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Contracts
Romania (1974-1980)

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Contacts with member countries: Romania - Correspondence 02

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OFFICE MEMORANDUM

TO: ✓ Mr. Robert S. McNamara

DATE: May 6, 1974

FROM: M. P. Benjenk, Regional Vice President
EMENA RegionSUBJECT: Romania: Briefing Paper for your Meeting
with Ambassador Corneliu Bogdan

1. His Excellency, Ambassador Bogdan, has requested a meeting with you which has been arranged for Tuesday, May 7, at 9 a.m. I assume that the Ambassador wants to see you in connection with the current negotiations on our first loans to Romania. A delegation from Romania has been here since April 25 and is headed by Mr. Mihai Diamandopol, the President of the Investment Bank, the proposed borrower. The following is a brief report on the status of Bank operations in Romania.
2. FY74 Program: Negotiations on the Otelixox Special Steel Project started on April 25 and on the Turceni Thermal Power Project on May 2; negotiations on the third project in the program, the Tecuci Fertilizer Project shall begin later this week. The Romanians have repeatedly emphasized the great political importance and sensitivity of these first formal negotiations with Romania. They have mentioned privately that also the Moscow Investment Bank had asked for detailed information, efficiency provisions, rights of consultation and approval etc., similar to the standard Bank provisions, but that Romania had always refused to accept such obligations. The loan agreements which we are now negotiating should therefore be viewed in this context and, in their opinion, be considered as a model agreement for other socialist countries which the Bank might encourage to join by showing flexibility.
3. In view of this background negotiations started slowly but agreement is expected to be reached in time so as to allow to submit at least two of the three loans to the Executive Directors in this fiscal year. The following are the main outstanding issues (they are described in more detail in the attached memorandum of Mr. Köpp dated May 6, 1974):
 - (a) Amounts and Terms and Conditions of the Loans: The Romanians have requested that the loan amounts for the three projects totalling \$168 million be increased by at least \$32 million to compensate for recent and expected price increases and to cover some additional equipment required for the projects. In addition, they have asked to finance interest during construction also in the case of the Otelixox and Turceni projects amounting to \$21 million. I feel that some increase of the loan amounts is justified and shall discuss this matter with Mr. Knapp shortly. The Romanians have also asked for longer maturities and grace periods. We are prepared to extend the grace periods by about 6 months but do not want to extend the maturities beyond 15 years for Otelixox and Tecuci. The requested maturity of 25 years for Turceni had already been considered appropriate by the Bank.

(b) Participation of Romanian Suppliers: Contrary to our expectations and the Romanians' position during appraisal, we have now been asked to allow the participation of Romanian suppliers in the international competitive bidding for the goods to be financed by the Bank loans and to finance Romanian suppliers if a Romanian supplier should win. We are prepared to meet this request in principle, although no Romanian supplier is expected to be pre-qualified for Otelinox or Tecuci.

(c) Provisions concerning the Borrower (Investment Bank): The Romanians have proposed to delete all general provisions regarding the Borrower's management and operations which go beyond the scope of the project. They argue that such provisions would cover practically the whole economy and this they consider unacceptable. We have stated that we want to retain some minimum provisions concerning the way our borrower should conduct its operations in general, but we are prepared to meet their request to a considerable extent.

(d) General Efficiency and Management Provisions: The Romanians object to some of our standard clauses which in general terms ask for "appropriate practices", "due diligence", "adequate management" etc. They want to qualify these provisions by references to Romanian legislation in order to avoid the impression that they follow the appropriate standards of efficiency only because the Bank requires it. We have rejected such qualification in order to avoid a precedent although we have no reason to believe that the detailed and rigid Romanian legislation would prevent them to meet appropriate standards. The Romanians have also proposed a substantial "polishing" of our standard language in order to avoid any misinterpretations. We are prepared to be flexible in this respect without giving up substance.

(e) Sector Information: In the case of the power project we have proposed a Project Agreement with the Power Central (the intermediary level between the enterprise and the Ministry for Electrical Energy) in order to establish a direct link with the power sector and ensure that in future we get all necessary data to measure the benefits of the project and to prepare further lending for other power projects. We have indicated however, that we would be prepared to conclude such a Project Agreement with the enterprise but only if we can agree in detail on the information which the Romanians should give us regarding the sector. It presently seems as if agreement could be reached on this basis. The Romanians apparently are beginning to understand that our interest goes beyond the construction of a power plant, i.e. that we want to measure the impact of that plant on the whole system and that we wish to have assurance that it will work in an efficient environment.

(f) External Debt Data: The Romanian delegation has repeated the Government's promise to provide the Bank with the requested external debt data for 1973. The data are expected to arrive in Washington any day. We have informed the delegation that we would want to include the usual external debt information in the President's Reports on the proposed loans. You may want to stress again the importance of this information.

May 6, 1974

(g) Settlement of Pre-war Debt: The two major settlements outstanding are with Britain which has private claims of about £ 44 million, and with the US for an amount of \$15.5 million for defaulted privately held bonds. We have strongly urged the Government directly, through Mr. Rinnooy Kan and through the Embassy, to make substantial and quick efforts towards a settlement of this debt in order to avoid unnecessary discussions of this issue when we submit our first loans to the Executive Directors. We have also mentioned to the Romanian delegation and the Embassy that the Executive Director for the UK informed us (after the Notice of Intention to Negotiate for the Otelixox Project had been issued on March 28, 1974) that his Government was not satisfied with the ongoing negotiations with Romania on the settlement of its debt. The delegation has emphasized that the negotiations on both the UK and US debt are continuing and have been intensified recently. They have requested by cable more recent information on this matter from Bucharest. Mr. Votaw is scheduled to arrive in Bucharest today and will pursue this question also. I recommend that you again strongly emphasize the need for substantive efforts so that the consideration of our first lending operations in Romania will not be accompanied by any unnecessary criticism in this respect.

3. FY75 Program: Appraisal missions for two agricultural projects (Giurgiu-Razmiresti irrigation and Sadova-Corabia agricultural credit) are in the field. The projects are presently scheduled for Board presentation in January/February 1975 and could lead to about \$60-70 million in Bank lending; they will require probably a substantial amount of local cost financing.

4. Economic Mission: An updating mission with special emphasis on industry and power and on the Romanian pricing and planning system has started its work on April 22 and will remain in Romania until about May 15.

Attachment

Cleared with and cc: Messrs. Maiss and de Lusignan

cc: Messrs. Fuchs, Fish, Cash, DeWey, Köpp, Asser, Gavin.

EHKöpp:ss

OFFICE MEMORANDUM

TO: Mr. Munir P. Benjenk, Regional Vice
President, EMENA Region

FROM: Hans-Eberhard Küpp, Division Chief *ELU*
EMENA Region

SUBJECT: Romania: Status of Negotiations

DATE: May 6, 1974

1. Negotiations started on April 25 and proceeded rather slowly despite two extensive rounds of pre-negotiations in February and March. (Unfortunately the Romanians were not prepared to start on April 10 as originally scheduled nor on April 18 as agreed in March.) The negotiations have concentrated until now mainly on the loan documents concerning the Otelinox project. Only Thursday have we started reviewing the Turceni documents which include a Project Agreement with the Central, the intermediary level between the enterprise and the Technical Ministry. We have not considered at all the loan documents on Tecuci so far; however, they are very similar to those on Otelinox. It should be noted that, although most of the Romanian comments were made in connection with the Otelinox documents, they were meant to be taken into account for all three projects and the Bank's position on Otelinox will clearly set a precedent for Turceni and Tecuci.

2. The following describes the main issues and the negotiating position of the two delegations after seven days of negotiations:

(a) Loan Amount

Romanian Position: The Romanians have requested to increase the Otelinox amount from \$60 to \$70 million, the Turceni amount from \$50 to \$65 million and the Tecuci amount from \$58 to \$65 million in view of already increased and further increasing prices on the world market for the supplies to be financed by the loans and to take into account some revisions in the scope of the projects.

Bank Position: We have stated that it is for Bank management to decide on any further loan increases taking into account the overall limits of our lending to Romania and recent price increases. Our position is contained in Mr. Maiss' memorandum to Mr. Wapenhans, dated May 2, 1974 (attached). The following increases are recommended: for Otelinox from \$60 to \$66 million, for Turceni from \$50 to \$59 million, and for Tecuci from \$58 to \$70 million (see also paragraph 2(b) below).

(b) Interest During Construction

Romanian Position: The Romanians seem to have understood by now that their original proposal (and usual procedure in Romania) to defer the payment of interest and other charges during construction until after the grace period, is not possible under the Bank's procedures.

They now request (as is done for the Tecuci project) that the loan amounts as proposed above for Otelinox and Turceni be further increased to cover also at least part of interest and charges during construction and that any savings of the loans should be used also to finance interest during construction; the loan documents should provide for such possibility.

Bank Position: We have taken the position that any increases in the loan amounts should first cover the increase in equipment cost and only, if management agreed to increase the loans further, such increases might be used for financing interest. Mr. Maiss' memorandum of May 2 covers this matter also.

(c) Amortization Period

Romanian Position: The Romanians have proposed to extend the amortization period for Otelinox and Tecuci from 15 to 18 years and for Turceni from 20 to 25 years.

Bank Position: We have assumed an amortization period of 25 years for Turceni anyway, of which the Romanians were not aware. However, we are not prepared to extend the periods for Otelinox or Tecuci since 15 years is considered appropriate for both types of projects and follows the precedents for similar projects.

(d) Grace Period

Romanian Position: The Romanians request to extend the grace periods for Otelinox and Tecuci from 4 to 6 years and for Turceni from 5 to 7 years in order to cover not only the construction period but also the period during which the projects have not reached full capacity. In the case of Otelinox, their additional argument is, that the loan will not become effective before March/April 1975 because of the procurement procedures which are being followed.

Bank Position: We intend to extend the grace periods somewhat and to accept about 5 years for Otelinox, 4-1/2 years for Tecuci and 5-1/2 years for Turceni, which will mean about one year after the plants have started generating funds.

(e) Commitment Charge

Romanian Position: The Romanians request a reduction of the commitment charge taking into account international practice (EXIMBANK: 0.5 percent). Moreover, they want to pay commitment charge on those parts of the loans only which are forecast by the Bank and the Borrower to be spent every year but not withdrawn.

May 6, 1974

Bank Position: We have rejected these proposals and stated that the level and timing of commitment charge is determined by the Executive Directors for all loans to all member countries and that we cannot make an exception for Romania. We have explained that this matter has to be seen in the overall context of the Bank's financing mechanism and that a reduction or phasing of commitment charge in general might cause an increase of our interest rate to counterbalance the reduced income.

(f) Exemption From Premiums on Pre-payment

Romanian Position: The Romanians request that the Bank waive in advance the payment of a premium (in accordance with Section 3.05 (b) and (c) of the General Conditions) and that, therefore, the list of premiums in Schedule 3 of the Loan Agreement be deleted.

Bank Position: We have drawn their special attention to the wording of Section 3.05 (c) of the General Conditions according to which the Bank will sympathetically consider, in the light of all circumstances then existing, any request for a waiver of the payment of any premium. We have informed them that the Bank has usually complied with such requests except in cases where the Bank had to pay a premium itself (i.e. in cases of a participation sold to a commercial bank). We have taken the position that the Bank would therefore like to retain its right to request a premium.

(g) Participation of Romanian Suppliers in International Competitive Bidding (ICB)

Romanian Position: The Romanians request, probably more for reasons of principle than for reasons of practical importance, that the loan documents should not prohibit the participation of Romanian suppliers in ICB for the equipment to be financed by the Bank loans and that they should not exclude the possibility to use the proceeds of the loans to finance Romanian supplies if a Romanian supplier should win. They have repeatedly stated that their interest in the case of the Otelixox project is that a Romanian supplier be allowed to participate as a member (not leader) of a consortium which will be formed to bid for the bar mill; it would, however, be entirely up to the consortium leader whether or not he accepts a Romanian supplier since he has to guarantee the performance of the mill regardless of who would supply individual parts of the equipment.

Bank Position: All three projects have been appraised on the assumption and Romanian expectation that all equipment which we finance could not normally be procured from within Romania since all equipment which can be supplied by Romanian enterprises is reserved for such supplies and not financed by the Bank. The appraisal reports therefore state that the Bank loans would only finance direct imports,

i.e. only foreign exchange costs. We are prepared, however, to change the loan documents in order not only to allow Romanian participation in ICB but also the financing of the ex-factory cost of Romanian supplies, should a Romanian supplier win. ^{1/} However, in the case of Otelinox, we agree to this change in the loan documents on the clear understanding that, based on our present knowledge which was confirmed by Romanian technical experts, no Romanian enterprise could possibly be pre-qualified as a leader of a consortium to bid on either the cold mill or the bar mill included in the Otelinox project. Also, the two main contracts should not be split into additional procurement packages. These understandings should be strongly emphasized to the Romanian delegation in an agreed aide-memoire. In the case of Tecuci, no Romanian supplier or sub-supplier is expected to be pre-qualified for the items to be financed by the Bank loan; these items to be procured from outside Romania, have been selected in agreement with the Romanians and are critical to the success of the Tecuci project. When determining the items to be reserved for Romanian suppliers (and not financed by the Bank loan), the potential of Romanian equipment suppliers has already been fully taken into account.

(h) Procurement Consultants for Otelinox

Romanian Position: The Romanians do not expect that they will need any special outside technical expertise to evaluate the bids on the cold mill although this mill will be the first of its kind in Romania. They agree to consider the necessity of hiring consultants for this purpose but want to reserve the right to decide on this for themselves.

Bank Position: This is an extremely large and technically complex package (approximately \$40 million in foreign exchange), and we have strong doubts that the Romanians are experienced enough to evaluate the bids technically since (i) the specifications are based on performance and are not detailed and (ii) different and complex technical processes may be used by the different bidders. We have therefore insisted that the hiring of consultants, if required, should not only be in the discretion of the Romanians. The loan documents therefore state that such consultants shall be employed unless both the Borrower and the Bank agree that such assistance is not needed. We recommend not to yield on this issue; however, the substance could be covered in a side letter.

(i) Condition of Effectiveness for Otelinox

Romanian Position: The loan agreement provides that the loan can be made effective if either the final technical and economic study or

^{1/} It is my understanding that no special justification has to be given in the President's Report for the possibility of local cost financing under this kind of procedure.

the conclusion of both contracts is approved by the Council of Ministers; in the latter case, a condition of disbursement limits the amount to be withdrawn to the down payment until the final study is approved also. While originally it was expected that both contracts would be concluded at about the same time, there will now be a gap of about three months between the conclusion of the contract for the cold mill and that of the bar mill. The Romanians therefore request to make the loan effective after only one contract (which in practice will be that for the cold mill which represents the major part of the project) has been approved.

Bank Position: In order to permit the Romanians to withdraw funds from the loan account to cover the down payments, we should agree to the Romanian request but revise the condition of disbursement to limit disbursements to the down payments and reflect the separate approval of the two contracts.

(j) Provisions Concerning the Borrower (Investment Bank)

Romanian Position: The Romanians have proposed to delete all general provisions regarding the Borrower's management and operations which go beyond the scope of the project. They argue that such provisions would cover practically the whole economy and this they consider unacceptable. However, they agree to provide financial statements of the Borrower and other information to be agreed between the Borrower and the Bank.

Bank Position: We have argued that we usually would have appraised in much more detail the financial position and the organization and management of the Investment Bank but that we had accepted it as the Borrower in view of its position and importance within the Romanian economic system. In order to avoid an unfavorable precedent, we propose to keep some minimum provisions concerning the way the Borrower should conduct its operations. We are prepared, however, to delete the reference to qualified and experienced management and personnel of the Borrower and to relate the requirement to keep adequate records to the enterprise. Finally, we propose to delete Section 7.02 (b) concerning changes of the Borrower's charter.

(k) Provisions on "Appropriate Practices" for Project Execution and Operation

Romanian Position: The Romanians have repeatedly and strongly emphasized that they want to avoid the impression that appropriate practices shall be applied only because the Bank requires it, or that such practices are not those recognized by the detailed and rigid Romanian legislation on efficient project execution and operation. While they originally proposed to delete all references to appropriate practices, due diligence, efficient management etc., they now propose to add in Section 3.01 Loan Agreement "and according

to the Romanian legislation" and to delete Section 7.02 (c) which specifically refers to the Otelinox enterprise's requirements during the operation of the plant as additional events for the purposes of Section 6.02 of the General Conditions (suspension and cancellation). Moreover, they want to delete the reference to "the supervision of experienced and competent management, assisted by qualified staff in adequate numbers" in Section 6.01 (d) concerning the Otelinox enterprise, since the staffing is prescribed in detail by Romanian laws.

Bank Position: We have objected to any qualification of the standard project execution, efficiency and management provisions in order to avoid a precedent, although we have no reason to believe that the Romanian legislation would prevent them to meet the appropriate standards. We have explained that we are not asking for "international" practices but "appropriate" practices which expression links the practice to the specific situation in the project and in the country. We are, however, prepared to delete Section 7.02 (c) since legally we are covered in this respect already through the Guarantee Agreement. On the other hand, we consider the reference to management and staffing of the enterprises an essential part of the standard provision which we should not give up.

(1) Insurance

Romanian Position: The Romanians want to limit their obligation to cause adequate provision to be made for insurance to the external transportation since for transportation within the country, they follow the principle of self-insurance. Also, they want to exclude any obligation to insure against hazards incident to the acquisition and delivery since it is not their practice to insure goods as long as they have not assumed the risk for the goods.

Bank Position: We have agreed to limiting the insurance to transportation to the place of importation but have proposed to keep the (standard) clause flexible otherwise so as to cover also hazards incident to acquisition and delivery because there might be good reasons to cover such risks also. This clause needs some further detailed discussion.

(m) Auditors

Romanian Position: The draft loan agreements request audits "by independent Romanian auditors designated by the Guarantor and acceptable to the Bank." Although this represents already a compromise wording which we proposed during pre-negotiations, the Romanians strongly object to "acceptable to the Bank." They do not want to give any foreigner the right to accept or refuse an institution which performs certain tasks given to it by law.

Bank Position: We have argued that we consider it quite legitimate for a lender to reserve the right to accept or refuse the auditor selected by the borrower and that we do not want to set a precedent although we are prepared to accept, and state so in a letter, the auditors of the Ministry of Finance. We are of course aware of the precedent in the case of Yugoslav loans where we have accepted "the Social Accounting Service or another competent and experienced independent auditing organization" and agreed on a training program for the Social Accounting Service with the assistance of foreign consultants. Surprisingly, the Romanians have not yet mentioned this precedent.

(n) Debt Service and Conversion Rate

Romanian Position: The Romanians have agreed that part of the annual, compulsory benefit (and if necessary, depreciation) payments to the State shall be considered as covering the Lei equivalent of the maturities of and the interest payments (9 percent in the case of Otelinox and Tecuci) on the Bank loan. However, they consider the right to decide on the conversion rate at which the Lei equivalent would be determined, an internal affair of the Government and reject the provision that the conversion be agreed between the Borrower and the Bank.

Bank Position: We have argued that it is essential for the Bank to have the right to agree to an appropriate conversion rate because otherwise the provision could be made completely meaningless by choosing an arbitrary rate. We are prepared, however, to include this part of the clause in a side letter. This possibility has not yet been explored with the Romanians.

(o) Exchange Rate Under Section 4.06 General Conditions

Romanian Position: The Romanians object to Section 4.06 General Conditions which gives the Bank the right to determine the appropriate exchange rate. They insist that the exchange rate of foreign currencies should be determined by agreement between the Guarantor and the Bank and that the exchange rate of the Lei should be determined in accordance with Romanian legislation.

Bank Position: We feel that the Bank should stick to its standard practice and reject the Romanian proposal.

(p) Negative Pledge Clause (Guarantee Agreement)

Romanian Position: The Romanians want to state in the Guarantee Agreement, and we have agreed, that it is their policy not to create liens and that, in accordance with that policy, they shall not create liens on public assets. However, they want to limit the definition of

public assets to "means of payment in gold and convertible currency held by institutions performing the function of a Central Bank in Romania". They argue that with the standard definition, all assets of the country (the State being the owner of almost everything) would be covered.

Bank Position: We feel that the argument for some kind of limitation of the definition of public assets is reasonable. However, we have not been able to explore whether management would agree to such a limitation.

(q) Project Agreement (Turceni Project)

Romanian Position: The Romanians do not object in principle to the idea of a Project Agreement, but they want this Agreement to be concluded not with the Power Central but with the Turceni enterprise. Moreover, they accept this idea only on the understanding that all provisions regarding the relations between the Bank and the enterprise be included in the Project Agreement and excluded completely from the other two agreements.

Bank Position: We have proposed a Project Agreement with the Power Central in order to establish a direct link with the power sector and ensure that in future we get all necessary data to measure the benefits of the Turceni project and to prepare further lending for power projects. We have indicated, however, that we would be prepared to accept a Project Agreement with the Turceni enterprise provided legal assurances are given in the other agreements that we will receive all necessary sector information. The reporting requirements have been discussed in detail and the Romanians will seek approval from Bucharest on a detailed supplemental letter on this matter. If a satisfactory letter can be agreed upon, we should be satisfied with a Project Agreement with the enterprise (similar Project Agreements would also be concluded for Otelixox and Tecuci). We have not yet discussed, however, the exact content of the Project Agreement and its relation to the Loan and Guarantee Agreements.

(r) Other Standard Language

Romanian Position: The Romanians have proposed the deletion, revision or substantial polishing of many of our standard provisions in order to avoid any impression that the clauses of the loan agreement may have been imposed on them or are very rigid or unlike agreements which they have signed with other lenders before. For instance, they want to add to Section 1.01 "unless otherwise agreed in this agreement," delete the Bank's right of cancellation in paragraph 4 of Schedule 1, etc.

Bank Position: In general, we have been flexible in this respect without giving up substance. However, we are reluctant to make too

many changes in the wording of standard provisions. We think that the proposed addition to Section 1.01 is already covered by the General Conditions. The proposed change in Schedule 1 would mean an unacceptable change of substance.

3. As mentioned above, the Turceni and Tecuci documents have not yet been reviewed with the Romanians and further differences of opinion are possible. In particular, I expect strong opposition to the "minimum contribution (40 percent of own resources) to planned investment" covenant in the Turceni Guarantee Agreement. I shall report on any further main issues as soon as they arise.

4. I would appreciate your comments and guidance on the "Bank Position" as described in paragraph 2 above.

Attachment

Cl. with and cc: Messrs. Cash, Fish, Dewey, Asser, Gavin

cc: Messrs. Wapenhans, Fuchs, Maiss, O'Neil, Nayar, Ferber, Brown,
Green, Cordukes, Heidhues, de Lusignan

HEKöpp:orp

OFFICE MEMORANDUM

TO: Mr. Willi A. Wapenhans, Acting Regional Vice DATE: May 2, 1974
President, EMENA Region

FROM: Otto Maiss, Acting Director, Country Programs, *OM*
EMENA Region

SUBJECT: Romania: Loan Amounts for the Otelinox,
Turceni and Tecuci Projects

1. We are presently negotiating the three projects (Otelinox, Turceni, Tecuci) with the Romanians. As anticipated in Mr. Votaw's memorandum of April 22 to you, the Romanian negotiators have again repeated their earlier request for an increase in the loan amounts above those authorized by the Loan Committee, in all three cases. Although we have tried very hard to stay within the limits authorized by the Loan Committee (which were consistent with the lending amounts authorized at the CPP review eight months back), our negotiating teams now recommend, and I endorse their recommendations, that we reconsider this issue.
2. The Loan Committee has authorized negotiations on the basis of the loan amounts which total \$168 million for the three projects (Otelinox: \$60 million, Turceni: \$50 million, Tecuci: \$58 million). We now seek management's approval to increase this total to \$195 million (Otelinox: \$66 million, Turceni: \$59 million, Tecuci: \$70 million) for reasons detailed in Mr. Votaw's memorandum of April 22 and further elaborated below.
3. As indicated in the attached table, the total cost of the three projects is estimated at \$751 million, including \$283 million in foreign exchange. Items considered suitable for Bank financing and interest during construction total \$239 million. We are recommending a total lending of about \$195 million; this level of lending is supported by the following project by project review.
4. Otelinox Project: We are presently authorized to negotiate a loan for \$60 million but now seek approval to increase the loan amount to \$66 million. The proposed \$60 million loan for the Otelinox project was first discussed in September 1973 when the total cost of the project was estimated at \$160 million. Since that time total project costs have increased to \$184 million and the estimated direct import cost to \$86.4 million (from \$80 million). Also, the Romanians now indicate that during the earlier discussions they did not fully understand that they would be obligated to finance about \$8 million of the foreign exchange costs of interest during construction. Thus, the \$20 million foreign exchange gap expected by the Romanians in September (\$80 million less \$60 million Bank financing) has "increased" by \$14 million (\$6 million cost increase and \$8 million interest during construction) to \$34 million and they are now requesting an increase in the loan amount to \$74 million to offset this. Industrial Projects Department feels

May 2, 1974

that additional equipment and materials could be allotted for procurement under Bank guidelines. I feel that on the basis of cost increases a loan of \$66 million is justified. I recommend that we negotiate on the basis of \$66 million but be willing to increase this amount further but only if the Romanians agree to accept less than recommended amounts for other loans as proposed in paragraph 7 below.

5. Turceni Project: The Loan Committee had approved documents recommending a loan for \$50 million. Our latest calculations of project cost estimates (using recent CPS guidelines regarding price escalation) indicate that direct and indirect imports (excluding interest during construction) will amount to \$89 million out of which about \$30 million may not be eligible for ICB. These estimates justify a loan of \$59 million. The Romanians will still have to find financing for other direct imports amounting to \$30 million and interest during construction totalling approximately \$13 million.

6. Tecuci Project: A lending amount of \$58 million was authorized by the Loan Committee, covering all eligible direct imports (\$52 million) and interest during construction (\$6 million). As shown in the table, the total foreign exchange cost of the project is estimated at \$87 million. However, items considered ineligible for Bank financing total \$14 million (working capital \$8 million; items already procured and financed by the Romanians due to the rapidly rising prices \$6 million). Thus, the items considered eligible for financing total \$73 million and include \$15 million for procurement of stainless steel for use in Romania for manufacture of equipment for the project. Although appraised as an indirect foreign exchange cost of the project, this steel could be procured (with the Romanians' concurrence) through international competitive bidding under Bank guidelines for use by Romanian manufacturers supplying the project. Industrial Projects Department, however, suggests that we finance only \$12 million of these \$15 million steel imports since it will be difficult to organize proper ICB for the remaining steel costing about \$3 million. As you know, in the case of Turceni Power project, we propose financing component and materials needed to fabricate equipment for the project. I believe that a similar approach is appropriate in the case of the Tecuci project. I also believe that due to the cost increases since our initial involvement in the project a larger loan is justified. Therefore we recommend \$70 million in Bank lending for the project to include \$12 million of imported steel.

7. I would recommend increasing our total lending for the three projects by the \$27 million noted above even if such an increase makes it desirable to slip one of the three projects into FY75. All the increments are for the financing of imported equipment and materials. However, it may well be that the Romanians would prefer to use a portion of increased Bank lending to finance interest during construction instead of additional equipment. In addition, the Romanians may insist on getting

Mr. Wapenhans

- 3 -

May 2, 1974

a loan of \$74 million for Otelinox (instead of \$66 million recommended above) and accept a corresponding decrease, compared to the amounts now requested, in other loans. I would, therefore, ask for some flexibility on how to apply such an increase.

Cl. in substance with and cc: Messrs. Cash, Fish, Dewey, Finzi

NNoon/EKöpp/HSKohli:orp

ROMANIA: Loan Amounts for Otelinox, Turceni and Tecuci Projects

	<u>Otelinox</u>	<u>Turceni</u>	<u>Tecuci</u>
	(US \$ million)		
1. Total Project Cost	184	366 /r	201
2. Total Foreign Cost	94	102 /r	87
of which:			
a) Direct imports	86	59	58
(i) eligible /1	(86)	(29)	(52)
(ii) non eligible /1	(-)	(30)	(6)
b) Indirect imports /2	-	30	15
c) Working capital	0	0	8
d) Interest during construction	8	13	6
3. Bank Loans approved by Loan Committee	60	50	58
4. Bank Loans now proposed	66	59	70
(As percentage of total direct foreign costs)	(69%)	(58%)	(80%)
(As percentage of Total Costs)	(38%)	(16%)	(35%)

/r Estimates revised since Loan Committee review.

/1 For Bank financing.

/2 For fabrication of local equipment used in the project.

CPD I
EMENA Region
May 2, 1974

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OFFICE MEMORANDUM

TO: Munir P. Benjenk

DATE: 10 June, 1974

FROM: R. A. Browning

SUBJECT: U. K. Claims on Romania

In view of our conversation on Friday I think you might find it helpful to have the texts of the telegrams we have received from London following on the visit of Mr. Gliga. They are set out below. In view of the second one, which I had not received when I spoke to you on Friday, I think that we must ask that none of the documents relating to Romanian projects be circulated for the time being in view of the fact that no progress has been made towards a settlement of the U.K. claims.

1. "You will wish to know that there was no significant progress during the visit of the Romanian Deputy Foreign Minister. Gliga offered a further round of technical discussions at which the Romanian government would make a new offer. Mr. Hattersley replied that technical discussions had already been carried to their limits. The need now was for a political decision to compromise on a figure that was acceptable to both sides. The next move was for the Romanians who should table the revised offer which they promised last November. The British government was ready for technical discussions but only after (repeat after) a new offer had been tabled.

"Despite referring overnight to Bucharest Gliga was unable to make further progress and the matter was left there."

2. "In conveying to Bank staff information contained in our tel No. 232 to Bucharest, you should emphasise that there have been seven lengthy rounds of official negotiations since the war: two of these, lasting 10 days each, were held in 1973. We are convinced that no further progress can be made by meetings of experts until the Romanians have tabled a suitable offer.

"You should add that we have indicated to the Romanians (without formally tabling a figure) that we could accept £9 million in settlement. It is now for the Romanians to improve on their very small offer of £1 million.

"It is clear to us that the Romanians are simply procrastinating, partly by drawing in extraneous issues. They have even asked for the return of some gold sequestered under the 1947 Peace Treaty."

£11.5 million
15.5 million
15.5 million

£4.0

October 11, 1974

Romania: Annual Meeting 1974 -- Meeting with
Romanian Delegation on October 1

1. Present: Messrs. Dumitrescu (Minister of Finance), Diamandopol (President, Investment Bank), Dan (National Bank, Interpreter), Rinnooy Kan (Executive Director), McNamara, Knapp, Paijmans and Köpp.

Future Projects

2. In opening the meeting, Mr. McNamara pointed to the fact that after the successful start with 3 loans in June/July, the pipeline of future projects (beyond the two projects of this fiscal year) was more or less dry and that quick action and good cooperation was required to fill it soon from the new list of projects received from the Government immediately before the Annual Meeting. The Minister thanked the Bank management and staff for the good cooperation and the achievements so far and apologized for the late submission of the project list which, according to him, was due to extensive discussions in the country on its composition. These discussions, he said, had centered on the possibility of expanding as much as possible the "local effort" in the projects. The Government had made great efforts in the past to buy licenses and technology; about 70 percent of equipment was now being provided from local enterprises. For this reason, and because of recent unfavorable developments in Romania's balance of payments, the Government had decided to minimize imports and wished the Bank to finance a greater share of the "local effort" taking into account indirect imports and genuine local costs. He suggested that a solution be sought considering project by project.

Economic Report 1974

3. The Minister stated that the draft report submitted to his Government was very well received but emphasized that the Government could not agree to including any figures in the report on the balance of payments, external debt and foreign exchange reserves. These figures had not been published in Romania and had been given to the Bank on a confidential basis. Mr. McNamara replied that he would like to see exactly what figures were requested to be taken out of the draft and that he would then discuss with Messrs. Knapp and Benjenk whether or not the Bank could agree to this request. He promised that, for this year, he would be willing to meet the Romanian wishes as much as possible, but that in future such figures would have to appear in the Bank's economic reports.

Lack of Information

4. Having expressed understanding of the Government's problem as regards the above data and promised full cooperation by the Bank, Mr. McNamara asked the Minister for his personal assistance in facilitating the release to the Bank staff of information required for their work. He stated that still much time was wasted on the working level because the Romanian counterparts had to go through long clearance procedures. Mr. McNamara urged the Minister to inform the various technical ministries about the standard reporting and information requirements of the Bank and to authorize them to release existing or readily available information within reasonable limits without asking for clearance every time. The Minister promised to look into this matter but mentioned again the problem that very often the requested information was restricted and its release subject to specific approval by higher authorities.

EDI

5. The Minister said that he was very pleased with the cooperation with the EDI. He mentioned that the Finance Ministry of Hungary had asked the Romanian Government whether two Hungarian specialists might participate in the January EDI course in Bucharest. Mr. McNamara replied that the Bank would welcome such participation.

Pre-war Debt

6. Minister Dumitrescu mentioned that the settlement of the US debt was well under way but that no early settlement of the UK debt seemed to be in sight. He said that the UK representatives had taken a rather rigid position and that the timing of the next meeting and its chances were uncertain. Mr. McNamara urged the Minister to get in touch personally with his UK counterpart in order to solve this problem which should be a relatively small matter for both countries. The Minister, however, showed considerable reservation to doing so in view of the complicated nature of the claims from both sides.

Actions Required

7.
 - i) Agree with the Romanian delegation on further steps for establishing project pipeline for FY76 and later (para. 2 above); 1/
 - ii) Seek Mr. McNamara's decision whether or not to comply with the Government's request concerning the economic report 1974 and inform Government accordingly.

Cl. with and cc: Mr. Paijmans
cc: Messrs. McNamara, Knapp, Benjenk, Wapenhans, Karaosmanoglu, Maiss, Köpp, Hume, Noon, Lamson-Scribner

1/ Done on October 2-4 in several meetings with the delegation.

HEKöpp:orp
EMENA Region, Division LD

Romania - Curriculum Vitae

Mr. Florea Dumitrescu: Minister of Finance of the Socialist Republic of Romania and Governor of the Bank

Born April 4, 1927, at Necsesti, near Bucharest
Graduated from the School of Finance and Credit of the Institute of Finance and Economic Science in Bucharest - 1949
National Bank: 1949-1965
Member of the State Planning Committee, 1965-1968
First visit to U.S.A. as a member of the Economic Delegation - 1967
Member of the Economic Council since January 1968
Member of the Grand National Assembly since March 1969
Minister of Finance since August 1969
Member of the Central Committee since August 1969
Second visit to U.S.A. - September 1972, during the IMF/IBRD Annual Meetings
Mr. Dumitrescu is married. He speaks French a little. He understands at least some English but does not speak it.

Mr. Iulian Bituleanu: Deputy Minister of Finance of the Socialist Republic of Romania

Mr. Mihai Diamondopol: President, Investment Bank of Romania

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Martijn J. W. M. Paijmans, Director

SUBJECT: ROMANIA - Visit to Mr. McNamara by Ambassador Bogdan

DATE: January 23, 1975

On January 13, 1975 Ambassador Bogdan paid a brief visit to Mr. McNamara to convey the following messages.

U.K. Claims

^{1/24} The Romanian authorities have increased their offer for the settlement of the claims from £1.5 million to £2.0 million. The Ambassador indicated that this gesture was made in a genuine effort to solve the matter once and for all. Mr. McNamara expressed satisfaction at the fact that discussions between the two parties are continuing with the goal of reaching a satisfactory settlement.

Lending Rate for Romanian Loans

With respect to the Romanian irrigation projects to be submitted to the Board on January 28, the Ambassador expressed his Government's concern about the possibility that the lending rate of the Bank would be 8-1/2% at that time. He asked Mr. McNamara whether it would be possible to apply the current interest rate of 8% to these projects, particularly because of the effect the higher interest rate would have on the balance of payments of Romania. Mr. McNamara indicated that the Executive Director for Romania had also brought the Romanian request to his attention, and that he personally was not opposed to an arrangement that would meet the request if a proposal to that effect would be supported by the Board.

MPaijmans:gg

cc: Mr. McNamara's Office

15

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: March 15, 1977

FROM: Hans-Eberhard Köpp, Division Chief, Country
Programs Department 1, EMENA RegionSUBJECT: Romania: Earthquake

1. On March 11, Mr. McNamara met with the Romanian Ambassador, Mr. Nicolae, and the President of the Romanian Investment Bank, Mr. Diamandopol. The meeting was attended also by Messrs. Besteliu and Anghel of the Romanian Embassy and Messrs. Benjenk, Paijmans and Köpp.
2. The Ambassador started with describing the very serious effects of the earthquake which struck Romania on March 4 and which caused over 1,300 deaths and thousands of injuries, destroyed a great number of buildings and left tens of thousands of people homeless, and destroyed or seriously damaged about 200 factories. According to the Ambassador the Government's first objective was now to provide homes for the affected people and to restore full production. The Ambassador stressed that the Government's preliminary analysis had concluded that no change in the Development Plan was required. The Government felt, however, that it would be appropriate in this situation to ask the World Bank for assistance. The Ambassador then handed over a letter from Mr. Dumitrescu, Minister of Finance, to Mr. McNamara which requests a \$300 million loan with a long maturity and at a low interest rate.
3. Mr. McNamara responded that the best we could do at this stage was to keep in touch with the Government as it appraises the impact of the earthquake, prepares plans and establishes priorities, and to consider any detailed requests that the Government would prepare subsequently. Mr. McNamara stated that he would not want to give a final answer now on whether or not the Bank would be able to make a loan. He stressed, however, that he did not want to mislead the Government either and pointed out that it was highly unlikely, in view of the general limitation on resources, that the Bank could make a loan anywhere near the order of magnitude requested by the Government. He added also that funds at lower than the regular Bank interest rates were simply not available to us. Referring to the preliminary government analysis that the Plan could still be fulfilled, Mr. McNamara said this was an important conclusion but it was difficult for him to conceive that there would not be substantial additional convertible foreign exchange requirements caused by the earthquake on top of the previous already high needs.

4. In his reply the Ambassador mentioned that the earthquake would certainly have an impact on Romania's foreign trade; but the Government would try to keep it within reasonable limits and perhaps take some supplementary measures to reduce imports and increase exports and other foreign exchange earnings. The total damage was tentatively estimated at \$1 billion but the Government was now working on establishing the exact extent of the damages and priorities to repair them. The immediate problem was to buy equipment to restore production quickly.

5. In response to the Ambassador's request for a quick and positive reply to the letter, Mr. McNamara stated that no real answer could be given to such a general request as long as the Government had not assessed the damage, established its priorities, formulated plans and projects, identified the needed equipment etc. Mr. McNamara therefore repeated that the Bank would stay in close touch with the Government in this respect.

6. The Romanians did not mention at all the Danube-Black Sea Canal project for which Mr. Diamandopol had initially requested a meeting with Mr. McNamara in which he would hand over a letter from Mr. Dumitrescu.

cc: Mr. McNamara's office (2)
Mr. Knapp
Mr. Benjenk
Messrs. Knox and Fuchs

Cl. with and cc: Mr. Paijmans

HEKöpp:orp

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 11 1977

FROM: M.P. Benjenk *MB*

SUBJECT: Romania - Earthquake

I have now heard from the Romanian Embassy that the delegation which will see you this evening has just received instructions to raise with you the question of a possible Bank loan for repair of industrial and infrastructural damage caused by the recent earthquake.

I am therefore attaching for your recollection the memorandum which was sent to you earlier this week and which was returned to me.

Att:

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
 THROUGH: Mr. J. Burke Knapp, Senior Vice President, Operations
 FROM: M. P. Benjenk, Regional Vice President, EMENA

DATE: March 8, 1977

SUBJECT: Romania: 1) Earthquake
 2) Proposal for Danube-Black Sea Canal

1. A Romanian delegation headed by the President of the Romanian Investment Bank, Mr. Diamandopol, is here to negotiate two (possibly three) industrial loans for this fiscal year. Mr. Diamandopol had already last week asked for a meeting with Mr. McNamara to hand over, on behalf of the Governor, a formal letter addressed to the President of the Bank in which the Government requests Bank assistance for the proposed Danube-Black Sea Canal. After the very severe earthquake that struck Romania last Friday, Mr. Diamandopol is now awaiting instructions from Bucharest but has informed us that he would like to raise with Mr. McNamara as soon as possible the possibility of Bank assistance to repair the extensive damages caused by the earthquake. I shall see Mr. Diamandopol already on Wednesday at 12:30.

2. Please find attached copies of two memoranda from Mr. Paijmans which describe the situation concerning the earthquake (Attachment 1) and the proposed Canal (Attachment 2). The information on the canal project is only meant to serve as a brief for the meeting with you which the Romanian delegation is requesting. The information on the earthquake is to serve as a brief but also to obtain - if at all possible before my meeting with the delegation - some indication as to whether you would be favorably inclined towards considering such an emergency reconstruction operation.

- (i) Mr. Paijmans concludes in paragraph 5 of Attachment 1 that, if the Bank would wish to support Romania in its forthcoming reconstruction effort as we did at the time of the flood emergency, a reconstruction loan could probably be made towards the end of CY1977. This would require an additional staff effort during the remainder of this fiscal year and the first half of FY78 and an additional resource allocation during FY78. With respect to the staff input a rearranging of the current work program would of course be required but some additional input (maybe partly from consultants) cannot be avoided. With respect to financial resources, the \$52 million lower than the CPP authorized lending amount for FY77 (due to project preparation delays on the Romanian side) could form the basis for an operation - assuming a suitable reconstruction project could be identified - if that authorization could be carried over into FY78; over and beyond that amount either an additional allocation to the current \$210 million Lending Program would have to be made or a project would have to be slipped (making \$40-\$60 million additionally available) or a combination of both. If we would wish in

*I vote against any
 reconstruction of any
 earthquake loan*

MP

JK

such a reconstruction operation to also avoid heavy local cost financing we should limit our involvement clearly to imports for industrial reconstruction (probably largely proprietary items), which would in all likelihood require exceptions from international competitive bidding.

- (ii) As far as the canal is concerned, we are unable to give the Romanians our view on the merits of the Canal Project, or of our possible interest in its financing, until after receipt and review of a number of data we requested in June 1975 following our review of a summary study of the project and a mission visit. If we were to become involved in the project, several hurdles would have to be overcome, including the very large proportion of local costs, the fact that foreign costs would be largely indirect, procurement involving substantial Romanian participation with virtual certainty of Romanians winning all bids for which they compete, and substantial IBRD manpower requirements. Finally, the operating staff, based upon experience with much less complex projects in Romania, doubt that the senior Romanian authorities would be willing to release adequate and partially sensitive information on the project and related facilities to support the normal standards of Bank appraisal.

3. I would be grateful for your reaction.

Attachments

Cl. with and cc: Messrs. Paijmans, Köpp
cc: Mr. Knox

HEKöpp/MPaijmans:sap

OFFICE MEMORANDUM

Attachment 1

TO: Mr. M. P. Benjenk, Regional Vice President

DATE: March 7, 1977

FROM: Martijn J.W.M. Paijmans, Director, Country
Programs Department 1, EMENA Region

P

SUBJECT: Romania: Earthquake

1. As you know Eastern Europe was struck by a very severe earthquake last Friday, March 4, the center of which was about 120 km north of Bucharest, near Ploiesti, a major petrochemical industry center. Estimates of the death toll in Romania range from about 700 to many thousands. The cities most affected by the earthquake in Romania are Ploiesti, Bucharest, Galati, Craiova and Iasi but also Brasov and several towns near the Danube. The highway from Bucharest to Brasov via Ploiesti is reportedly seriously damaged with several bridges destroyed. Initial reports mentioned many damages to residential and commercial buildings in particular in the center of Bucharest where about 80,000 people are reported homeless and a hundred major buildings are destroyed. More recent reports indicate that there has also been serious damage to industrial plants. For instance, there have been fires and explosions in a petrochemical complex and oil refinery in Ploiesti and also a sulphuric plant has reportedly been heavily damaged; the steel center at Galati has also been seriously affected.
2. According to news reports the Government which had initially declined any offers of assistance until the extent of the damage would be analyzed, has now appealed to the US and UN for medical supplies and other relief. A first US plane with such aid is expected to land in Bucharest today.
3. The Romanian Government must be expected to seek again special Bank assistance in its efforts to repair the damages. In July 1975 the Ambassador made such an appeal to the Bank within a few days after the severe floods had occurred. Mr. Diamandopol (President, Investment Bank), who is here for negotiations, will certainly address this matter when you meet him. He has already asked for an informal discussion with me although he has not yet received any instructions in this respect from Bucharest. He and the Ambassador will raise this question also at the meeting with Mr. McNamara which they have requested in connection with the Danube/BlackSea Canal (separate briefing memorandum being prepared).
4. What are the possibilities for any Bank support to Romania to help in the major reconstruction task the Government will be faced with?

- (i) Timewise, the earliest a loan could be made for this purpose would be towards the end of this calendar year. Even a repetition of the all-time processing record of the flood loans would bring us into FY78 but it is highly unrealistic to assume that this record could be matched now that we are in the second half of the fiscal year and heading for a serious bunching season.
- (ii) In addition to the severe damages, reported initially, in residential, commercial and public buildings, it is becoming obvious now that there are also heavy damages in industrial enterprises, roads, bridges and possibly power utilities. Though it is too early to speculate on this, it can be expected that the repair of the damages will involve to a large extent local cost and proprietary equipment for industry. Our experience with the industrial flood loan has shown that the Romanians were most reluctant to allocate any loan funds to industrial rehabilitation (involving imports) or to use the very limited funds thus allocated for that purpose. Contrary to the expectations at appraisal they have not used any funds from the flood loan for mining repairs but are heavily overspending on transport equipment for contracts won by Romanian enterprises following ICB. It is safe to assume that the Romanian Government would again emphasize the need to support the local efforts of the Government and that all the reconstruction works would be executed as quickly as possible by Romanian construction enterprises.
- (iii) As far as our lending program is concerned, we will not meet our original CPP amount for FY77 (four projects for \$220 million) since the second agricultural credit had not be postponed to FY78 for lack of data. Assuming we will be able to do the Glass Fiber project this year, we would achieve four projects but only for a maximum of about \$168 million (FY76: three projects/four loans for \$170 million). Our lending program in FY78 calls for four projects for \$210 million. While three projects which could absorb close to \$200 million look relatively firm at this stage, we are presently still pursuing several possibilities for a fourth project (which could be in lignite mining, further agricultural credit or power). It should thus be possible to accommodate a small reconstruction loan as far as funds are concerned (for FY77 we remain \$52 million under the CPP amount) either as an addition to the FY78 program or by slipping a project. A constraint, however, would be the lack of staff. No project has so far been planned in the transport or housing sector; thus no staff time has been reserved so far that could easily be used

for such a project in Romania. For the industry sector the situation is slightly different as staff time for future projects has been allocated to Romania.

Conclusion and Recommendation

5. (i) A reconstruction loan could probably be made towards the end of 1977 but only if staff could be reallocated from other projects to process such a loan.
- (ii) It should be possible to accommodate a relatively small loan in FY78 as far as money is concerned either by adding to the envisaged lending amount of \$210 million in that year or by slipping a project.
- (iii) Any general reconstruction loan would involve heavy local cost financing requiring a special dispensation from present policy towards countries like Romania. It would also require exceptions from international competitive bidding. In any case, it can be assumed that most contracts (especially in transport) would be won by Romanians.
- (iv) Based on our experience with the flood loans, it would be advisable to limit an offer of Bank assistance, if any, to financing direct imports for rehabilitation of damaged enterprises. This limitation to direct imports should, however, be clearly stated to the Romanians right from the beginning. We feel that such a response would be most appropriate if the Bank were to get involved in this at all. It is likely that most of the damaged equipment not available in Romania, would be of special nature and therefore not suitable for full international competitive bidding (in the case of the flood loan industrial imports were made following international shopping).

cc: Mr. Knox

HEKöpp:orp

OFFICE MEMORANDUM

Attachment 2

TO: Mr. M. P. Benjenk, Regional Vice President,
Europe, Middle East and North Africa Region

FROM: Martijn J.W.M. Paijmans, Director, Country
Programs Department 1, EMENA Region

SUBJECT: Romania: Danube/Black Sea Project

DATE: March 7, 1977

1. The following memorandum is provided as background for your meeting with Mr. Diamandopol at lunch on Wednesday, March 9* and for use in preparation for a possible meeting which Mr. Diamandopol has requested with Mr. McNamara. We understand from Mr. Diamandopol that he is carrying a letter to Mr. McNamara from Mr. Dumitrescu urging the Bank to help finance the proposed Danube/Black Sea Canal Project. Mr. Diamandopol insists that he must deliver the letter personally to Mr. McNamara on behalf of the "Governor of the Bank", but I have suggested that he raise this matter with you first.

2. You may recall that the project consists of a 62 km canal which would link the Port of Constanta with the Danube, thereby considerably shortening the distance between the Black Sea and the Danube (and eliminating the need for using the relatively shallow portion of the Danube which lies between Romania and the USSR). Water transport plays a very small role in Romania, and the proposed project would have to be justified largely on the basis of new traffic generated through industrial development in the surrounding region. The Romanians have stressed the international aspects of the project which involve river commerce of the several riparians and a proposed linking of the Danube and Rhine. They are also aware of the enormous scale of the undertaking (roughly estimated in 1975 to cost \$1.2 billion with the Romanians mentioning estimates as high as \$2 billion in recent discussions). We have expressed, and should continue to express, our openness to further consideration of the project; however, we should also continue to note a number of potential difficulties which we have often discussed with the Romanians. These include the expectation that the major part of cost of the project will be purely local, and that the bulk of the foreign costs will consist of imported materials and components for Romanian manufactured equipment. As a consequence of this substantial indirect foreign cost, organization of international competitive bidding would be very difficult if not impossible. We have also noted that appraisal of the project would be extremely complex, as it would involve not only the canal itself, but also a related \$500 million expansion of the port of Constanta and extensive industrial and other development planned for the region bordering the canal (on which traffic forecasts for the canal would be based). We had also understood from earlier descriptions of the project that it would be physically linked to a hydroelectric dam at Cernavoda on the Danube, but the Romanians have subsequently insisted that this

*You agreed to see Mr. Diamandopol at 12:30 preceding lunch.

facility would be physically separated from the canal and that the canal would not depend upon its completion. In view of these complexities, we, and the Romanians, must recognize that a considerable amount of manpower would be required if we were to undertake the project, with the inevitable elimination of other projects from the lending program.

3. The project was first proposed to us at the Annual Meeting in September 1974 as one of several presented on the second list of projects proposed by the Government. Mr. Howard subsequently visited Romania for a week in April 1975, during which time he discussed the project and visited the proposed right-of-way for the canal. In spite of our earlier requests and related Romanian promises, Mr. Howard was not given any meaningful information on which to base even a preliminary assessment of the economic viability of the project. In June 1975 we received an impressively bound but superficial statement of the project content without any supporting economic data or analysis. We responded by Mr. Köpp's letter of June 19, 1975 to Mr. Diamandopol, which together with a questionnaire, requested information which we considered necessary to make a judgment of our interest in the project. Despite a number of further verbal and written general exchanges about the project in the ensuing 21 months, we have not received any further information on it. Our position today remains what it was in June 1975, namely, that we would be pleased to comment on the project as soon as we have sufficient data. I attach for reference a copy of Mr. Köpp's letter of June 19, 1975.

4. The history of our dialogue with the Romanians on this project raises a serious question of the extent to which adequate data, some of it quite sensitive, on the project and related facilities would be provided to the Bank. Given the extensive information requirements for this project, it must be viewed against the background of the continuing difficulty which we have in obtaining adequate economic and project data to support the lending program. This situation has not improved during the past five months despite our vigorous representation on the need for improvement at the Annual Meeting in Manila. We have, for example, still not received a response to my letter of December 3, 1976 to the Minister of Finance requesting data which we considered important for completion of the basic economic report, nor have we received all of the data requested in October for completion of appraisal of the Second Agricultural Credit Project -- despite the Minister of Finance's personal assurance to Mr. Köpp in December that at least some of this data would be provided. Against this background I remain skeptical that the Government would ever be willing to provide sufficiently detailed information to appraise the project.

Attachments

Cl. with: Messrs. Köpp, Howard
cc: Messrs. Knox, Pollan (o/r), Elliott, Tsantis,
Pepper, von Buelow

NWN:orp

16.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 28, 1977

FROM: Martijn J. W. M. Paijmans, Director, EMENA I

J

SUBJECT: ROMANIA - Visit by Minister of Finance Florea Dumitrescu

1. On April 27, 1977, Mr. Dumitrescu, accompanied by Ambassador Nicolae and an interpreter, called on Mr. McNamara. Messrs. Looijen, Knapp, Benjenk and Paijmans were present.
2. The Minister expressed his satisfaction with Mr. McNamara's re-election and offered his congratulations. He hoped that the Bank will develop further to the benefit of all member countries. He indicated his appreciation of the future role of the Bank in support of LDCs, as outlined in various documents, and stated that Romania would therefore participate in the general capital increase. The Minister said he had provided Mr. Looijen with opinions and suggestions on this future role.
3. With respect to the role of the Bank, Mr. Dumitrescu was concerned that we were taking on some features of commercial banking. He agreed with tough appraisals but felt that the Bank must also be concerned with helping its members to develop - sanctions and conditions attached to Bank operations were quite difficult to fulfill at times.
4. Mr. Dumitrescu thanked Mr. McNamara for the good cooperation built up between the Romanian authorities and Bank staff, which he hoped would continue. Romania firmly desired to develop relations with the Bank. It also had expectations. While it supported the plans of the Bank to increase its assistance to its poorest members, it also hoped that other developing countries such as Romania would benefit.
5. The Minister reported that all Bank projects in Romania were "on schedule" and going well, and that the Government paid close attention to these projects, in the expectation that they could serve as a model for other developments. There were no special problems. He was satisfied with the three recently negotiated projects [Brasov bearings, Cimpulung polyester, Glass fiber] which the Government had now decided to pursue.
6. Romania's concept had hitherto been to involve the Bank in directly productive projects especially, but sometimes it was forced to ask for help in other fields not directly linked to development. In this context, the Minister thanked Mr. McNamara for his response to Romania's request for help with the aftermath of the earthquake. He gave an account of the extent of the destruction which he said to be worse than the floods of two years ago. He told of the great efforts by the Government and the people to overcome the difficulties and carry out the Plan as scheduled. Structural damage in

particular was very great and not easy to overcome because of the strain put on the construction industry. Mr. Dumitrescu's personal view was that the best way to formulate a request for Bank assistance would be to define projects in the field of machine-building industries to be established shortly, which industries would turn out the equipment for the construction industry (tubes, cement, etc.). If possible, assistance in actual construction would also be welcome. The Minister then made mention of the recent request for assistance in the financing of the Danube Canal.

7. Mr. McNamara recognized the cordial Romania-Bank relations and their effectiveness, mentioning that there were still occasional misunderstandings. He expressed satisfaction with Romania's recognition that the Bank exists to serve its member countries, and said it was this concept which makes it different from commercial banks whose only criteria are profits and the probability of repayment. The Bank wishes its assistance to contribute to development and it is to that end that we need information which, at times, may seem burdensome to the borrowers.

8. The President was pleased with Romania's support for the future role of the Bank. He explained that payments and increased capital would not be due before 1983/84/85, but decision should be taken if at all possible before this year ends.

9. Commenting on the earthquake, Mr. McNamara said that Romania deserved admiration for the great effort it was mobilizing to overcome the aftermath problems. The Bank would be happy to explore projects that would be formulated by Romania. On the Danube Canal, the President saw a problem in the high cost of the project--\$2 billion--and the necessity to fit it with the correct priority into Romania's Plan and our own aid program.

cc: Mr. McNamara's office (original and one carbon)
Messrs. Knapp, Benjenk, Knox, Fuchs, Köpp

MPaijmans:HP

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
 THROUGH: Mr. J. Burke Knapp, Senior Vice President, Operations
 FROM: A. David Knox, Acting Regional Vice President,
 Europe, Middle East and North Africa Region
 SUBJECT: Romania: Visit of the Romanian Minister of Finance
 Mr. Florea Dumitrescu

DATE: April 26, 1977

1. Mr. Dumitrescu is scheduled to meet you on Wednesday, April 27 at 6 p.m.* Biographical data are attached in Annex 1. The Minister can be expected to raise the following questions.

Earthquake Loan

2. On March 11 the Romanian Ambassador conveyed to you a government request for a \$300 million long-term low-interest loan to help repair the damages caused by the serious earthquake which struck Romania on March 4 (see Mr. Dumitrescu's letter dated March 10, Annex 2). So far the Romanians have not made any specific proposals on what their new priorities for Bank lending would be and on the types of goods for which they would wish to use a possible Bank loan. You had requested such proposals in your response dated March 16 (Annex 3), before we would be able to consider in any more detail a possible emergency loan.

3. You may remember that Mr. Witteveen had received at the same time a request for a \$200 million credit. The Fund has, in the meantime, also given a general response and has sent a one-man mission to Romania to explain the limited possibilities in this regard. The Fund has advanced its regular consultations slightly to early June. Only during these consultations do they intend to discuss any concrete possibilities for further standby credit and/or credit under the compensatory financing scheme.

4. A US AID mission has just arrived in Bucharest to explore possibilities for making available \$20 million as a grant for humanitarian relief. They expect that this money will be used to finance US deliveries for such items as seismograph equipment, hospital equipment and construction equipment for housing.

Danube-Black Sea Canal

5. We have also received a request for a \$250 million loan for the construction of a canal between the Danube and the Black Sea. This request which was contained in a letter from Mr. Dumitrescu to you, was discussed by Mr. Knapp with the President of the Romanian Investment Bank. Mr. Knapp stressed that the size of the project (total

*We have just learned that Mr. Dumitrescu has asked also for a meeting with Mr. Blumenthal, US Secretary of the Treasury.

cost of at least \$2 billion) and the amount of the requested loan would require that the Government address the question of how to set priorities for Bank lending. Mr. Knapp stated that we could consider the canal project only as a possible alternative to other projects under consideration (see Mr. Knapp's response to Mr. Dumitrescu dated March 31, 1977, Annex 4). We are presently reviewing the very summary data we received on this project and are preparing a follow-up questionnaire to be sent to Romania prior to any further discussions on this project.

Status of Lending Program

6. We have so far made one loan of \$60 million in this fiscal year for the Ialomita-Calmatui irrigation project but three more loans totalling \$106.3 million have been negotiated already and are expected to be presented to the Board within this fiscal year. They are all in the industrial sector as follows: Brasov Ball Bearings (\$38 million), Cimpulung Polyester Fibers (\$50 million) and Bucharest Glass Fiber (\$18.3 million). This would bring total lending to Romania since they became a Bank member in December 1972 to \$626.3 million for 13 loans. Romania has truly become a well-established borrower. For FY78, we envisage lending in the order of at least \$200 million for four projects. The most advanced are a pig production project for which we expect to start negotiations next month and another irrigation project which will be appraised next month. Several industrial projects (e.g. Turnu-Severin/Zalau Tires, Lignite Mining) and a further agricultural credit project are also under consideration.

Bank-Romania Relations

6. The relations between the authorities and the Bank are generally very good and the Government is supporting the Bank's management. Despite this, a number of sometimes serious and unnecessary inefficiencies remain in our work together, making it necessary to devote considerably more manpower than can be considered normal on the Romanian program. Such difficulties relate to the timely and complete supply of economic and project information and of information which is not published in Romania (as an example of the first category: balance of payments and external debt data are still given to us only on a confidential basis and cannot be fully used in our regular reports).

Procurement

7. As far as procurement under Bank financed projects is concerned, the Bank staff also has to spend a much greater than average amount of time on procedural problems, and this encroaches on new project work. Most problems arise from the foreign trade companies and our borrowers not always giving sufficient attention to the detailed provisions of the


April 26, 1977

loan agreements and Bank guidelines. Further, as you know, some Executive Directors have in the recent past repeatedly expressed concern at the Board table about Romanian success in bidding for virtually all contracts for which the Romanians choose to compete. In this context, the appropriateness of the trading rate of US\$1 = Lei 20 has repeatedly been questioned. You should know that the Romanian authorities have expressed appreciation of the way the Bank staff has been dealing with such questions internally, however, they continue to complain nevertheless about our alleged toughness in dealing with procurement matters and also with our limiting our lending to financing of foreign exchange costs.

Attachments

Cl. with and cc: Mr. Paijmans

cc: Messrs. Knapp, Knox, Köpp


HEKöpp:orp

BIOGRAPHICAL DATA

Mr. Florea Dumitrescu

Minister of Finance of the Socialist Republic
of Romania and Governor of the Bank.

Born April 4, 1927, at Necesesti, near Bucharest

Graduated from the School of Finance and Credit

of the Institute of Finance and Economic

Science in Bucharest -- 1949

National Bank: 1949-1965

Member of the State Planning Committee, 1965-1968

Member of the Economic Council since January 1968

Member of the Grand National Assembly since March 1969

Minister of Finance since August 1969

Member of the Central Committee since August 1969

Mr. Dumitrescu is married. He speaks French

a little. He understands at least some

English but does not speak it.

March 10, 1977

The Honorable
Robert Mc Namara
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C.-20433

Dear Mr. McNamara:

As you know, in the evening of March 4, 1977 a violent earthquake hit Romania's territory, which resulted in numerous human casualties and very great material damages.

An important number of big industrial and construction facilities as well as commercial units has been destroyed or badly damaged. Many installations, machinery, equipments, gas and water pipelines, power transformers and power lines were deteriorated.

In the agricultural field, the earthquake inflicted grave damages, especially affected being the zootechnical constructions and causing a heavy loss of animals.

Tens of thousand of apartment and public buildings were completely destroyed or damaged, including hospitals, schools, scientific and cultural institutions, and there were immense losses of personal belongings of the citizens.

The volume of the material damages inflicted by the earthquake is considerable and it is being evaluated.

The entire Românian people is making every effort to obviate the disastrous effects of the earthquake on almost all fields of the economic and public activity.

The inflicted damages will obviously have their consequences on the foreign trade and the balance of payments.

Given the magnitude of the losses, our efforts or recovery and reconstruction need an external financial assistance as well. Therefore, on behalf of the Government of the Socialist Republic of Romania, I convey to you the request that The International Bank for Reconstruction and Development grant as soon as possible a loan of \$ 300 million, on a long-term duration and with a low interest.

I am confident that understanding the situation created by this natural calamity, The International Bank for Reconstruction and Development will favorably solve our request.

Sincerely yours,
Florea Dumitrescu

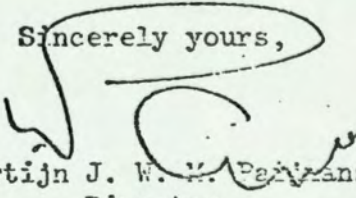
March 16, 1977

Excellency:

I have the pleasure of sending you enclosed Mr. McNamara's response to the letter of March 10 from His Excellency Minister Dumitrescu. We would appreciate very much your transmitting Mr. McNamara's letter to Bucharest at your convenience.

With my best regards,

Sincerely yours,


Martijn J. W. M. Pankhans
Director

Country Programs Department 1
Europe, Middle East and North Africa Region

Attachment

His Excellency
Nicolae M. Nicolae
Ambassador of Romania
Embassy of the Socialist
Republic of Romania
1607 23rd Street, N.W.
Washington, D.C. 20008



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



OFFICE OF THE PRESIDENT

March 16, 1977

Dear Mr. Dumitrescu:

I would like to thank you for your letter of March 10, 1977 and to use this opportunity to express again my deepest sympathies and those of all IBRD staff on the occasion of the tragic earthquake which struck Romania on March 4.

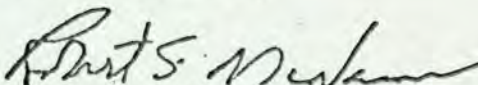
I was glad to have the opportunity to give my initial response to the request made in your letter, when I met with His Excellency Ambassador Nicolae and Mr. Diamandopol on Friday, March 11.

I understand that your Government is already engaged in the difficult process of assessing the exact extent of the damages, of establishing priorities in coping with the situation and of identifying the specific needs for restoring full production. A final response on whether the Bank would be able to make a loan for this purpose would of course have to await your Government's specific proposals on what your new priorities for Bank lending would be and on the types of goods for which you would wish to use a Bank loan. I have therefore suggested that we keep in touch and be ready to consider any specific proposals once they have been formulated by the Romanian authorities. I have added, however, that I would not want to mislead your authorities in this situation and have pointed out that it was highly unlikely that an operation along the lines mentioned in your letter would be possible. First, I regret to have to say that funds for lending at lower than the regular Bank interest rate are not available to us. Secondly, in view of the general limitation on Bank resources, with which you will be familiar, the order of magnitude mentioned in your letter represents a transfer volume which would require a very drastic reduction in the amounts we can make available not only for our usual project loans to Romania, but even for our total lending to other developing member countries. Under the circumstances I am certain that you will agree that a redirection of resources away from the perennially more needy countries will not be possible.

I shall expect to hear the results of your Government's assessment of the damage and the establishment of priorities, and of any specific proposals on how to use possible Bank assistance in your efforts of restoring production.

- Wishing you all the best in this grave situation, I am

Sincerely yours,


Robert S. McNamara

His Excellency
Florea Dumitrescu
Minister of Finance
Bucharest, Romania



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

OFFICE OF THE PRESIDENT

March 31, 1977

Dear Mr. Dumitrescu:

I would like to thank you for your letter of March 1, 1977 addressed to Mr. McNamara, and which I had the pleasure of discussing with Mr. Diamandopol and His Excellency Ambassador Nicolae on March 17. I was glad to have the opportunity to give my initial response to the request made in your letter at that occasion.

Mr. Diamandopol rightly emphasized during our meeting the huge size and the complexity of the planned project, which is to cost about \$2 billion without even taking account of the required construction of a new port near Constanta. I responded that the project is certainly very interesting and that we will review your proposal carefully. Following that review we will prepare and send to you a questionnaire as a basis for a more detailed discussion by our experts. Two obvious questions, which I mentioned already to Mr. Diamandopol will concern the estimated foreign cost of the project and the extent to which items suitable for procurement under international competitive bidding will be required for the project. In this context, I understand that the data attached to your letter constitute only a summary of much more extensive data and studies available to our experts.

In view of the magnitude of funds required for financing this project, I emphasized to Ambassador Nicolae and Mr. Diamandopol that your Government will have to address the question on how to set priorities for Bank lending. It is evident that we can consider the canal project only as a possible alternative to other projects under consideration, and we would appreciate your guidance in this respect.

In closing this letter, let me repeat my expression of sympathy which I conveyed to Ambassador Nicolae and Mr. Diamandopol at the occasion of the terrible earthquake which struck Romania a few weeks ago. Having had the pleasure of travelling through Romania less than a year ago, I was particularly moved by the tragic news we received.

Wishing you all the best, I am

Sincerely yours,

J. Burke Knapp
Senior Vice President, Operations

His Excellency
Florea Dumitrescu
Minister of Finance
Bucharest, Romania

September 28, 1977

MEMORANDUM FOR THE RECORD

Romania: Annual Meetings 1977 --
Meeting with the Romanian
Delegation on September 24

Present: Messrs. Diamandopol (President, Investment Bank), Besteliu
(Embassy), Moisescu (Interpreter, Investment Bank),
Looijen (Executive Director)

Messrs. McNamara, Benjenk, Paijmans, Köpp and Koch-Weser.

1. Mr. Diamandopol renewed his Government's invitation to Mr. McNamara to visit Romania. Mr. McNamara responded that he would be pleased to visit the country sometime next year since he had not been to Romania since 1968. He added that he would particularly like to visit Romania because we had been running into some serious problems which he wanted to draw to the attention of the Government although he hoped that they could be resolved soon. Despite the relatively high per capita income of Romania, the Bank wished to expand its lending to Romania but some governments question the appropriateness of this intention particularly in view of the fact that at times projects proposed to be financed in Romania appeared to lack merit or at least raised serious questions. He said the Pigs Project had been a good illustration of this recently. Mr. McNamara said that we understood some of the Government's problems in this respect, particularly the fact that legislation prohibits the release of some data. In this respect he emphasized that the Bank had absolutely no wish to penetrate the area of state secrets. Mr. McNamara added that we were also aware that some people in the Government might think that certain information was none of the Bank's business since there was no risk involved for the Bank that the funds would not be repaid and since Romania had a record of perfect performance. Mr. McNamara explained that our lending was concessional in character and depended on the capital contributions of governments and the access to capital markets in the industrialized countries; in return we had to be able to prove the soundness of the projects we propose for financing. This, however, required more information than we now get from Romania. Mr. McNamara suggested that the Government think about this problem. If it decided to say no to an increased flow of information we would understand this but in that case we would not be able to expand our lending and even not to continue it at the current level. Mr. McNamara added that he was wondering whether some kind of law was possible which would authorize the more routinely release of information to the Bank. He said we had thought initially that this information problem was a problem of the beginning since we had had similar

initial problems with other centrally planned countries, but while in the case of these other countries these problems had disappeared with time, this did not seem to be the case with Romania.

2. In response Mr. Diamandopol acknowledged that Romania had a relatively high per capita income but emphasized very strongly that this was due to a persistent strong effort of the country which over decades had a very high investment rate and a very big investment program. He said that the Government was highly appreciative of the cooperation with the Bank and mentioned that some projects financed by the Bank would be commissioned very soon. He recognized that there had been some difficulties but stressed that the Government had made and is making every effort, within its existing legislation, to meet the Bank's requirements for information. He added that there was, however, a problem of the secret nature of some of the requested data and also sometimes a physical impossibility to prepare certain data since the Romanian staff was organized in accordance with the needs of the Romanian economic system. In this connection, Mr. Diamandopol mentioned the questionnaire for the Danube-Black Sea Canal. Mr. McNamara answered that this Canal project was a perfect example indeed. It was a US\$2 billion project for which we would have to go into many details in order to come up with an appropriate economic justification for any possible Bank contribution. Mr. McNamara added that he recognized these problems which were illustrated by the fact that the questionnaire which we had sent in 1975 was still not fully answered. He could well see that in certain cases the Government might decide not to supply certain information. In these cases, we should agree to put these projects aside immediately. However, for an expansion of our lending program as mentioned earlier we would need more projects and bigger projects.

3. Mr. Diamandopol then mentioned that the Government had submitted in July a least cost development study of the power sector in response to an agreement reached at the time of the most recent power loan. This study had been prepared exclusively for the Bank since the Government would not have needed such a study. The Government was now expecting that the Bank would take into consideration for financing the projects for which information had already been provided to the Bank, i.e. Iron Gates II and Turceni II. He also mentioned that the Government might soon submit a request for a power transmission project.

4. Mr. Diamandopol then commented on the interrupted appraisal mission for the Poultry/Dairy project. He said that it had been regrettable that the mission had left the country without completing its work. His authorities had felt that it would have been possible, as always in the past, to find a solution on the spot eventually. He suggested that care should be taken to provide continuity in our missions and to draw on the rich portfolio of our staff which has worked on Romania, knows the existing data and the economic system of Romania. Mr. McNamara responded that he had not heard of this incident and if the mission should have shown poor judgment, he apologized.

5. Mr. Diamandopol finally went into the subject of the Basic Report and expressed the Government's appreciation for the way the Bank's experts had been able to understand the characteristics of the Romanian system and the features of certain sectors. He expressed hope that the report would eventually meet the requirements of both the Bank and the Government. Some work would still need to be done, especially to update the report with data for 1977. Also there seemed to exist some areas in which there had been some misunderstandings or in which the Romanian experts might not have been able to explain their position clearly enough. Mr. McNamara expressed his gratitude and emphasized the need to finalize the report and submit it to our Board of Executive Directors by December of this year.

6. In concluding, Mr. McNamara asked Mr. Benjenk and Mr. Paijmans to discuss in more detail the data problem and the need for some government action to enable the Bank to hopefully expand its lending to Romania.

Hans-Eberhard Köpp
Division Chief
Country Programs Department 1
Europe, Middle East and North Africa Region

Cl. with and cc: Mr. Paijmans

cc: Mr. McNamara's office (2)

Messrs. Knapp
Benjenk
Knox
Dubey
Maiss
Tsantis/Pepper
Noon/Steel
Humphrey
Köpp

HEKöpp:orp

18

554
September 29, 1978

MEMORANDUM FOR THE RECORD

Romania: Annual Meetings 1978 --
Meeting with the Romanian
Delegation on September 28

Present: Messrs. Nicolescu-Mizil (Vice Prime Minister and Minister
of Finance), Popescu (President, Investment Bank),
Moisescu (Investment Bank), Looijen (Executive Director)

Messrs. McNamara, Benjenk, Paijmans, Humphrey

1. Mr. Nicolescu-Mizil opened the meeting by saying how happy he had been to note Mr. McNamara's strenuous efforts to help solve difficult development issues. He also passed on the greetings of President Ceausescu. In commenting on the relations between the Bank and Romania, Mr. Nicolescu-Mizil spoke favourably of the cooperation between the Bank and Romania, and said that over the years each had learned much from the other. He hoped that some of the problems being encountered in projects now under discussion would be quickly solved, and that the Bank would continue to support Romania by financing projects to be undertaken in the next five-year plan (1981-85). He stressed that Romania was still a developing country, with a good growth rate derived from investing a very high proportion of national income. He fully supported Mr. McNamara's observation that no external participation could replace strenuous domestic efforts. The volume of lending received by Romania from the Bank should be interpreted as support for Romania's development strategy. He emphasized that Romania would continue to follow an accelerated program of industrial development, since there was still a long way to go before it reached standards of living enjoyed in the advanced industrial countries. He hoped that it might be possible for the World Bank to provide higher levels of lending in the future than in the past, in particular in support of the next five-year plan (1981-85) now under preparation.

2. Mr. McNamara said that the Bank wanted to support Romania and to continue to give it preferential treatment, in the sense that the Bank's total funds were limited and that there was a cut-off level of income per head above which the Bank did not lend to a country. In relation to this cut-off level the Bank was providing relatively large support to Romania. We were doing this because Romania's levels of savings were high, its program sound and its own efforts great. He expected that as Romania's per capita income rose, there would be increasing opposition to lending at the levels being discussed. For this reason it was important that these problem areas would be addressed: the pipeline of projects, the flow of information and the issue of cofinancing. In this connection Mr. McNamara referred to future industrial projects where he felt the pipeline was at present rather weak. In addition there continued to be delays in obtaining information, especially for the industrial sector. He pointed out that controversy over information tended to delay work on projects.

3. Mr. McNamara then turned to the subject of cofinancing. He said that the size of Romania's investment program meant that large amounts of capital were needed. The Bank was a financing agent of last resort and it was therefore necessary for us to show our Board that, when we brought forward a project, Romania had made the maximum effort to obtain funds from other sources at competitive rates. He realized that Romania's concern was that increased cofinancing might mean lower levels of support from the Bank. In fact the reverse was the case -- we could only support our present levels of lending if they were supplemented by cofinancing. He believed that these problems could be solved, and that lending could continue at the present high levels.

4. In response, the Deputy Prime Minister said that the Government had now made a decision in principle in favour of cofinancing with the Bank, provided the terms were competitive. He also reaffirmed that it was Romania's intention to provide all the information needed for project appraisal. In response to Mr. McNamara's request that Romania should participate in the negotiations for the sixth IDA replenishment and provide funds for IDA, the Minister said that he would take this up on his return to Bucharest. In conclusion, the Minister renewed the invitation for Mr. McNamara to visit Romania in the near future. Mr. McNamara replied that it would be difficult for him to make this visit before the end of calendar 1978, due to his preoccupation with the Bank's capital increase, but that he hoped to visit Romania at a mutually convenient time in the first half of 1979.

W. S. Humphrey

William S. Humphrey
Division Chief, Country Programs 1D
Europe, Middle East and North Africa Region

Cleared with & cc: Mr. Paijmans

cc: Mr. McNamara's office

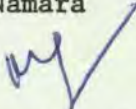
Messrs. Stern
Benjenk
Knox
Dubey
Maiss
Pepper
Steel/Ijichi

WSHumphrey:js

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 27, 1978

FROM: Munir P. Benjenk SUBJECT: ROMANIA - Supplementary Brief for Meeting with the Romanian
Delegation at 8.30 a.m. on Thursday, September 28, 1978

1. I am adding a few points to your brief which emerged as a result of my meeting on Monday, September 25 with Mr. Niculescu-Mizil, Minister of Finance for Romania and Deputy Prime Minister. Both he and Mr. Popescu, President of the Investment Bank, the two senior delegates, are relatively new faces to us. They appear interested and fairly cooperative, although still somewhat ignorant about the Bank, which means that we are having to go over a lot of old ground again. There have also been other changes over the past year in the members of the senior management of the Investment Bank dealing with us, largely for the better we think.

9/27
2. On the important question of cofinancing, the Deputy Prime Minister said that his Government could agree to it in principle provided terms were competitive and that it did not affect the level of lending from the Bank. In this connection, we are making excellent progress on the agricultural side, but still await a final decision from the government on cofinancing in the vital sector of industry, so it would be helpful if you could reiterate its importance. Mr. Niculescu said that he will ask you what help the Bank will be able to provide during the Seventh Five Year Plan, 1981-85. He also wants an increase in the Bank lending program to Romania above current levels (FY78 \$256.5 million). All these topics are covered in your brief under Part I, item 1 and 2 and Part II, item 2.

3. I attach brief biographical notes on Messrs. Niculescu-Mizil and Popescu.

Attachment

BIOGRAPHICAL DATA

Mr. Paul Nicolescu-Mizil: Vice Prime Minister and Minister of Finance of the Socialist Republic of Romania and Governor of the Bank.

Mr. Nicolescu was close to Gheorghiu-Dej, former President of Romania, and was a Secretary of the Central Committee, holding the fourth highest rank in the Party. He was responsible for media, propaganda and cultural fields and was known to be "tough". After Mr. Ceausescu took power in 1963, Mr. Nicolescu continued to hold the position of a Central Committee Secretary until 1971 when he was demoted to Minister of Higher Education. After serving as a Minister of Technical Supply for a while, he was promoted to the present position in March 1978.

Mr. Gheorghe Popescu: President of the Investment Bank of Romania and Alternate Governor of the Bank.

Until December 1977 when Mr. Popescu was appointed to the present position, he was the head of the State General Financial Inspectorate.

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OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for the Record

DATE: January 26, 1979

FROM: William S. Humphrey, Division Chief, EMENA CPLD

SUBJECT: ROMANIA - Meeting Between Mr. Rusinaru, President of BAFI,
and Mr. McNamara on January 25, 1979

DECLASSIFIED

MAY 09 2013

WBG ARCHIVES

1. Mr. Rusinaru, President of BAFI, met with Mr. McNamara at 5:00 p.m. on January 25. Messrs. Besteliu and Angel of the Romanian Embassy in Washington were also present, in addition to Messrs. Benjenk and myself from the Bank.
2. Mr. Rusinaru started by saying that his Government was looking forward to receiving Mr. McNamara in Romania, and wondered if he could give any indication of the timing of the visit. Mr. McNamara said that discussions related to the prospective capital increase required his presence in Washington for a number of important Board meetings over the next few months. However, he hoped to be able to visit Romania at a time convenient to the Government in the second quarter of 1979.
- 1/3. Mr. Rusinaru went on to describe Bank relations with Romania as very good, and stressed that Romania appreciated both the financial and technical assistance provided through the medium of Bank lending. Romania's next Five-Year Plan, which was under preparation, would be designed to continue Romania's present growth rates and there would consequently be a large number of investment projects requiring finance, including finance from the World Bank. He understood that the Bank's management was studying the question of graduation, and his Government accepted that Romania would eventually graduate. However, in the next five years the investment needs would be heavy and he hoped that Bank lending would continue, if possible at a higher level than at present. He understood the importance of the capital increase, and of the IDA replenishment. He conveyed a message from Finance Minister Nicolescu-Mizil that the question of Romania's IDA membership was being studied in Bucharest.
4. Mr. Rusinaru then referred to the experience of the cattle project, and said that the Romanian Government agreed with Mr. McNamara's decision for the Bank not to finance this project if he thought that it would cause difficulties when presented to the Executive Directors. The Government wished to continue to work with the Bank in this sector, and the timing of a mission to discuss the preparation of an alternative project was being decided with the Region. Mr. McNamara commented that the Bank would be happy to work with the Romanian Government towards a project which would satisfy both their objectives and our own standards.
5. Mr. Rusinaru then turned to the negative position of some of the Executive Directors towards Romania, and asked what the Government could do to get more support on the Board for Bank lending to Romania. In this context he stressed that Romania enjoyed excellent political relations with many of

the countries whose Executive Directors were sometimes critical of Bank lending to Romania, and that Romania had now accepted cofinancing and indeed was contemplating as much as \$100 million of commercial bank financing for the livestock project now being negotiated.

6. With respect to graduation, Mr. McNamara commented that the Bank being a lender of last resort needed some method to determine whether a country could obtain its needs for external capital without using Bank financing. The Board, in the past, had taken the income per capita of a country as an indicator to determine this. However, in the case of Romania, he felt that the per capita income was much too rough and crude an instrument to measure Romania's needs for Bank financing. It was his impression that the new plan contained a large volume of investment in projects which also would benefit from Bank technical assistance, demonstrating Romania's continued need for Bank financing. He thought it would be helpful if the Romanian Government could bilaterally approach the Government of the US, the UK, the Federal Republic of Germany, and France, to emphasize that Romania, after making all efforts to tap other sources of external capital, still had need of Bank financing and technical assistance. In particular Mr. Rusinaru might wish to visit the US State Department and Treasury, along with the Romanian Ambassador, during his present visit to Washington. It would also be good if the approaches to other Governments took place before April 1, since the Management had promised the Executive Directors a discussion of graduation policies some time after that date. Mr. Rusinaru indicated he would follow up on these suggestions.

7. Finally, Mr. Rusinaru asked whether the lending ceiling of \$295 million for Romania for FY79 could be raised. The two projects being negotiated were the last for the fiscal year, and therefore the last opportunity for Romania to receive a higher lending amount. Mr. McNamara stressed that because the capital increase had not yet occurred, the Bank was having to allocate funds since countries' needs were greater than our ability to supply finance. Romania was already one of the 5 or 6 largest recipients of Bank funds in relation to the size of the country. Additional money could only be made available to Romania by cutting the allocation for some other country. In addition to the difficulty this raised because of the already relatively large Romanian program, it also could raise political questions of why the Bank was giving undue preference to a country already near the margin of graduation. An increase in the \$295 million lending ceiling for FY79 would therefore be very difficult. While not wishing to say no, he would not want to hold out much hope that an increase would be possible.

cc: Mr. McNamara

Cleared with and cc: Mr. Benjenk

cc: Messrs. Stern, Knox, Paijmans (o/r), Fuchs, Haynes, Pollan, El Darwish, Frank, Dubey, Kavalsky, Steel, Ijichi, Pepper

WSHumphrey:ap

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 22, 1979

FROM: Munir P. Benjenk, Vice President, EMENA Region *MB*SUBJECT: ROMANIA - Your meeting with Mr. I. Rusinaru, President,
Bank for Agricultural Finance and Investment (BAFI)

1. Mr. Rusinaru is in Washington for negotiations on a proposed loan of \$70 million for the Mostistea and Calmatui Irrigation and Drainage Project and a proposed loan of \$75 million for the Second Livestock Project (I attach draft Loan and Project Summaries of the two projects). The negotiations are proceeding satisfactorily, but Mr. Rusinaru has asked that the amounts of the two loans be increased. The current proposal is that the Bank finance 60% of the foreign exchange costs of the irrigation project and 79% of the livestock project. This would bring Bank financing for the year to \$295 million. Mr. Paijmans and I have explained that we cannot increase the loan amounts since this would raise the total amount of lending to Romania to too high a level at the present time. He asked for an opportunity to put his request to you and I recommend that you meet him, although I do not recommend that you agree to an increase in the loan amounts.

2. Mr. Rusinaru, as President of BAFI, has presided over a substantial volume of Bank lending for agricultural projects in Romania and as he has come to know the Bank well, and as we have come to know him, the Bank's working relationship with BAFI has become very good. Thus, despite the setback on the cattle project, which undoubtedly hurt Mr. Rusinaru, the Bank's agricultural program in Romania is going ahead strongly with no difficulties on access to information. Furthermore, Mr. Rusinaru said that Romania continues to be keen to bring about improvements (cost reductions, improved productivity, etc.) in the cattle industry in Romania and would like to work out with the Bank a technical and methodological basis on which the Bank could consider financing for future cattle projects.

3. Mr. Rusinaru has also raised during his discussions with Mr. Paijmans and me, one or two matters of more general interest which I think will be of interest to you in the context of your proposed visit to Romania later this year. Firstly, the Government is clearly keen to improve Romania's performance in bidding for Bank financed contracts under ICB conditions outside Romania. This seems to reflect an increased awareness in Romania of the importance of an improved record outside Romania compared with its 100% rate of success on bidding on contracts within Romania. Secondly, and only partially related to the need for cofinancing, Mr. Rusinaru asked my advice as to whether he should approach the Executive Directors of several European countries, Japan and the USA to brief them on the Bank's activities in Romania to help create a better understanding of why the Bank should support Romania. I advised him that this should be arranged informally, not by Bank staff, and that it was more important still that Romania try to arrange that the instructions given to these Executive Directors by the countries they represent reflect the views of foreign ministries, as well as finance ministries.

To Mr. Robert S. McNamara

- 2 -

January 22, 1979

4. Finally, Mr. Rusinaru informed us that Mr. Ceaucescu has been having preliminary meetings regarding the next Five Year Plan (1981-85), prior to the Party Congress later this year, that investment is expected to form as large a proportion of national income as at present and that the Bank and cofinanciers would have a large role to play in the financing. In the agriculture sector investment is expected to total about \$11 billion. Clearly, this would be a matter for discussion with you during your visit to Romania.

Attachments

cc: Mr. Stern

JTDucker:sst

ROMANIA

MOSTISTEA AND CALMATUI IRRIGATION AND DRAINAGE PROJECT

Loan and Project Summary

Borrower: Bank for Agriculture and Food Industry (BAFI)
Guarantor: Socialist Republic of Romania
Beneficiary: State enterprises and cooperative complexes
Loan Amount: \$70.0 million
Terms: Repayable in 15 years, including 3 years grace period, through semi-annual installments. Interest at ___ percent per annum.

Relending Terms: The loans from BAFI to Agricultural Production Cooperatives (CAP) for buried pipelines would be for 25 years including 5 years' grace and for on-farm sprinkler equipment, 8 years including 3 years' grace. The interest rate would be 3 percent including interest during construction, with penalty rates of up to 5 percent.

Description
of the Project:

The project consists of two separate and distinct components:

Mostistea: Irrigation and drainage of 15,840 ha gross (155,871 ha net) would be achieved through completion of following works: Widening of existing supply canal from the Danube including floating pumping station construction of four low pumped storage dams on Mostistea River; installation of eight fixed pumping stations and six repumping stations for feeding the irrigation system; surface drainage for 82,683 ha; tile drainage for 4,238 ha; soil erosion control works to protect an area of 13,344 ha; and equipment for maintenance and operation and for farming operations.

Calmatui: Drainage of 66,930 ha gross (64,527 ha net) and irrigation of about one-third of this area would be accomplished through following works: Extension of existing floating pumping station; irrigation works to serve 23,980 ha gross (23,000 ha net); surface drainage works, to serve 66,930 ha; subsurface drainage works for 14,455 ha; reclamation of saline soils covering 9,200 ha; and equipment for operation and maintenance of irrigation and drainage works and for farming operations.

Benefits and Risks: The project would contribute to Romania's overall effort to increase and stabilize agricultural production through investment and related farm development. The project faces no special risks.

<u>Estimated Cost:</u>	<u>Estimated Cost</u>			<u>Foreign Exchange</u> %
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	
<u>Item</u>	-----US\$ Million-----			
<u>Mostistea</u>				
Pumps Reservoirs and Irrigation Works	121.7	54.8	176.5	31
Drainage	11.3	2.8	14.1	20
Miscellaneous Works	16.4	2.9	19.3	15
Land Compensation	34.3	-	34.3	-
Equipment	16.8	10.1	26.9	37
Engineering and Administration	15.4	1.7	17.1	10
Contingencies	21.3	22.8	44.1	52
<u>Calmatui</u>				
Irrigation Works	15.2	7.0	22.2	31
Drainage and Reclamation	22.1	5.4	27.5	20
Miscellaneous Works	0.4	0.1	0.5	15
Land Compensation	1.3	-	1.3	-
Equipment	6.2	3.5	9.7	37
Engineering and Administration	4.4	0.5	4.9	10
Contingencies	5.3	5.5	10.8	51
Total Cost	<u>292.1</u>	<u>117.1</u>	<u>409.2</u>	<u>29</u>

<u>Financing Plan:</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	-----US\$ Million-----		
State Budget and Bank for Agriculture and Food Industry	262.1	47.1	309.2
State Agricultural Enterprises	8.0	-	8.0
Agricultural Machinery Stations	3.9	-	3.9
Cooperatives	18.1	-	18.1
IBRD	-	70.0	70.0
Total	<u>292.1</u>	<u>117.1</u>	<u>409.2</u>

<u>Estimated Disbursements:</u>	<u>Bank FY</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
		-----US\$ Million-----				
Annual		17.9	29.4	13.7	7.0	2.0
Cumulative		17.9	47.3	61.0	68.0	70.0

Rate of Return: 15 percent (for either project)

Appraisal Report: Report No. _____ dated _____
Regional Project Department, EMENA

ROMANIA

LIVESTOCK II PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Bank for Agriculture and Food Industry (BAFI)

Guarantor: Socialist Republic of Romania

Beneficiaries: State enterprises and Cooperative complexes

Loan Amount: US\$75 million equivalent

Terms: Repayable in 15 years, including a 3-year grace period, through semi-annual installments. Interest at % percent per annum.

Relending Terms: Relending to State enterprises at 2 percent per annum during construction and 4 percent after construction. Relending to cooperatives at 3 percent per annum. State enterprise subloan maturities would for up to 10 years but would take into consideration the capacity of respective subprojects to repay from incremental income generated therefrom. Relending to private individuals for 5 years at 3 percent per annum. Subloan terms would not exceed 18 years including three years of grace (see para. 52).

Project
Description: Agricultural credit subprojects to be financed under the proposed loan would include investments to be undertaken in 1979 and 1980 for 27 new fattening farms, 25 new crossbred gilt production farms, modernization of 37 pig breeding and fattening units, a line of credit to agricultural cooperative members and private individuals, provision of facilities to augment existing pig nutrition research, and construction of slaughterhouse, cold storage and processing facilities; this would include modernization of existing facilities to improve health and hygiene standards as well as provision of new facilities. Annual incremental pork production resulting from project investments is expected to reach 200,000 tons (carcass weight) at full development. In addition, slaughtering and processing throughput capacities would be increased by 275,000 tons (carcass weight). The project is expected to reach full production in 1984 and face no special risks.

Cost Estimates:

	<u>Local</u>	<u>Foreign Exchange</u>	<u>Total</u>	<u>%</u>
	(US\$ '000)			<u>F.E.</u>
<u>Fixed Capital Investments</u>				
Pig breeding/fattening units	100,271	23,972	124,243	19.3
Crossbred gilt production units	32,629	7,739	40,368	19.2
Slaughterhouses	4,445	24,667	99,112	24.9
Sausage processing facilities	13,170	4,297	17,467	24.6
Cold stores	11,242	3,668	14,910	24.6
Credit to private farmers	27,200	6,800	34,000	20.0
Applied nutrition research	1,125	264	1,389	10.0
Subtotal: Base fixed capital costs	<u>260,082</u>	<u>71,407</u>	<u>331,489</u>	21.1
Contingencies	16,252	10,861	27,113	40.1
Incremental working capital	<u>64,209</u>	<u>12,732</u>	<u>76,941</u>	16.5
Total Project Cost	<u>340,543</u>	<u>95,000</u>	<u>435,543</u>	21.4

Financing:

	<u>IBRD</u>	<u>Cofinanciers and MAFI/BAFI</u>	<u>Sub-Borrowers</u>	<u>Total</u>
	(US\$ '000)			
Pig breeding/fattening units	28,337	63,555	43,630	135,523
Cross bred gilt production units	9,120	21,075	13,425	43,615
Slaughterhouses	22,578	51,812	33,475	107,979
Sausage processing facilities	4,032	9,080	6,170	19,282
Cold stores	3,423	7,708	5,238	16,369
Credit to private farmers	7,181	27,162	- /1	34,343
Applies nutrition research	<u>330</u>	<u>1,162</u>	<u>-</u>	<u>1,492</u>
Incremental working capital	-	53,297	23,644	76,941
TOTAL:	<u>75,000</u>	<u>234,960</u>	<u>125,583</u>	<u>435,543</u>
Percentage of Total Cost	<u>17.2</u>	<u>54.0</u>	<u>28.8</u>	<u>100</u>

/1 Contribution of family labor.

Estimated

Disbursement:

	FY	US\$ Million			
		1980	1981	1982	1983
Annual		13.5	27.5	25.4	8.6
Cumulative		13.5	41.0	66.4	75.0

Economic Rate of Return: , About 30 percent

Appraisal Report:

Number 2279-RO
EMENA Projects Department

MAY 09 2013

WBG ARCHIVES

By: M.P. Benjenk *MB*

July 25th 1979

MEETING BETWEEN PRESIDENT CEAUDESCU OF ROMANIA AND MR McNAMARA
JULY 20th 1979

President Ceausescu received Mr McNamara on July 20th 1979 in the presence of the Romanian Deputy Prime Minister and Minister of Finance, Mr Niculescu-Mizil, and of Mr Benjenk. The conversation subsequently continued during a dinner which a number of Ministers and members of the World Bank staff attended.

President Ceausescu reminded Mr McNamara that he had not visited Romania since 1968 and that a great deal of change had taken place in Romania since then. Romania had made great strides in its development and the World Bank had in recent years contributed to these efforts, although the contribution had been less than the President had hoped for originally. Romania had consistently invested 34% of its GNP and had considerably raised the levels of consumption of the Romanian people. As an example, the President said that while in 1965 the average Romanian consumed 26 kgs of meat a year, this figure had risen to 60 kgs in 1979. Many millions of apartments had been built during that period and there was now not a single province of Romania which did not have major industries located in it. 15 years ago there were 200,000 hectares under irrigation; the present figure was 2½ million. The growth of the economy in the next five years would still be very rapid, although slightly lower than in the preceding five years. He estimated that it would be between 7 and 7½% yearly.

In view of the preparations for the forthcoming five-year plan, 1981-85, the time was right for a new agreement with the World Bank to ensure support for that five-year plan. The basic guidelines of the plan were as follows: to make sure that the economy was supplied with secure sources of energy and raw materials and that agriculture was able to meet not only the needs of the Romanian people but produce a considerable surplus for export. In particular, priority would be placed on increasing the technical and economic efficiency of all productive units. The Government was about to issue a new programme on energy to ensure that the country did not unduly depend on imported sources of energy. In its foreign trade Romania intended to co-operate with all states, no matter what their internal political regime. Trade with the socialist countries would continue to be approximately around 50% for the future, with China's share increasing. The present share of 30% with the capitalist countries would also not vary much. Trade with the United States was increasing rapidly and this would continue to be the case, but nothing like the 12-fold increase of the past ten years. Romania attached particular importance to its trade with the LDCs, which would continue to increase to a share of about 25 - 26%. By 1985 this would mean that trade with the socialist countries would go down from 50% to about 48% and that with the capitalist

x Mr. Hojten and

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countries from 30% to about 27%. In order to promote trade with the LDCs Romania would grant important credits to these countries, particularly to Africa. By 1980 Romania would have an even balance between credit it received and credit it granted, and by 1985 the balance would be negative for Romania. This, the President added, was one more reason for the World Bank increasing its contribution to Romania. The President said that he was in favour of an increased role for the World Bank in the LDCs, particularly if good projects could be found, but he realised that the means of the World Bank were limited. He could not help feeling that the real source of finance for development assistance would be a reduction of the arms race. Even a 10% reduction of military budgets in the world would save about \$40 - \$60 billion a year. Romania had advocated that 50% of such sums be devoted to aid to the LDCs and another 50% to social programmes in the donor countries themselves. The need was particularly urgent in Africa but also in Asia, Latin America and Southern Europe. Such increased assistance would be based on a new international economic order in which all states would co-operate on a basis of equality. The President stressed that Romania too was a developing country and needed more aid from the World Bank.

Mr McNamara began by saying that he hoped the President had been humourous when he said that he had been disappointed with the amount of World Bank assistance received. (The President jokingly interjected - "Only partly"). Recalling their meeting 11 years ago, Mr McNamara said that Romania's membership of the World Bank had come later than both sides had wished but that he felt it had been a useful relationship for both, which was strengthening with each passing year. He hoped that the usefulness of World Bank membership was measured not only in money but also in technical assistance and economic advice. This would fit in very well with what the President had described as Romania's goal of improving technical efficiency of economic units. Mr McNamara fully endorsed what the President had said about the need for a reduction in arms expenditure. He himself had made a speech in Chicago a few weeks ago on the same theme but he feared that such a reduction was not likely to occur in the immediate future. He was particularly pleased to hear of Romania's interest in the development of the poorer LDCs and also thanked the President for the announcement he had heard that morning from the Minister of Finance that Romania would become a member of IDA. Returning to the contribution which the Bank could make to Romania, Mr McNamara wished the President to understand that there was not enough money around for everybody's needs to be satisfied. The funds therefore had to be rationed. In particular, IDA funds for the poorest countries amounted to less than \$3 per capita and compared with that Romania was receiving three times more from the World Bank. Recent annual lending to Romania had amounted to \$295 million, which was a high figure but justified by the high savings ratio of which the President had spoken.

Mr McNamara then raised with the President the forthcoming discussion by the Board of the Bank of the paper relating to the "graduation" of higher income countries. He explained to the President that a number of governments wished to reserve IBRD funds for countries which were much poorer than Romania.

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However, the Management had recommended that lending to countries such as Romania should not be phased out for some time yet, provided effective use was made of such resources and provided the countries concerned had a good record in helping themselves and accepting sacrifices for development. He had recommended to the Deputy Prime Minister that the Government take appropriate diplomatic measures, in particular with countries such as the US, Germany, France, Canada and others to ensure enough support for the Management's position that lending to countries like Romania continued to be justified at the present time.

The President responded that he appreciated the position of support on the part of the Bank and thanked Mr McNamara personally for continued lending to Romania and hoped that the decision to be made by the Board in September would bear in mind the fact that Romania had consistently devoted more than 30% of its income to development. He also raised the question of possible joint projects between the World Bank and Romania in LDCs. He gave as an example of Romania's active policy in this area the fact that it was financing projects in Syria to the extent of \$800 million, which was being used for providing management and machinery particularly in the field of energy and in agriculture. Romania's policy was to seek repayment for its loans from the new production resulting from the projects it financed such as, for example, raw materials from mining projects or coal from coal mines built with Romanian equipment, etc. The President felt that aid should go in preference to countries which made sacrifices for their own development and the Romanian delegation at Manila had proposed that a 20% share of GNP allocated to development should be a condition of external assistance. He also felt that institutions like the World Bank needed to support efforts towards a new international economic order and should not shy away from it because of fears that they might become politically involved. He then returned to the theme of disarmament and agreed with Mr McNamara that this was not an easy matter, but he felt that no country, including the richest, could go on bearing the cost of the arms burden. He said that the case of Iran should serve as an example to everybody when \$20 billion had been wasted on armaments with no result whatsoever except to produce a revolution which might not have happened had the money been used more productively. Even a rich country like America could have spent more on developing its coal resources or the Alaska oil fields if it reduced its armaments expenditure. Mr McNamara said he agreed wholeheartedly and recalled that, together with Mr Cyrus Vance, he had been the first to propose to President Johnson in 1966 that the SALT talks with Russia should be initiated. He also recalled that when the Shah of Iran had first come to Washington in 1961 he had advised President Kennedy to refuse his requests for armaments unless the Shah first agreed to reduce his armed forces by 20,000 men.

President Ceausescu felt that the increasing stock of arms available created a temptation on the part of countries to use these arms and to solve problems by force. Recent events had shown that force would not solve any international problem. Once again one now heard comments relating to the energy crisis in the US in which some people advocated the use of force to

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ensure energy supplies. He welcomed, therefore, the SALT II Agreement, but only as a step in a process since this Agreement would not by itself cut military expenditure. He was favourable to the SALT process between the USA and the USSR but he felt that the process of arms reduction should also take place in a multilateral setting because the US and the USSR alone could not find the solution to the armaments problem. Mr McNamara said he agreed with this but added that in view of the size of the two major countries concerned it was important that they reach agreement since failure to do so would be used as an excuse by others in order to justify their own increased armaments. The President agreed and said it was clear that if there was no success for the SALT talks many smaller countries would be tempted to obtain nuclear weapons. Many nations already had the potential for this and in view of the inventiveness of man's mind the proliferation of nuclear potential was a great danger to humanity. What, he asked, might have happened during the recent disturbances in Iran if the Iranian Army had had nuclear weapons lying around? He said it was particularly important that disarmament should begin in Europe because the greatest quantity of arms was located on the European Continent. Mr McNamara then commented that it was equally important to reduce nuclear proliferation on the part of NATO members which were selling not only conventional arms but also nuclear plants for commercial purposes and which might constitute a danger if misused. Mr McNamara urged President Ceausescu to speak out publicly on this issue because public opinion in the West, and particularly in America, was very concerned with it and speeches by the President on this matter would fall on receptive ears. President Ceausescu urged Mr McNamara to do the same thing and said that he should do this as an influential American citizen in addition to being President of the World Bank.

P.S. The conversation continued at dinner and a note on that part of the conversation may be prepared by Mr McNamara himself.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: August 6, 1979

FROM: William S. Humphrey, Division Chief, EMENA CP1D

By: Martin Schrenk, Acting Division Chief, EMENA CP1D

SUBJECT: ROMANIA: Mr. McNamara's VisitNote of Meeting July 20th, 11:30 a.m. - 1:00 p.m., Bucharest

Present: Messrs. Niculescu-Mizil (Vice Prime Minister),
Nicolai Agachi (Minister of Metallurgical Industry),
Ion Avram (Minister of Machine Building Industry),
Gheorghe Cioara (Minister of Electric Power),
Vasile Patilinet (Minister of Mines, Petroleum and
Geology),
Lina Ciobanu (Minister of Light Industry),
Traian Dudas (Minister of Transport and Telecommunications),
Iulian Bituleanu (Deputy Minister, Ministry of Finance),
Caranfil (Deputy Minister, Ministry of Metallurgical
Industry),
Anthony Looijen (Executive Director)

Messrs. McNamara, Benjenk, Clark, Fuchs, Humphrey, Koch-Weser

1. After welcoming Mr. McNamara, Mr. Niculescu-Mizil stressed the very satisfactory relations between Romania and the Bank. He said that although Romania had made progress in modernizing industry and agriculture it was still behind the developed countries in GNP per capita, labor productivity and other social indicators. Romania was now in the fourth year of its current five-year plan. The original targets would be fulfilled but the additional targets adopted later only partially fulfilled.
2. He then described the main features of the draft directives for the 1981-85 plan, which had recently been approved by the joint plenary meeting of the Central Committee of the Party and the Supreme Council of Economic and Social Development. It would now be debated by the people and analyzed by judet conferences. It would be submitted - revised to take account of the debate - for approval by the Twelfth Party Congress in November. After any further necessary revisions it would become law early next year. The main features of the draft were as follows. A high rate of economic development would continue, although the overall growth rate of the economy would be somewhat slower than in the present plan. The next plan was designed to reduce the gap between Romania and the developed countries.
3. Prime importance in the next plan would be devoted to dealing with energy problems. Programs would be intensified to save energy in all branches of activity. Thermal power generation would be converted from oil to coal and new energy resources in both coal and hydro-power developed. A nuclear program would be launched and such sources as solar energy and biogas promoted. A policy had been adopted to limit oil imports to about the present levels of

15-16 million tons by concentrating on oil using industries involving a high degree of future processing. More sophisticated processing would be aimed at in the chemical industry and there would be an intensive development of the steel industry with a concentration on special steels.

4. Agriculture would receive a large investment over the five years in irrigation and mechanization for crops and livestock. There would be a substantial increase in efficiency both per hectare and per worker to meet the needs of the population.

5. Transport investment would include roads, railways, ports and the Danube Canal. The aircraft and shipping industries would be expanded.

6. The program would require investments of about Lei 1,300-1,350 billion, which would mean about 30% of National Income allocated to the development fund. The development would be a balanced one so that the entire population would have access to the fruits of development. Minimum per capita gross production targets in industry, agriculture and services would be established for all judets, with each having its own separate, balanced program.

7. To achieve the plan targets a major export effort would be needed to ensure Romania enough foreign exchange to buy needed imports - especially of raw materials. To improve quality, a special program was being launched to ensure products were properly designed for their respective markets. It was hoped that Romania's outstanding foreign debt at the end of the period would be lower than at the beginning.

8. All would enjoy a rise in the standard of living, with average real wages rising by 16-18% over the period.^{1/} Housing would be developed and worker participation in enterprise management enhanced.

9. In summing up his presentation, Mr. Niculescu-Mizil said there were serious problems to be solved - especially in energy. However, the directives followed the principal of the past of not promising the people what could not be delivered.

10. Mr. McNamara thanked Mr. Niculescu-Mizil for his presentation and said he would like to explore three areas further - energy, exports and the outlook for foreign financing. On energy he wondered how much the recent oil price increase had added to the import bill for 15-16 million tons of crude oil. He was told that Romania was trying to offset this increase by greater efficiency and further downstream processing of oil combined with an increase in the prices of Romania's oil-based product exports. More generally on exports, Mr. McNamara agreed on the prime importance of improved

^{1/} It should be noted in this context that the directives approved by the 11th Congress provided for an 18-20% increase in real remuneration over the plan period 1975-80. This target was revised upward and the final target became 32.3%. Thus, it is quite possible that the target for 1985 will be similarly increased during the course of the plan.

performance and was told about special efforts to increase the export efficiency and quality for both light and heavy industry. Exports were planned to grow at 10% p.a. over the period. On the use of foreign resources, Mr. McNamara questioned whether it would be possible to avoid a fairly substantial increase in foreign debt over the five-year period in contrast with the aims of reducing it. Mr. Niculescu-Mizil said it remained a hope but added that this year and next the balance of payments would be unfavorable, partly due to a poor agricultural harvest because of weather. The 1977 earthquake had also damaged production and worsened the payments situation in the following year.

11. Mr. Benjenk asked whether the slowdown in growth of the OECD economies had been taken into account in projecting Romanian exports. He was told that it had been about 50% of Romanian exports went to COMECON while the rest were about equally divided between developed and developing countries. With socialist countries Romania generally had long term programs for five years, most of which were already agreed or on the way to be agreed. With developing countries barter-type arrangements were made whereby Romanian industrial goods including plant and equipment were traded against oil and raw materials. This helped to reduce uncertainties. The OECD markets were the most difficult since it was necessary to watch quality closely with the market. Programs were being mounted to tackle this problem. In addition, trading partners in the EEC countries were asked to import certain amounts of Romanian goods in return for Romanian agreement to buy their exports. In a recent deal with British Aerospace and Rolls Royce to set up manufacturing facilities in Romania, both companies were required to agree to buy specified quantities of Romanian exports. In general, the Romanian officials felt that the export targets could be achieved provided sufficient effort was made to improve quality and efficiency, and to develop marketing arrangements. They emphasized that the structure of their trade, with only 25% going to OECD countries and their ability to negotiate counter-trade arrangements provided greater certainty. They were particularly optimistic about the prospects for capital equipment exports to developing countries including China. The example of the provision of a complete soda ash plant sold to Egypt was cited. In response to a question about export credit, the Romanian officials said that credit terms were provided linked to the gestation period of the investment where this was needed to sell.

Subsequent discussions with Mr. Niculescu-Mizil

12. At various times during his visit to Romania the following subjects were discussed by Mr. McNamara with Mr. Niculescu-Mizil:

(a) Graduation

Mr. Niculescu-Mizil did not believe that Romania's GNP per capita in 1985 would be high enough to begin graduation. He felt that, in addition to the level of per capita GNP as a proportion of OECD North, the country's own development efforts - as measured by investment as a proportion of GNP should be taken into account.

(b) Level of Lending

Mr. Niculescu-Mizil asked that the Bank's lending level to Romania be raised as a result of the capital increase. Mr. McNamara explained the constraints on Bank lending to higher income countries. He advised that Romania take diplomatic action to improve the climate in the Bank Board towards Romania. Mr. Niculescu-Mizil said he felt that, at the very least, lending to Romania should be raised to maintain its value in real terms. Mr. McNamara said he would consider this sympathetically but wished to consult in Washington and await the discussion of the paper on Bank Lending in the 1980's before making a final decision on the amount of Bank lending for Romania in FY1980.

(c) Romanian-Bank Cooperation in Developing Countries

Mr. Niculescu-Mizil said Romania was interested in cofinancing with the Bank in other developing countries, especially in the power equipment field. He was also interested in seeing whether the Bank could use Romanians as consultants on Bank-financed energy projects. Mr. McNamara said that we would welcome any Romanian cofinancing on a suitable project. He added that he would ask Mr. Rovani to visit Bucharest when he was next in Europe to discuss the use of Romanian energy consultants by the Bank.

(d) Future Level of Convertible Debt

Mr. McNamara said he did not see how Romania could possibly avoid a substantial increase in outstanding debt by 1985 if the plan targets for investment and growth were to be achieved. Indeed, if such debt really was to be reduced over the period, he wondered why Romania needed the World Bank.

(e) Romanian Membership of IDA

Mr. Niculescu-Mizil said Romania agreed in principle to join IDA but wanted more discussion on the modalities. Mr. McNamara said he wanted to settle the amount while he was in Romania. After some discussions, the figure of \$17 million was agreed and Mr. McNamara said he would ask Mr. Knapp to visit Bucharest to discuss further details.

cc: Mr. McNamara's Office

Messrs. Stern, Clark, Benjenk, Fuchs, Knox, Karaosmanoglu,
Dubey, Maiss, Humphrey, Koch-Weser, Steel, Pepper,
Ijichi

WSHumphrey/MSchrenk:ssst

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: A. Karaosmanoglu, EMI *AK*

SUBJECT: 1979 Annual Meetings, Belgrade: Mr. McNamara's Meeting with
the Romanian Delegation

DATE: October 4, 1979

1. A meeting was held with the Romanian Delegation in Mr. McNamara's office on September 29, 1979 at 2 pm. Present were:

From the Delegation:

Mr. Paul Niculescu-Mizil, Vice Prime Minister &
Minister of Finance
Mr. Gheorghe Popescu, President, Investment Bank
Mr. Emil Marian, Economist, Investment Bank
Mr. Ioan Petre Mada, Chief, Intl. Organizations Bureau,
Ministerul Finantelor

From the Bank:

Mr. Looijen, Executive Director
Messrs. McNamara
Benjenk
Karaosmanoglu
Koch-Weser

2. Mr. McNamara invited Mr. Niculescu-Mizil to comment on recent economic developments in Romania. Mr. Niculescu-Mizil expressed the hope that their plan for the current year would be fulfilled as it was conceived. He also referred to the fact that they were now involved in the preparation of the November meeting of the Party where the program for 1981-1985 would be discussed. In the discussion, questions of energy, scientific research and problems relating to standard of living would be of major concern. He added that also of major concern would be issues relating to the efficiency of the domestic economy as well as foreign trade efficiency.
3. Mr. McNamara asked what rate of growth of exports in real terms was expected to take place this year. Mr. Niculescu-Mizil responded that it would be 12-13% and added that the same rate of increase in real terms was also expected in the following year. The Romanians, he said, are trying to limit the import of raw materials and petroleum to the previous year's level in order to improve the balance of payments. He also referred to the agricultural performance saying that although they would have enough foodstuffs produced for local consumption, agricultural production this year did not turn out to be as good as expected especially because of the performance of agriculture in non-irrigated areas. Mr. McNamara asked about the debt problem and the outlook for short-term debt. Mr. Niculescu-Mizil responded to this

referring to the meeting he had in the morning with Mr. de Larosiere. He expressed his strong displeasure about the questions raised in the recent Fund Board meeting and in the doubt expressed about the Romanian balance of payments situation. He said he wanted to recall that since Romania joined the Bank, total investment in the economy amounted to \$80.5 billion, of which \$1.2 billion were Bank loan commitments and only about \$0.5 billion of those commitments had been disbursed. This showed that the major effort was carried out by the Romanians. He said, in exploring the possibilities in capital markets, he is not ashamed to say that he started to look into co-financing possibilities as a result of Mr. McNamara's suggestion. He hoped they would help in the improvement of the foreign debt picture. Mr. McNamara agreed that concern with the level of short-term debt was right and also that it was very wise to use external capital markets for co-financing type arrangements especially for a country at Romania's level of development with as good a record as Romania has. He also added that the Bank would do everything to help. Mr. Niculescu-Mizil said that the President of the Republic was very keen to see that the external debt did not increase. He said they were able to find creditors but the important thing was to see how they would be paid.

4. Mr. McNamara, turning to the question of industrial sector studies, informed the Delegation about the forthcoming visit by Messrs. Karaosmanoglu and Fuchs to discuss issues arising in the steel and chemical industries. Mr. Niculescu-Mizil suggested that if the steel project was raising difficult issues, it could be postponed in favor of projects that are simpler and mentioned that the Transport Project could be advanced to the current fiscal year lending program. Mr. Benjenk recalled that although the Transport Project was a very interesting project it was not yet appraised and it would not be possible to include it in the current fiscal year's program since appraisal could not take place until early in calendar 1980.

5. Mr. McNamara asked Romania's help in the general capital increase with a favorable vote as quickly as possible (an act which would not cost them anything). Second, participation in the Sixth Replenishment of IDA with an amount of \$20 million. Mr. Niculescu-Mizil said that they had not yet taken the official decisions on these matters but he would inform the President of the Republic as soon as he returned to Romania. Mr. Niculescu-Mizil had three additional points to make: (a) Regarding the level of lending for Romania: They informed a number of countries about their concern regarding the level of Bank lending and hoped that their concern would be taken into account in the discussion of the graduation paper. (b) Romanian participation in the development of the work related to the energy field and opening up of the possibilities for Romanian expertise to be utilized. Finally, (c) Help from the Bank to learn about the international bidding system.

6. Mr. McNamara responded that he hoped that he could do something to expand the lending program beyond the level previously programmed last year, perhaps not as high as the Romanians hoped but more than the amount originally programmed. With regard to the participation in energy work,

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he informed the Delegation of Mr. Chadenet's forthcoming visit to Bucharest; for the international bidding questions he noted that Mr. Chadenet was previously in charge of the Projects Department in the Bank and that he could discuss the precise needs in this matter and would report back in Washington so necessary follow-up action could be taken.

cc: Mr. McNamara's Office

Messrs. Looijen
Benjenk
Chadenet
Fuchs
Knox
Koch-Weser
Humphrey
Kavalsky

AKaraosmanoglu:sap

849

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE June 2, 1980

FROM: William S. Humphrey, Division Chief, EMENA CP1D

SUBJECT: ROMANIA: Mr. McNamara's Meeting with the Romanian Ambassador,
May 29, 1980

1. Mr. McNamara met with the Romanian Ambassador, Mr. Nicolae Ionescu, at 6:30 p.m. on May 29th. Messrs. Karaosmanoglu and I were also present.

2. The Ambassador said that he had been asked by the Romanian Minister of Finance, Mr. Niculescu-Mizil, to raise with Mr. McNamara the question of the level of Bank lending to Romania in FY81. He recalled that Mr. McNamara had discussed lending levels with Mr. Niculescu-Mizil in Romania last July. He added that Romania hoped that lending levels in FY81 could be above the level of FY80 in order that the amount would not be reduced in real terms. He said that Romania hoped that it would not be penalized for the level of development that it had already achieved and pointed out that, particularly in agriculture, productivity was low and strenuous efforts were being made to stimulate production.

3. Mr. McNamara said that he had indeed discussed the level of Bank lending to Romania with Mr. Niculescu-Mizil both in Romania last July and later at the Annual Meeting. However, these discussions had referred entirely to the level of lending for FY80. This had originally been programmed at \$295 million which was the same level as for FY79. Fortunately, it had proved possible in FY80 to maintain the FY79 level in real terms and thus, the level of lending in FY80 would be \$325 million. He had not discussed lending levels for periods beyond FY80 and he could not give any assurance today about the level which could be achieved in FY81.

4. Elaborating on this, Mr. McNamara explained that the Bank was operating under conditions of great uncertainty. There was the problem of the timing of the capital increase and the concern of a number of Executive Directors on whether the outlook was sufficiently favorable to support the levels of lending now planned for FY81. There were three other problems. The first related to structural adjustment lending and the need for an increase in Bank lending to help countries finance the kind of structural adjustment required in the face of much larger current account deficits created by increased energy prices. The second problem was the need for an increase in Bank lending to finance energy production over and above that which was already programmed. The third related to the entry into the Bank of the People's Republic of China. He said that had the People's Republic been a member for a number of years and its lending level stabilized, it would probably have received about \$3 billion of Bank and IDA resources in FY80. Under the present circumstances, to provide funds for China would require either taking them away from other countries for which these resources were now programmed, which was undesirable, or increasing the resources available for Bank lending. It was not clear where such extra funds would come from.

June 2, 1980

5. Mr. McNamara went on to say that all these problems made it impossible for him to give the Ambassador a final answer today and he would probably not be able to do so for a number of months. It was clear that there was no solution other than increasing the Bank's overall lending program. This in turn was subject to the availability of funds. The Bank had some thoughts as to how additional funds might be mobilized but these were not yet ready for general discussion. One of his first tasks now was to get the approval of the Executive Directors for the proposed FY81 lending program for the Bank as a whole. The assumed amount for Romania in this program was \$325 million, the same level as FY80. He agreed with the Ambassador's observation that this would mean a fall in real terms of the commitment level in FY81 but suggested that we push ahead with all the projects we have in the pipeline.

6. In commenting on Mr. McNamara's observations, the Ambassador said that Romania faced problems on structural adjustment due to energy price increases (it now imported 50% of its crude oil needs) and also itself was involved in a major energy production program, it should therefore benefit from any increased funds for these purposes. He concluded the meeting by thanking Mr. McNamara for seeing him and expressing confidence that the Bank under Mr. McNamara's leadership would find solutions to the problems which had been outlined.

Cleared with and cc: Mr. Karaosmanoglu (EML)

cc: Mr. McNamara's Office

Messrs. Stern (VPO), Chauffournier (EMNVP), Knox (EMP), Fuchs (IPD),
Haynes (EMP), Carmignani (EMP), Ritchie (EMP), Reekie (EMP),
Kohli (IPD), Nayar (IPD), Elliott (EMP), Howard (EMP)

WSHumphrey:ssst

OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: October 6, 1980

FROM: William S. Humphrey, Division Chief, EMENA CP1D

SUBJECT: Romania: Annual Meetings 1980
Meeting with the Romanian Delegation on October 1

Present: Messrs. Popescu (President, Investment Bank), Bituleanu (Deputy Minister of Finance), Marian (Economist, Investment Bank).

Messrs. Looijen (Executive Director), Ionescu (Adviser, Executive Director's Office).

Messrs. McNamara, Stern, Chaufournier, Karaosmanoglu, Lafourcade, Humphrey.

1. Mr. McNamara opened the meeting by saying he wished to raise two important matters with the Romanian delegation. The first related to Romania's membership of IDA. Romania had already made a firm commitment to join IDA but the discussions on making this commitment effective had dragged on for several months. Romania's membership of IDA was important not just because of the monetary contribution but also because of the example it gave to other countries at a similar income level to participate in efforts to help much poorer countries. The matter had now dragged on for so long that if Romania was unable to make good on its earlier commitment he felt the Executive Directors should be informed formally that Romania was withdrawing from its previously stated intention to join IDA. Mr. McNamara regarded this as an extremely serious matter and asked Mr. Popescu to convey this message to President Ceausescu.

2. The second important matter Mr. McNamara wished to raise related to the mechanisms which the Bank would be trying to put in place to help improve the very large current account deficits likely to emerge in the 1980s. He felt that there was a strong possibility that the Governments were underestimating the size of these deficits. One mechanism to tackle the problem was an increase in the intermediation of the world's financial institutions. There was a particular need for Bank lending to expand and for the means of financing this expansion to be developed consistent with the ability of the OECD countries to provide the resources. Such an expansion he said was possible but not easy. In the next three or four months he hoped to be bringing proposals to the Executive Directors on both the amounts of expanded lending and on how to finance it. He was afraid that each country would have a different reason for not supporting some aspect of the proposals. After giving some examples, he pointed out that it was always easy to find reasons for not proceeding and difficult to find enough

support for moving forward. "Negative" voices tended to have more power than "affirmative" voices. Thus he urged Romania to play an active role both through its Executive Director and through the meetings of the Group of 24 and the Development Committee to push towards an effective approach to this problem. Mr. McNamara said that he was not committed to a particular form of financing but wanted to ensure that the Bank's resources for lending increased. He pointed out that whatever happened, China would absorb a portion of Bank lending in the future and that the question was whether this lending would have to be offset by a reduction in lending to other countries or whether there would be more resources to lend. The proposals for expanding the Bank's resources would be considered by the Executive Directors over the next few months so that by March or April 1981 a new five-year program for the Bank could be prepared to reach the Executive Directors in May for decision in June.

3. Mr. Popescu, after conveying the greetings of the Deputy Minister Mr. Nicolescu-Mizil and his regrets for being unable to attend the Annual Meeting, referred to Romania's support for the energy programs of the Bank and his confidence in the Bank's ability to raise the necessary finance for them. The problem of energy development and conservation was a top priority in formulating Romania's 1981-85 five-year plan. This plan maintained the high level of resources devoted to development - about 30 percent of national income. Romania would continue to need World Bank assistance in support of this effort.

4. On the question of IDA, Mr. Popescu said that the Government had already taken the decision to join IDA and needed the Bank's help in putting this decision into practice. Mr. McNamara said that he had received a note from Mr. Knapp saying that the Government was requesting that Romania's contribution to IDA should be tied to procurement in Romania. In addition Romania was asking that part of this procurement should be financed by other funds. Although we could go some way to meet Romania's request it was quite impossible to accept these conditions in full since we had to treat all Part II IDA members equitably. If Romania stuck to these conditions, we would have to report to our Board that Romania would not participate in IDA. He asked whether we could know by November 1 whether Romania would be in or out. Mr. Popescu said he could not commit his leadership on the timing of a response but that he would report back to Bucharest. He hoped that the Government's decision would be made as quickly as possible.

5. Mr. Popescu then conveyed the appreciation of Romania's leadership of the co-operation with the Bank and the hope that Bank support for Romania's development would continue to be forthcoming and not be affected by the

question of IDA membership. He also thanked Mr. McNamara for his support for Romania over the years and more widely for the contribution he had made to world development during his period as President of the World Bank. He wished Mr. McNamara every success in his future activities. Mr. McNamara responded that he could only think of what had not been done rather than what had been done to assist world development. He reiterated that the decade of the 1980s would be very difficult indeed. He appreciated the compliment although it was undeserved.

cc: Mr. McNamara's office

Messrs. Stern
Lafourcade
Chaufournier
Karaosmanoglu
Haynes
Knapp
Dubey
Maiss

^{WJK}
WSHumphrey/jp

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
Through Mr. Ernest Stern *ES*
FROM: Roger Chaufoffier
SUBJECT: Your Meeting with the Romania Delegation
Wednesday, October 1 at 1730 hours

DATE: September 29, 1980

09/30
We learned today that Mr. Niculescu-Mizil, Deputy Prime Minister and Minister of Finance, has not come to Washington for the Annual Meetings because he is wanted in Bucharest to help finalize the 1981-85 Plan. The delegation is now led by Mr. Iulian Bituleanu, Deputy Minister of Finance, and Mr. Gheorghe Popescu, President of the Investment Bank and Alternate Governor for the Bank. In spite of this change the delegation still wishes to meet with you. I recommend that you meet with the delegation as planned on Wednesday, October 1 principally in order to raise with them again the question of Romania's membership of IDA. When I was in Bucharest earlier this month the Prime Minister and Minister of Finance indicated that they had not yet made a decision on Romania's membership or contribution.

WSHumphrey/DJSteel:ss