. If the UN agencies can show that they can work together and with interested governments in this sort of framework I think this is going to do more to demonstrate that the UN system can effectively attack major human problems than any amount of effort to obtain "general coordination" of agency programs. A strong successor to Philippe de Seynes could help move things in this direction.

The above reflections are directly relevant to the vast amount of time being spent in meetings and report writing on the subject of science and technology referred to in your paragraph 9. UNDP has now launched a new coordinating effort to promote the exchange on technology among developing countries. The approach of the UN Advisory Committee on Science and Technology has been to draft a huge action program to be financed by special funds. They are not getting anywhere with this and I don't believe they will. Again it seems to me that we will make progress not by launching more global programs and establishing more machinery but by picking problems that are ripe for action by the international community and getting the agencies that have the technological and financial capacity to do something about the problem together with the governments that happen to be concerned about that problem. Jute production and end-use technology may be the next subject for such an approach.

With reference to your paragraph 10, I again urge you to consider what it means for us to have to go through all the World Bank's activities and operations and organize the material in order to contribute to the Secretary-General's bi-annual plans for UN action for "the development of natural resources." Is this really likely to advance the cause of development?

We are also pleased about the impending changes in the role of the Protein Advisory Group and are planning to increase our contributions to parity with the other sponsoring agencies.

You are performing a valuable service to the community in pursuing these matters, and I hope my comments will be of some help as you proceed.

Sincerely,

Robert S. McNamara

MLH:tsb

July 24, 1973

cc: Office of the President (2)
Mr. William Clark

MLH



490/2/10

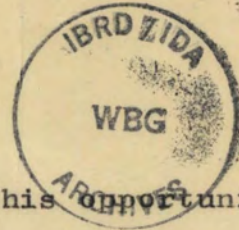
SEP 21 REC'D

MR. TAJUDDIN AHMAD
Minister for Finance and Jute Affairs
Government of the People's Republic of Bangladesh

Ref. No.1384-FM/73...

Dacca, dated September 11, 1973.

Dear Mr. McNamara,



I would like to take this opportunity to thank you very much for kindly giving me an opportunity to meet you in the midst of your extreme preoccupations while I was in Washington recently.

I am indeed very much grateful to you for the personal interest you have shown in the affairs of Bangladesh and the genuine help and assistance you have extended to put our war devastated economy on an even keel. A personality with great human values, you have been able to appreciate the difficulties through which we are passing now. I am sure with your gesture of goodwill for Bangladesh and genuine help, we will be able to salvage our war shattered economy and march on the path of progress and prosperity.

Looking forward to more fruitful dialogues with you in future.

With kind regards.

Yours sincerely
Tajuddin Ahmad
(Tajuddin Ahmad)

Mr. Robert S. McNamara,
President World Bank,
Washington, D.C. U.S.A.

President has seen

SEP 21 1973

1973/2/10



MR. TAJUDDIN AHMAD
Minister for Finance and Jete Affairs
Government of the People's Republic of Bangladesh

Ref. No. 1384-RM/73

Dacca, dated September 11, 1973.



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Looking forward to more fruitful dialogues with you in future.

With kindest regards

Your sincerely,
Tajuddin Ahmad
(Tajuddin Ahmad)

Mr. Robert S. McGovern,
President of the United States,
Washington, D.C.

1973 SEP 21 AM 8:52

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President has seen



FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

Via delle Terme di Caracalla, 00100-ROME

Cables: FOODAGRI ROME

Telex: 61181 FOODAGRI

Telephone: 5797

Ref.

4 September, 1973



Dear Bob,

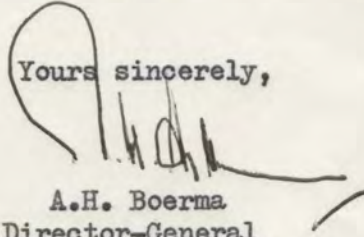
10/K
I still have to react to your cable of 8 May in which you confirmed agreement in principle regarding the budget for 1974/75 for our Cooperative Programme. I have delayed replying to your cable because your concern about the staffing position of the Cooperative Programme led me to institute a further study inside FAO of the recruitment problem of the Programme. This study was recently completed and I can now inform you that I have agreed to consider, for the purposes of personnel management, the Programme to be equivalent to FAO's field programme.

I do not need to go into details about this; suffice it to say that in this way it will be possible to avoid some of the more time-consuming recruitment procedures which necessarily exist for the FAO Headquarters staff. Moreover I would be prepared to authorize the Director of the Programme to recruit actively a number of staff up to about 6% or 7% above the mutually agreed staff strength which for the next biennium would be 75 professional posts. It is hoped to offset in this way the effect of vacancies created by the normal turnover of staff. There should be no budgetary problem in this regard since the budget provision for consultants' services which for the next biennium will be 1.2 million dollars, provides for the necessary financial cushion if at any time the actual staff strength temporarily exceeds 75. Since you made a similar suggestion some time ago I take it that you will be in agreement.

I understand Mr. Huyser is writing to Mr. Yudelman to give him the necessary budget details for the next biennium. Our Cooperative Programme is now firmly based on several years of mutual experience and I personally have no doubt that the additional resources to be made available to it during the next two years are minimal in relation to the need for increased work on agricultural development. The importance of this sector has again been brought forcibly to the world's attention through the serious deficit situation for grains.

With best personal regards,

Yours sincerely,


A.H. Boerma
Director-General

Mr. Robert S. McNamara,
President,
International Bank for Reconstruction
and Development,
Washington DC,
U.S.A.

President has seen



FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

Telephone: 279

Tel.: 9181 FOODABRI

Office: FOODABRI ROME

Via delle Terme di Caracalla, 00100-ROME

Ref.



4 September, 1973

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With best personal regards,

Yours sincerely,

A.H. Boerms
Director-General

COMMUNICATIONS SECTION

1973 SEP 27 AM 8:35

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

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Washington DC,
U.S.A.

President has seen

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Cable: WORLAW
400 Hill Building, Washington, D.C. 20006 — Tel.: (202) 347-7992
Hotel Ivoire, Abidjan, Ivory Coast

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- Towards a Feasible International Criminal Court
- Belgrade Spaceship Trial Book
- Research Reports

August 20, 1973



Robert S. McNamara
President
International Bank for Reconstruction
and Development
Washington, D. C. 20433

Dear Mr. McNamara:

I want to thank you for your letter of August 14, 1973 conveying your moving message to the participants of the Abidjan World Conference.

I have forwarded the message* to Hon. Alphonse Boni, President of the Supreme Court of the Ivory Coast.

With very best wishes, I remain,

Sincerely,

Charles
Charles S. Rhyne
President

crf

* Filed in McNamara Statements 1973.

ABIDJAN WORLD CONFERENCE
August 26-31, 1973 President has seen

El Centro para la Paz Mundial Mediante el Derecho
 Le Centre de la Paix Mondiale par le Droit
 World Peace Through Law Center

400 Hill Building, Washington, D.C. 20002
 Hotel Ivorie, Abidjan, Ivory Coast



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Robert S. McManis
 President
 International Bank for Reconstruction
 and Development
 Washington, D.C. 20433
 Dear Mr. McManis:

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With very best wishes, I remain,

Sincerely,

 Charles S. Rhyne
 President

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* Thank you Mr. Rhyne & Associates 1973
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1973 Aug 22 PM 3:19

RECEIVED ABIDJAN CONFERENCE

August 26-31, 1973 President has seen

Paul

April 30 1973

49
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WBG ARCHIVES

Government of the People's
Republic of Bangladesh
Planning Commission.

Memorandum on Debt Problem for Ambassadors
in Creditor Countries.

The Bangladesh Government invited nineteen countries, which are members of the World Bank and which have been involved in assisting Bangladesh, and six international agencies to a conference on development of Bangladesh on 31st March and 1st April 1973. The objectives of the conference were to review the progress achieved in the field of reconstruction and rehabilitation, to discuss the future programmes and plans for socio-economic development and to find out whether the donor countries could make commitments for financial and technical assistance to Bangladesh for the next financial year 1973-74 and if so, in what amounts.

However, delegates from USA, U.K., Germany, France, Japan, Canada, Netherlands, Belgium, Italy and World Bank (i.e. delegates from countries/agency which have not been able to settle the question of past debt liabilities of Pakistan) raised the question of Bangladesh's share in the past debt liabilities of Pakistan. This issue was not on the agenda of the Conference and Bangladesh had in advance informed the various countries/agencies that we did not consider that this was an appropriate subject for the conference and that we did not wish to discuss it in this forum. At the end of the first day's meeting at the request of the delegates an informal meeting was arranged between them, on the one hand, and the Finance Minister, the Foreign Minister and the Deputy Chairman, on the other. In this private and informal meeting Bangladesh explained its position in respect of the past debt liabilities of Pakistan. The creditor countries stated that Pakistan has decided to stop debt service payments from June 1973 on that proportion of her past debt which she considers had been utilised in Bangladesh. They, therefore, wanted Bangladesh to accept liability for the portion of debt which was utilised in Bangladesh. They wanted Bangladesh to admit in principle that Bangladesh is liable for a portion of the past external debt of Pakistan. The exact amount of such liability would have to be sorted out between Bangladesh and Pakistan in the coming months. Secondly, the creditor countries suggested that they would be agreeable to a generous rescheduling, in other words, in spreading the burden of repayments over a longer period.

1. We pointed out that Pakistan cannot unilaterally disclaim responsibility for the liabilities which she had contracted in the past. She has not recognised Bangladesh. Therefore, she has no legal basis for disclaiming her responsibility.

2. The question of sharing liabilities can not be raised independently of the question of sharing assets. Pakistan continues to enjoy all the assets in the international institutions. For example, she holds equity shares in the IBRD and gold contribution in the Fund as well as the drawing rights from the Fund on the basis of her past original contribution in which Bangladesh has a share.

3. The question of sharing external liabilities is not merely related to the question of sharing of assets created against external debt but also total assets and liabilities of Pakistan. One cannot separate the two issues. This is only a part of the flow of the resources between the two parts of former Pakistan and, therefore, is legitimately and closely related to the overall settlement of the outstanding financial issues between Pakistan and Bangladesh.

4. At an appropriate time and in an appropriate form, Bangladesh is quite willing to discuss with Pakistan, on the basis of sovereign equality, the problems of the assets and liabilities of the former Government of Pakistan. A conference on the development of Bangladesh and possible external economic assistance was not the right forum for putting pressure on Bangladesh to accept liability for a part of the external debt of Pakistan.

In the Conference the creditor countries offered development assistance on condition that Bangladesh was willing to accept liability for past debts of Pakistan. Food aid was kept outside the purview of this condition. To use the offer of development assistance as an instrument for influencing the settlement of a political issue with Pakistan was regarded as improper and unwarranted.

5. We would like to know on what authority these creditor delegates to this Conference insisted in their pressures. Did they act on authority of the highest political leadership in their countries or at the level of financial technocrats? Did their actions reflect tactical considerations at this meeting, or are their pressures symptomatic of what must be expected also in coming months? This is important for us to know because this action on the part of the creditor countries is interpreted by us, and rightly so, as an attempt to bail out Pakistan from being declared a defaulting country on her own debt liabilities for which she is legally responsible.

6. Furthermore, it has more serious implications for the future. An attempt by the creditor countries to isolate the settlement of external debt of Pakistan from the settlement of total assets and liabilities of the former Government of Pakistan is to strengthen Pakistan's hands in her eventual negotiations

with Bangladesh on the settlement of outstanding financial problems between the two countries. When time comes for a settlement of claims with Pakistan, she knows that Bangladesh would press for considerable claims on her assets. Firstly, Bangladesh would want a share of assets in Pakistan created by transfer of resources during two decades of colonial rule from Bangladesh to Pakistan. Secondly, Bangladesh would also present to Pakistan and the world the estimated value of loss of assets inflicted on her during the war of liberation. The assets which Pakistan destroyed during the war of liberation have been estimated by a study of the UNROD office in Dacca at about \$ 1560 million. Pakistan knows that once she can isolate the external debt problem, Bangladesh loses the most important single bargaining weapon in her hands to press for her claims. Bangladesh, therefore, considers that this attempt by the creditor countries to foist some of Pakistan's liabilities on her would have the effect of weakening the bargaining position of Bangladesh in her negotiations with Pakistan.

7. In this context we would like to emphasize that Bangladesh has already acted as an honourable and responsible debtor. She has already taken over the past liability of the ongoing projects. In the absence of their reactivation there would be a waste of resources already invested by the donor countries as well as Bangladesh on these development projects. We have done so irrespective of whether the past disbursements on ongoing projects represent a small or very substantial part of the total cost of the projects. We stand ready to accept whatever liability attaches to us after a settlement on all assets and liabilities is reached with Pakistan. We have also indicated to the creditor countries that as and when Pakistan comes around a conference table with us as a sovereign and equal nation, we would not countenance an indefinite prolongation of negotiations on this matter because we appreciate the anxiety of the creditor countries for a settlement of their claims on the former Government of Pakistan.

8. While we would welcome assistance from all friendly countries in support of our development plan, we would not like the donor countries to utilise the giving of aid as an instrument for prejudicing our position vis-a-vis Pakistan or our policy regarding any other political and international question. We seek assistance on the basis of sovereignty, equality and non-interference in our internal affairs. Our leader, Bangabandhu, has very clearly enunciated his policy in this respect. He has often stated that while we are poor, we are a nation with self respect. The

delegates to the conference at Dacca might not have correctly appreciated this position and might have felt that in view of the need of Bangladesh for economic assistance, we would be susceptible to the pressures of the kind they sought to exert.

We feel that as the delegates return home and report to their political authorities, they would be rethinking about the entire question. We hope that our Ambassadors in the various capitals of the world would explain our position and contribute to this process of rethinking, which would separate the development assistance to Bangladesh from the problem of the settlement of external debt of Pakistan. We had already indicated to the delegates that we would like to know the policy of their respective countries regarding assistance to Bangladesh as soon as practicable, as we are engaged in finalising our Annual Plan for 1973-74 and Five Year Plan to be launched in July 1973. Our Ambassadors, we hope, would be able to seek clarification on this issue.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT



Translation

Dear Mr. President:

July 30, 1973
ARCHIVE

I take this opportunity of my visit to Washington to the C20 meeting to inform you that I have proposed to the members of our group the candidacy of Mr. Jacques de Groote, high official of the National Bank, to succeed Mr. van Campenhout as Executive Director for the World Bank and the Monetary Fund. I am sure that the excellent relations between the World Bank and Belgium will continue to develop in the future.

I would also like to refer to the pleasant meeting which we had last March. You will perhaps recall that upon that occasion I asked you that, to the extent possible, Belgians be appointed to the senior staff of the Bank. In fact I attach much importance to this question.

You told me then that you would not fail to take this into account if qualified Belgian candidates were found for the senior posts in the Bank. I hope that this may happen in the near future. Perhaps we could speak about this again in Nairobi where I look forward to meeting.

Salutations.

Willy De Clercq
Vice Prime Minister &
Minister of Finance

AL

July 31, 1973

490/2/5

April 20, 1973



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SEP 24 1992
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PERSONAL AND CONFIDENTIAL

The Honorable George Shultz
Secretary of the Treasury
Washington, D. C. 20220

Dear George:

In my letter dated April 2 I mentioned I was planning to visit Tokyo in mid-April to discuss with Prime Minister Tanaka and his colleagues Japan's contribution to the Fourth Replenishment of the International Development Association. I have just completed those discussions and I am writing this note, while en route home, to inform you of the results and to suggest a U.S. response.

The Japanese Government has stated they are prepared to finance a 9.76% share of a Fourth Replenishment of 1650 million post-devaluation dollars (the Japanese share of the Third Replenishment is 6%). You will recall that at the London meeting in March, with but two exceptions, the major donors present, including for example Britain, Germany, Canada, Norway, Sweden, Denmark, Italy and the Netherlands, all supported the 1650 million figure. Unfortunately, I was forced to tell Tanaka that because the 3.76% increase in the Japanese share was insufficient to offset the reductions required in the U.S. and U.K. shares, his proposal could not lead to an agreement that would be supported by all donors.

The Prime Minister then said that Japan would be willing to contribute the same absolute amount to a lesser total Replenishment, but in no event could its share exceed 11%. This should make possible a Replenishment level of 1500 million post-devaluation dollars, with increased shares from Japan, Germany and one or two others offering the likelihood of offsetting the necessary reductions.

Therefore I should like to propose to you that when the representatives of governments meet May 1 in Tokyo to again discuss the Fourth Replenishment, the U.S. representative state:

The U.S. supports a replenishment level of 1500 million post-devaluation dollars if:

1. A substantial reduction in the U.S. share can be agreed upon.
2. It is understood that no U.S. appropriation for the Fourth Replenishment will be required in FY 75 and that in subsequent years, at the option of the donor, appropriations may be limited to the amounts to be disbursed. [This would permit U.S. appropriations in the four fiscal years 1976 through 1979 to average approximately \$375 million without requiring an overlap of appropriations for the Fourth and Fifth Replenishments.]

The Honorable George Shultz

- 2 -

49/12/1
April 20, 1973

3. Discussions with the U.S. Congress, which have already started and which will continue over the next several weeks, indicate a reasonable probability of legislative support for such an agreement.

I shall try to have this note delivered to you tomorrow (Saturday) with the hope that we may meet to discuss my suggestion early next week before your representative leaves for Tokyo.

Best wishes.

Sincerely,

Robert S. McNamara

RMcN:mss

490 / 2/4

April 2, 1973

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PERSONAL AND CONFIDENTIAL

Honorable George Shultz
Secretary of the Treasury
Washington, D.C. 20220

Dear George:

I shall be visiting Tokyo in mid-April to discuss with Prime Minister Tanaka Japan's contribution to the Fourth Replenishment of the International Development Association. Because the U.S. Attitude toward the Fourth Replenishment will have great influence on Japan, I am writing this note both to comment upon certain factors which may affect the U.S. position, and also to ask if we may meet to discuss your views on this subject.

You will recall that the Third Replenishment of IDA is scheduled to be fully committed by June 30, 1974. Recognizing the necessity for the Fourth Replenishment to be available for commitment by July 1, 1974, the Finance Ministers of the donor countries last November appointed Deputies to negotiate the level, percentage shares, and terms of the new replenishment. It was intended that the negotiations would be completed by approximately July 1, 1973, leaving twelve months for the necessary legislative action. The first meeting of the Deputies took place in Paris in December; the second was held in London in March; and the third (and it is hoped the decisive) meeting is scheduled for May 1 in Tokyo.

At the London meeting, as the attached extracts from the proceedings indicate, with but two exceptions, all of the major donor countries present, including, for example, Britain, Germany, Japan, Canada, Norway, Sweden, Denmark, Italy, and the Netherlands, supported a Fourth Replenishment level of 1500 million "Smithsonian" dollars, compared to the Third Replenishment level of 800 million 1970 dollars. France said it would increase its contribution in absolute terms but could not refer to a specific amount until it knew more about the position of "major contributors", and the U.S. stated the 1500 million level "appears a bit ambitious."

The U.S. further stated that there must be "a substantial reduction in the U.S. share of contributions" and that the "maintenance of value provisions should be thoroughly assessed."

I am aware of the opposition in the U.S., particularly in the Congress, to any increase in expenditures on foreign peoples at a time when the government's ability to meet the "felt" needs of its own people is severely limited. However, it is important to recognize that, as the schedule below shows, the disbursement of the U.S. contribution to the Fourth Replenishment would have no effect on the government's expenditure budget in FY75, and will have but little effect on it for several years thereafter:

% of U.S. Contribution to the Fourth Replenishment
of IDA to be expended in

FY75	0
76	9.4%
77	15.0%
78	15.9%
79	14.7%
80	13.7%
81	11.0%
82	10.0%
83 and beyond	<u>10.3%</u>
Total	100.0%

I am aware too that the pressure in Congress for a reduction in the U.S. share in the replenishment is also very strong. No set of figures by itself can determine the allocation of shares to the satisfaction of all participants, but the figures tabulated below show why some countries are quite unsympathetic to the U.S. request for a reduction in its contribution.

	<u>% Share in 3rd Replen.</u>	<u>% Share in '72 GNP of Donors</u>	<u>'72 GNP per capita</u>	<u>3rd Rep.p/c as % of GNP per capita</u>	<u>Concessionary aid (IDA) in 1975 as % of GNP</u>
U.S.	40.01%	45.5%	\$5516	.027%	.24%
U.K.	12.97	6.4	2855	.064%	.46
France	66.26	7.8	3783	.025%	.65
Germany	9.76	10.2	4086	.030%	.38
Japan	6.00	11.6	2772	.016%	.40
Scandinavia	6.35	3.0	4500	.063%	.70
Netherlands	2.82	1.8	3401	.049%	.78
Canada	6.26	4.1	4615	.048%	.47
Other	<u>9.57</u>	<u>9.6</u>			
	100.0%	100.0%			

Despite the strong case that many donors can make for maintenance of the present U.S. share, I am quite prepared to accept as a political fact that U.S. support for a substantial Fourth Replenishment must be accompanied by a reduction in its share. I will try to negotiate with the Japanese an increase in their contribution which, along with other increases we might be able to secure, would be large enough to offset a decrease both in the U.S. and U. K. shares (since we cannot have one without the other). However, before doing so I need your guidance, both as to the total amount of the replenishment which the U.S. will support and the kind of reduction in the U.S. share which you have in mind.

I fear, George, that if we do not recognize the forces at work in other countries as well as in the United States, the International Development Association, an institution which was created through the efforts of the U.S., and which has served to stimulate other nations to share the burdens carried for so long by the U.S. alone, will be severely weakened. I fear also, that the total flow of concessionary aid to the developing countries, which is already substantially below what was considered required only three years ago, will be reduced even further -- this reduction will occur at a time when debts and debt service, owed both to governments and private individuals in the developed countries, are rising to dangerous levels. And finally, I fear that a major part of the concessionary aid of Europe and Japan which would have flowed through IDA, in which the U.S. has a voice, will flow through the much more narrowly focussed European Development Fund and Japan's bilateral program.

I know the political problems you face are real and important. Can we meet at your convenience (preferably before April 13) to discuss how a Fourth Replenishment can be fashioned which can take account both of the short term realities of U.S. politics and the longer term objectives of U.S. foreign policy?

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Summary of Comments made by Deputies of Finance Ministers at the London Meeting
(Listed in the order in which the statements were made)

Netherlands "We think . . . that . . . 1500 million Smithsonian dollars might be an amount which would be reasonable from the view of the developing countries themselves, and . . . it should also be attained, in my opinion, by the countries present around this table."

Germany "It seems desirable to us that IDA resources should be replenished by an amount of 1.5 billion old dollars annually, than means Smithsonian dollars."

United Kingdom ". . . we think that the needs of the situation are such that a replenishment of 1.5 billion Smithsonian dollars would be appropriate."

Japan ". . . we are prepared to support, together with the representatives from Germany and the United Kingdom, the scale proposed earlier by the Netherlands delegation of \$1.5 billion per annum, calculated at the pre-devaluation value."

Italy ". . . my Government would accept a maximum of \$1,500 million annually, of course Smithsonian dollars . . ."

Denmark "We arrived at the same figure as the one proposed by the Netherlands representative and supported by many others. Of course, it is \$1.5 billion in Smithsonian rate of exchange."

Canada "We take pleasure along with others . . . in supporting the level of 1.5 billion pre-devaluation dollars per year. . ."

Norway ". . . we would also join those who are in favor of a total amount of \$1.5 billion, expressed in Smithsonian dollars . . ."

Sweden "We take a positive attitude to a Replenishment of this order of magnitude (the proposed level of \$1500 million)."

Austria "I think that when I have reported to my Government we might be in a position to accept this amount of 1.5 billion Smithsonian dollars."

Finland "When so many countries here have supported the \$1500 million level, I think when this matter officially comes to our Government, there is a rather good possibility that at the next meeting we shall be ready to support that same level."

France "I will refrain at this time from stating any figures in absolute terms until we have more specific statements as to the conditions under which the major contributors would be making their contributions. . . We think that the work which has been done by IDA is extremely constructive and we support it. We are resolved to increase our contribution in absolute terms. . ."

Australia "We wonder whether a figure of 1.5 billion (is reasonable and realistic) . . ."

Belgium "We have had a new government for six weeks . . . and have been unable to decide on a final position as regards the amount on which we are exchanging views today. . ."

South Africa "I would merely like to say that the figure of 1.5 billion sounds good, but frankly I could not express an opinion about it."

Luxembourg "It is rather difficult for me to make any statement on the 1.5 billion figure until I have had an opportunity of getting in touch with my Minister . . ."

490/2/3
March 2, 1973IDA REPLENISHMENT: Discussions with Part I Countries - Sweden

Mr. McNamara had a meeting with Mr. Kastoft, Executive Director for the Nordic countries, on Monday, February 26, 1973, at 3:30 p.m. I was also present.

Mr. McNamara explained the timetable which we were following in the Fourth Replenishment negotiations and mentioned the visits which he would be making to certain capitals. At the London Meeting of Deputies the most important issue would be that of the amount of the replenishment. This would be affected by the most recent devaluation of the dollar as it had been by the previous devaluation. Imports into developing countries from non-dollar sources would cost them 16 to 18% more. We had to take into account the general rise in prices and the growing needs of the developing countries. The national product of the developed countries was also growing and if the Fourth Replenishment were to be at a level no higher than that corresponding to a constant proportion of GNP of the Part I countries, a very substantial increase in money terms would be needed. There was in fact a case for devoting a higher proportion of GNP to IDA as a means of improving the general performance of the DAC countries in terms of the target for Official Development Assistance.

What, therefore, would be a reasonable figure at which to aim? The IDA Management had been reluctant to give a view on this. To do so might rally support but it might also stimulate opposition. The negotiations for the Fourth Replenishment would be far more difficult than those for the Third. The US was not giving a lead but was, in fact demanding a substantial reduction in its share. A reduction to 25% would be quite impossible to negotiate. If the US share were reduced, the UK share should certainly be reduced also. The Japanese should increase their share. The US had no so far stated their position but it was very doubtful to what extent they could get Congressional support for any substantial increase in their contribution. In his recent meetings in London and Bonn, he had urged the British and the German Governments to make the most positive statements that they could at the London meeting. Neither government had taken a final decision but it seemed clear that they would both support a substantial increase. The British might even support a figure as high as 1500 million old dollars. The German Government were also inclined to support a figure of 1500 million old dollars provided the German share remained at 9.75%. No decision need be taken in London but it was important to build up the strongest possible support for a substantial increase in the amount. The US delegation would, at best, reserve their position. We could only hope that they would not take a negative line since this would cast a pall over the negotiations unless other delegations would speak up. He did not expect any government to act in isolation. He would press the Canadian Government when he visited Ottawa in the following week to support the British and the Germans. Could it be expected that Norway and Denmark would join those three? Should he send a message to the Swedish Prime Minister? At Stockholm in June 1972 Mr. Palme had given the impression that Sweden supported IDA though they criticized certain aspects of Bank Group policy, e.g. on expropriation.

March 2, 1973

Mr. Kastoft said that the Nordic countries were at present waiting to see the outcome of the Board discussions on IDA lending policies which would take place on March 6th. They had discussed the paper circulated to the Deputies in Paris and had agreed on a common line except on the question of voting power on which the Swedes were isolated. Mr. Kastoft intended to report to the Nordic Governments immediately after the meeting on March 6th the outcome of the discussion. If it proved favorable this might influence the Swedish Government. At present the Norwegian Government was the most positive in its attitude. Norway and Denmark would, however, hesitate to take a position too far in advance of that of Sweden.

Mr. McNamara said again that he would be willing to send a message to Mr. Palme and asked what the Swedish Government wanted.

Mr. Kastoft said that he had sent very positive recommendations. He knew that there was some criticism of the decision to raise the limit of eligibility for IDA credits from \$300 per head to \$375.

Mr. McNamara said that the memorandum circulated had made a recommendation on this point which merely translated into figures the change in the basis of calculation of national income (i.e. at market prices instead of at factor cost). Mr. Kastoft thought that this was nonetheless a political decision and was not accepted in Nordic countries. In Stockholm, however, the main point of criticism was the attitude of the Bank Group towards Chile. The Swedish Government were following an active policy in their relations with Chile and were certainly not neutral. They felt that they should not be too forthcoming towards the Bank Group without having obtained a modification of the Bank attitude to Chile. Mr. Kastoft would himself be willing to pay a visit to Sweden.

Mr. McNamara said that he would be willing to do so himself. Relations with Chile had really nothing to do with IDA. If governments did not support IDA, it was India which would suffer and the 25 least-developed countries. Mr. Kastoft said that the Nordic Governments would undoubtedly support IDA in the end. Mr. McNamara suggested that Mr. Kastoft and Sir Denis Rickett should work out a draft statement which would be considered constructive, for example, that the Swedish Government considered it "essential that we look towards a substantial increase in the resources of the International Development Association". Mr. Kastoft asked whether the UK and German Governments would support a replenishment at the level of 1500 million old dollars. Mr. McNamara replied that they had given him the impression that they would. In any event, the important consideration was to get opinion moving in the right direction. If a momentum were once generated in the opposite sense, it would be very difficult to turn it round. The need was to influence not only the US Government but also the French Government as well. The Bank could not go forward with a large program of Bank lending unless it were supported by a substantial IDA program as well.

Mr. Kastoft said that the Nordic countries made a distinction between the Bank and IDA and were particularly critical of IPC. Account should be taken

490/2/2

MEMORANDUM FOR THE RECORD

- 3 -

March 2, 1973

of this in the information material issued by the Bank Group. The impression should not be given that IDA was linked with a body engaged in protecting the interests of private investors.

D. H. F. Rickett
Vice President

cc: Mr. McNamara's Office (2)
Mr. John Adler, P & B

DHFRickett:emcc

490 12 17

JAN 30 1973

Mr. Otto Kersten
General Secretary
International Confederation of
Free Trade Unions
Rue Montagne Aux Herbes Potageres 37-41
1000 Bruxelles, Belgique

Dear Sir:

I am writing in reply to your letter of January 8, 1973, regarding the recent Bank loan to Brazil for promoting livestock development.

I can well understand your concern with the problem of inequalities in the distribution of incomes in Brazil. We share your belief that the World Bank has the duty not only to promote economic growth in member countries but also to encourage their social progress, and it is our stated policy to do so. I am enclosing a copy of my address at UNCTAD III in April 1972 in which this subject is emphasized.

Our analysis of Brazil's growth problem has shown that the balance of payments could become a serious constraining factor on growth, and for that reason we have given our wholehearted support to policies and projects in Brazil that will increase the country's exports. The livestock loan is an excellent example of this strategy.

The raising of beef cattle provides an opportunity for the rational use of extensive pasture land not suitable for crop production, as well as immediate utilization of potentially arable lands for grazing until such time as the necessary infrastructure for crop farming develops. Brazil fortunately has large land resources of this kind, and since both internal and export demand for beef is strong it is timely to take advantage of this opportunity. The beef production system which is developing most rapidly under these conditions is the larger ranching type, where technical know-how, competent management and effective control of animal health can be combined. An essential part of the program is to introduce new technologies, using sound pasture management, breeding and herd health practices along with improved pastures. Once these new technologies are established in the larger ranches, it should be possible to develop more easily programs that will bring them to smaller, more intensive, farming units as well.

Mr. Otto Kersten

- 2 -

The expansion of Brazilian beef production will have other consequences: it will increase the availability and help check the increase in price of an important diet staple for consumers in both developed countries and Brazil itself. The loan will also mark a step toward higher, more realistic, interest rates designed to ensure that employment of capital is not encouraged at the expense of employment of labor.

While the direct beneficiaries of the individual loans under the project are not low income farmers, the program will reinforce the generally expansionary climate in which a progressive income distribution policy can be more successfully pursued. Some of our operations have this assistance to general growth as their chief objective, while others are aimed more directly at the mitigation of problems of poverty.

I hope that this puts the objectives of our loan in perspective.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Enclosure

Cleared with and cc: Messrs. Wiese
Goffin
Lind

cc: Mr. Ljungh (2)

RFSkillings/PCHGoffin/RSMcNamara:iap
January 29, 1973

27-5000

ROUTING SLIP

Date

Jan. 17, 1973

OFFICE OF THE PRESIDENT

Name

Room No.

1. Mr. Knapp to see

2. Mr. Alter to see

3. Mr. McNamara o/r

*check that comes
reply 1/17/73
ML*

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

*Emergency -
Suggest you prepare reply*

Muriel Lee

Reply is being prepared

From

Wresic, 1/17/73



ICFTU international confederation of free trade unions
CISL confédération internationale des syndicats libres
IBFG internationaler bund freier gewerkschaften
CIOSL confederación internacional de organizaciones sindicales libres

RUE MONTAGNE AUX HERBES POTAGÈRES 37-41, 1000 BRUXELLES. BELGIQUE

☎ 02 17 80 85/TELEGR.: INTERCONFED BRUXELLES - TELEX: 26765 ICFTU BRU

Mr. Wiese
1-16-1973

JAN 17 REC'D



DONALD MACDONALD
President - Président
Präsident - Presidente

ESP/mm

8 January 1973

OTTO KERSTEN
General Secretary - Secrétaire général
Generalsekretär - Secretario General

Mr. Robert S. McNamara
President
International Bank for
Reconstruction and Development
1818 H. Street NW
WASHINGTON D.C. 20433.
USA.

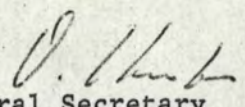
Dear Sir,

The International Confederation of Free Trade Unions wishes to voice its protest at the recent decision, of the Executive Directors, to grant a loan of \$ 26 million to Brazil on the terms proposed.

It seems clear that the principal beneficiaries of this loan will be the country's biggest landed proprietors, thus accentuating the already glaring inequalities in the distribution of incomes in Brazil. We believe that the World Bank has the duty not only to promote the economic growth of the developing countries, but also to encourage their social progress, especially in the form of a more equitable distribution of incomes.

We trust that it will still be possible to recommend action by the Board of Governors in order to attach to this loan more acceptable terms along the lines outlined above.

Yours sincerely,


General Secretary