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792/2/149

MEMORANDUM FOR THE RECORD

Meeting to Discuss FY76 and FY77 Lending Programs, December 18, 1975

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

The following decisions were reached:

1. The World Bank lending program for FY76 and FY77 would be as shown in Table 1.

TABLE I
WORLD BANK PROGRAM

	Proj	Am't ($ millions)
76-IBRD	120	4550
3rd W	15	450
IDA	75	1600
Total	210	6600
77-IBRD	160	5650
3rd W	5	150
IDA	65	1500
Total	230	7300
Total '76+'77	440	13900

2. Messrs. Blaxall and Adler should recommend to Mr. Knapp whatever revisions of the FY77 Regional programs were required. Mr. Knapp would handle all specifics with respect to the Regional programs.

3. The changes in the FY76 Regional program shown in paragraph 13 of Mr. Adler's memorandum of December 11, 1975, were approved if agreeable to Mr. Knapp.

4. The quarterly distribution of projects for the FY77 Regional lending program, as shown in paragraph 19, was approved.

5. No rationing of Board slots for the last quarter of FY76 should be done at this stage.

6. No projects could be brought forward from the FY78 program until such a program had been established on the basis of the CPP recommendations for FY78 and consistent with the FY78 allocation shown in Table 1 of the June 1975 budget document.

7. Mr. Blaxall would prepare a note to send to the Regions on the decisions of the meeting.

cc: Mr. Goodman

SB
December 19, 1975

792/2/148

MEMORANDUM FOR THE RECORD

Meeting to Discuss IBRD Capital Increase, December 15, 1975

Present: Messrs. McNamara, Knapp, Broches, Cargill, Goodman, Adler, Damry, Nurick, Stern, Rotberg, Wood

After some discussion it was agreed to prepare a paper on the basis of the synopsis. The IBRD lending base for FY76 would be $4.7 billion plus Third Window, and for FY77 $5.5 billion. The paper should not say that the Bank would not continue to grow, although Mr. McNamara felt that a steady state might be reached by about 1985.

Mr. Stern reported on his meeting with U.S. officials. There was no consensus in the U.S. Government with respect to the IBRD capital increase. Treasury officials felt that the selective increase might be less than $10 billion based on considering a larger part ofthe IMF quota increase as general. OMB was preparing a policy paper on all international financial institutions discouraging increases in U.S. paid-in capital. Congressional action on capital increases would be difficult. Mr. McNamara said that in this situation we should ask selected LDCs to approach the Treasury and the State Department to impress upon them the vital need for an IBRD capital increase. He asked Mr. Cargill to prepare a statement which could be used as a brief for staff members who would contact LDC ministers of finance. Countries to be approached were: Mexico, Brazil, Philippines, Korea, Malaysia, Indonesia, Egypt and The Netherlands. Messrs. Krieger, Bell, Cargill and El Fishawy should handle the contacts. The ministers of finance should be contacted before Christmas and be asked to have their ambassadors approach the Treasury to say that the ministers themselves would wish to talk further to Mr. Simon in Jamaica. Mr. Stern said that the Group of 24 also could be useful for influencing the U.S. position. Mr. McNamara agreed but said that we should avoid giving the impression of a ganging-up on the U.S. He said that we should assume that there would be no U.S. legislative action in the next 12 months and he asked Mr. Nurick to investigate the legislative process for a Congressional bill on an IBRD capital increase.

SB
December 16, 1975

792/2/147

MEMORANDUM FOR THE RECORD

Meeting to Discuss Further Work on Increase in IBRD Capital, December 10,1975

Present: Messrs. McNamara, Knapp, Adler, Damry, Stern, Goodman, Nurick, Wood

Mr. McNamara briefly reported on the $750 million U.S. bond issue. Total cost to the Bank would be 9.175%. He had asked Mr. Rotberg to work on three issues: (a) cooperation with the Treasury; (b) forthcoming bond issues; and (c) improvement of secondary markets for IBRD bond issues. These three items should be included in the work program of the Vice President, Finance.

It was decided that Mr. Wood would prepare an outline for a Board paper by Monday, December 15, to be discussed by the participants immediately after the PC meeting. The paper would deal with: (a) voting rights based on case A and the IMF proposal; (b) timing and prudence of financial policies showing time schedule; and (c) access to capital markets. Mr. Damry would go through the transcripts and establish a list of major questions raised during the Board discussion and another list showing questions which could be handled in individual contacts with the EDs. Mr. Nurick would work out the recommendations to be included in the Board paper for decision on January 20, 1976.

Simultaneous with the preparation of the Board paper, Ambassadors for Brazil, Mexico, the Philippines, Thailand, Egypt and the Netherlands should be asked to approach Mr. Simon to tell him that their Ministers of Finance would talk to him during the meetings in Jamaica to try to obtain unqualified U.S. support for an IBRD capital increase.

LDCs and OPEC Executive Directors should be approached to discuss voting rights and Board representation.

SB
December 11, 1975

MEMORANDUM FOR THE RECORD

792/2/146

Meeting with Officers of the Staff Association, December 5, 1975

Present: Messrs. McNamara, Chadenet, Clarke, Lari, Al-Khafaji, McMillan, Banfi and Miss Nordlander

Mr. Al-Khafaji said that the staff had been disappointed about management's decision to decline an interim salary adjustment. The staff was particularly concerned about the deterioration in salary which took place between the annual salary adjustments. Hence the Staff Association wished to propose that the possibilities of indexation of salaries be reviewed by a panel and submitted for consideration by the EDs during the 1976 Annual Salary Review. Mr. McNamara said that there was no chance that the governments would approve indexation. As recently as last week, the German Government had stressed its opposition to indexation during the IDA5 Deputies Meeting in Paris. The most important issue was to obtain full recovery in salaries due to increases in cost-of-living at the Annual Salary Review. Mr. McNamara promised to work for this, although he was not at all sure that this would be possible in 1976.

Mr. Al-Khafaji said that the salary data should take into account both the frequency and the timing of salary adjustments by our competitors. Therefore salary data should be presented on the basis of average salaries paid over a period of 12 months. Mr. McNamara agreed with this, particularly with respect to frequency of salary adjustments. He said that both average and current salaries should be shown in the Annual Salary Review.

With respect to compensation review procedures, the Staff Association would like to have: (a) full consultation (by which Mr. Al-Khafaji understood constructive negotiations) in the formulation of broad proposals; (b) disclosure in confidence of whatever broad proposals are approved by COSCOM; (c) full consultation including discussion of options in the formulation of final recommendations; and (d) final recommendations to the Board should be in agreement with the Association. Mr. McNamara said that (b) would probably not be wise since it increased the possibility of damaging leaks; (d) was unacceptable since it would eliminate his freedom to negotiate with all parties concerned. Mr. Al-Kjafaji said that this could lead to radical demands from the Delegate Assembly of the Staff Association. Mr. McNamara said that, if it did, we should sit down and talk about it. Extremism would erode the structure of our organization and, with such labor-type negotiations, we might lose the image of being an elite organization. Mr. McNamara agreed with full consultation and exposition of staff proposals to the Board, but his own and final proposal would not necessarily be one with which the Staff Association would agree.

Mr. Al-Khafaji finally suggested that personnel files should be open. These files might contain inaccurate and damaging information and many institutions were moving towards open personnel files. Mr. McNamara said that he was willing to accept this proposal almost at once but he did want the Staff Association to think very carefully about the proposal. It would lead to bland personnel files and this might not be in the best interests of staff members.

SB
December 8, 1975

792/2/145

MEMORANDUM FOR THE RECORD

Meeting to Discuss Capital Structure Paper, December 5, 1975

Present: Messrs. McNamara, Knapp, Adler, Broches, Cargill, Damry, Wood

It was decided that Mr. Cargill and Mr. Damry should establish a list of EDs who should be approached on the necessity of having a strong support for the two-step increase. Mr. McNamara said that a one-step approach would lead to a cut in the lending program and an interminable period of negotiations for a general increase.

With respect to voting power, it was decided that Mr. Wood would analyze the possibility of maintaining the same relationship as in the IMF for LDCs and maintaining the present IBRD relationship between OECD and LDCs. The analysis should take the form of a statement which Mr. McNamara could make orally to the Board on Tuesday and which Mr. Cargill could use for his meetings with the EDs.

The participants would meet again for lunch on Tuesday, December 9, to decide how the Board discussion on that day should be concluded. Mr. Broches said that a 75% majority was required to go ahead with the selective capital increase.

SB
December 5, 1975

792/2 /144

MEMORANDUM FOR THE RECORD

Meeting to Discuss Memoranda to Donor Countries and the Board on Third Window, December 4, 1975

Present: Messrs. McNamara, Knapp, Goodman

It was decided to eliminate reference to IDA in the discussion of the ripple effect on Page 3 of the memorandum to the Board. On the Bank side, the reference to the ripple effect should be for countries with per capita incomes in 1972 of above $375.

It was decided not to show a list of beneficiary countries in the memorandum to the donors. In his forthcoming discussions with the donors, Mr. Knapp would refer to general criteria for Third Window allocation and only mention individual countries if pressed to do so.

SB
December 5, 1975

792/2/143

MEMORANDUM FOR THE RECORD

Meeting to Discuss Topics for Policy Analysis and Governors' Speech, November 25, 1975

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

The following three subjects were discussed: policy papers, annual review and Governors' Speech.

Policy Papers. Items II, 5 and 7 in Annex 1 of Mr. Chenery's memorandum of October 15, 1975, were added to the high-priority policy papers under I. Mr. Leiserson should be asked to prepare a work schedule for Item II, 5, "Employment in Urban Areas" by December 22, 1975. Mr. McNamara wanted "Review of LDC Population Planning and Bank Work in Relation Thereto" added to the high-priority list. Mr. Chenery suggested that "UNCTAD Action Program" should also be added to the high-priority papers. Mr. McNamara agreed. Both papers would be ready by April 1, 1976. A very detailed outline was required for Item I, 5 "Debt Management," and Messrs. Adler and Wood should participate in preparing this outline. Mr. McNamara asked DPS to reissue a list of Policy and Issues papers for FY76.

Annual Review. Mr. McNamara said that once the figures had been prepared for the annual review they should not be changed. Sufficient time should be allowed to think about the figures and write the paper. Mr. Tims said that the computer work would be finished by April 1976. The writing would then take place in April and May and the paper go to Mr. McNamara in June for Board presentation in July 1976. There was some discussion of Part III "Special Topics: Food Production" in the outline for the annual review. Mr. McNamara asked Mr. Chenery to prepare an outline for agricultural policies in general and Mr. Baum to prepare an outline for cereal grain production. The two should then be combined and submitted within three weeks.

Governors' Speech. Mr. McNamara wanted outlines prepared for the following seven themes and asked Mr. Karaosmanoglu to be responsible for monitoring the work and submitting the outlines by January 1, 1976:

1. Balance in internal and external policies between transitional and long-term problems.

2. Domestic and external resource mobilization--financial institutions and financial policies.

3. Refinancing of the Bank Group--Mr. Adler would prepare the outline.

4. The Bank's progress on rural and urban development--CPS responsible.

5. Population planning in LDCs and Bank's work in relation thereto--CPS responsible.

6. Food production in LDCs--this would be based on DPS work in relation to the annual review.

7. Emerging difference between Third and Fourth World and its implications for development policies and development finance.

When the outlines had been prepared, the group would meet again to decide on a topic for the Governors' Speech. Mr. McNamara said that, in case time was too short, he would accept oral statements on items 3 and 5.

All work should be included in the Monthly CPS and DPS Work Schedules by December 1, 1975.

cc: Mr. Karaosmanoglu

SBurmester
November 26, 1975

792/2/142

MEMORANDUM FOR THE RECORD

Meeting to Discuss Capital Market Prospects and IBRD Borrowing Program Paper, November 19, 1975

Present: Messrs. McNamara, Cargill, Chenery, Nurick, Rotberg, Adler, Goodman, Sommers, Wood, Hawkins, Shoaib

The question was raised of whether to include Section 6 "Dealing With a Short Fall in Borrowing" in the paper. After some discussion, it was decided that Messrs. Adler and Wood would rewrite the section whereupon Mr. McNamara would decide whether it should be left in or not.

The annexes would be left in. They should be rewritten to take out statements which could compromise our negotiating position.

Mr. McNamara asked Mr. Goodman to ensure that Mr. Sommers received copies of all financial policy papers.

Mr. McNamara requested that Standard Table III on Borrowing Program be revised to include borrowing up to FY80.

Mr. Cargill should develop an analysis of borrowing from central banks and a borrowing program for such borrowing taking account of the possibility of terms longer than two years.

Mr. McNamara asked Messrs. Adler and Chenery to explain to him the difference between the German, U.S. and French capital markets before the Board discussion of the paper.

It was decided to distribute the paper by November 24 for Board discussion on December 9 if the Board so wishes.

SB
November 20, 1975

792/2/141

MEMORANDUM FOR THE RECORD

Meeting to Discuss the World Bank Lending Program, November 14, 1975

Present: Messrs. McNamara, Baum, Cargill, Chaufournier, Adler, Blaxall

Mr. McNamara said that a solid base had now been established for the FY76 program, exclusive of Third Window. He found the program to be acceptable without meeting this month with the Regional Vice Presidents. He asked Mr. Chaufournier to inform the RVPs that he and Mr. Cargill had accepted the program until the next revision by November 30.

The next revision of the program should include the Third Window. The additionality of the Third Window had become a problem, since processing time for projects and number of manweeks spent per project had increased contrary to expectations as outlined in Mr. Adler's memorandum of November 13, 1975. Mr. McNamara asked Mr. Adler to proceed with an analysis of the processing time and manpower cost, in close coordination with CPS. P&B's analysis and recommendations should be submitted to Mr. McNamara by December 23, 1975.

Mr. McNamara asked Mr. Chaufournier to meet with the RVPs along with P&B and CPS on November 17 to discuss the study to be undertaken by P&B. He might want to stress that the study gave the RVPs an opportunity to sharpen their management.

The Bank's lending program and budget would be worked on in two separate ways in the coming three months, namely, through the cost analysis and through the submission of the standard tables for FY76 and FY77 by the Regions. The two tracks would converge about three months from now.

SB
November 17, 1975

MEMORANDUM FOR THE RECORD

7912/2/140

<u>Meeting on Press Leaks, November 11, 1975</u>

Present: Messrs. McNamara, Chadenet, Clark, Chaufournier, Damry, Diamond

Mr. McNamara referred to the article on the Indian lending program in the Statesman on November 5 and expressed his deep concern over these continuous leaks to the press.

It was decided that Mr. Clark would examine the leaks and decide whether anything could be done about them and recommend accordingly.

Messrs. Chadenet and Damry would draft a proposed instruction to all professional staff members on the necessity of not discussing country lending programs outside the Bank.

SB
November 11, 1975

792/2/139

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Action Program and Interim Report of the Urban Policy Task Group, October 29, 1975

Present: Messrs. McNamara, Baum, Chenery, Kearns, Jaycox

Mr. Chenery said that it was difficult to achieve the correct balance between rural and urban development efforts, and within the urban context to decide on whether to concentrate on large or small urban areas. Mr. McNamara did not feel that a $1.1 billion program for FY76 through FY80 could be considered too large. He said that the main dangers we faced were to raise expectations beyond what we could support with action and that our program would not be specific enough. The paper concentrated on a direct approach. He suggested that the paper be revised and submitted to the Board by February 1, 1976, as a first progress report. In the revision the consequences of an indirect approach should be spelled out.

Mr. Chenery said that it might be appropriate to concentrate on smaller cities. Mr. Jaycox disagreed and said that the majority of the urban poor would be absorbed in the big cities. Furthermore, not enough was known about the smaller cities. Mr. Chenery said that, while this was correct from an economic point of view, a political and sociological consideration might still favor concentration on smaller cities. In any event, our program should be based on country specific analysis.

Mr. McNamara said that, while delivering basic urban services might be fairly easy, it would be very difficult to increase the productivity in small industries. Effective evaluation mechanisms should be built into all projects to assure that we would be able to measure any progress made.

Mr. McNamara asked Mr. Baum to work with the Regions and establish a program by January 31, 1976. He asked Mr. Kearns to look into the organizational aspects and submit a budget request for FY76 based on the budget requirements outlined on Page 30 of the paper as soon as possible.

SB
October 30, 1975

792/2/130

MEMORANDUM FOR THE RECORD

Second Meeting to Discuss IBRD Capital Structure Paper, October 29, 1975

Present: Messrs. McNamara, Adler, Broches, Nurick, Goodman, Wood, Sommers

The following major points were discussed:

1. Treatment of Liquid Holdings. Mr. McNamara said that he was prepared to go ahead with Mr. Knapp's suggestion that liquid holdings should not be subtracted. He asked Mr. Wood to rework the paper accordingly.

2. Income Target. Several of those present argued that the interest coverage target of 1.10 was too low, or at least should not be mentioned specifically in the paper. Mr. McNamara said that it was important that the Bank was prudently managed financially but that, within such management, it should provide maximum development assistance. He said that he would think further about the income target and inform Mr. Wood.

3. Growth Rate of the Five-Year Lending Program. Mr. McNamara asked Mr. Sommers to think about a further restraint in the growth rate.

It was decided that the paper should be distributed to the EDs on Tuesday, November 4 for Board discussion December 9, 1975.

SB
October 30, 1975

792/2/137

MEMORANDUM FOR THE RECORD

Meeting with Mr. Costanzo, October 22, 1975

Present: Messrs. McNamara, Costanzo

The following subjects were discussed:

Access to Capital Markets. Mr. Costanzo said that the panel meeting had been very successful. A multilateral guarantee fund had been discussed. A progress report would be presented to the Development Committee in January 1976. The report would be prepared by the November meeting of the Working Group. The U.S. was interested in an international investment trust. IFC was working on this.

ODA. Mr. Costanzo was wondering whether suggesting lower interim targets might hurt the 0.7% target. Mr. McNamara was in favor of such interim goals. He did not feel that they would hurt the 0.7% target, since no plan to achieve this target existed in the largest donor countries. Furthermore the 0.7% target had little meaning with respect to OPEC surplus countries. Mr. Costanzo said that it might be appropriate to discuss the aid effort of the regional banks and the IBRD in this connection, since their aid had a large concessional element. Mr. McNamara said that it was essential to include these institutions when talking about access to capital markets.

IBRD Capital Structure. Mr. McNamara briefly explained the draft Board paper on this subject.

Middle-and High-Income Countries. Mr. Costanzo said that the Latin Americans felt that they had got a bad break with respect to the Third Window and the Trust Fund. Mr. McNamara explained that these countries received much larger per-capita assistance from the Bank Group than the poorest countries. Mr. Costanzo said that the Latin Americans were willing to pay higher interest rates to the Bank if that could increase the flow of funds. Mr. McNamara said that the borrowing capacity of the Bank was the constraint and that we furthermore had country problems with several Latin American countries.

OPEC Fund. Mr. McNamara said that the November 19 meeting might agree to establish an OPEC fund. The situation was confused; who should contribute; what amounts; would it be additional: These questions had not been faced. In any event, it would make the 5IDA Replenishment more difficult.

Conference on International Economic Cooperation. Mr. Costanzo said that it was not clear how the new Development Committee to be established under this Conference would relate to the Bank/IMF Development Committee. The same was true with respect to the relationship between the Raw Materials Committee and UNCTAD. Mr. McNamara said that the two committees could function as oversight committees but their establishment would add "confusion to confusion."

cc: Mr. Stern

SB

October 23, 1975

792/2/136

MEMORANDUM FOR THE RECORD

Meeting to Discuss Possible Board Reactions to the Bank's Evaluation System, October 22, 1975

Present: Messrs. McNamara, Knapp, Baum, Bell, Chaufournier, Damry, Diamond, Husain, Krieger, Nurick, Shoaib, Wapenhans, Weiner, Willoughby

Mr. Shoaib said that Messrs. Drake and Janssen would raise the question of whom the OED was responsible to. Mr. McNamara said that the OED was established as a management initiative to permit us to benefit from experience and to provide the Board with a report on that experience. It was an element within the approach to establish the Joint Audit Committee, the Internal Auditing Unit and the OED itself. The U.S. Congress had passed a law in 1973 on independent evaluation and had asked the U.S. Executive Director to recommend to the Board that a similar procedure would be established in the Bank. Mr. Knapp said that the OED had two functions: to be a tool for management on the improvement of operations, and to report to the Board on management performance. Mr. McNamara said that the second function could not be adequately fulfilled by the OED. It would be impossible to have every single recommendation from the OED discussed in the Board. In its relation to the Board, the OED should concentrate on policy issues. Mr. Baum said that we should avoid giving the Board the impression that OED was the only channel to change procedures and that OED recommendations were necessarily right. The Board felt that the OED provided an opportunity to get to the soft underbelly of the Bank and the Board loved this. Mr. Willoughby wondered whether OED recommendations which had not been accepted by the management should go to the Board. Mr. McNamara stressed that the OED itself should decide this but that he would recommend only submitting policy issues to the Board. He asked Messrs. Shoaib, Damry and Willoughby to prepare a statement by noon on October 24 on the history of establishing the OED and on the relationship of the Board and management to the work of OED.

Mr. Damry said that Messrs. Drake and Janssen might recommend changing the Joint Audit Committee to a Joint Audit and Evaluation Committee. Mr. McNamara said that this should be discussed with the Joint Audit Committee before reporting to the Board.

Mr. Janssen might ask to whom the reports of the OED should be directed. Mr. McNamara said that the reports were directed to management, the Board and the governments for different purposes.

Dr. Sen might refer to the report on loan and credit effectiveness, dated July 22, 1975, particularly with respect to commitment charges. Mr. McNamara said that we would report to the Board when the completion report was issued. Mr. Razafindrabe would probably propose that the loan and credit effectiveness report not be discussed until the project preparation report was issued.

Messrs. Barrios and Franco might ask how differences would be resolved between management and OED. Mr. McNamara said that this should be referred to the Joint Audit Committee.

Mr. Green might say that the OED was too large. Mr. McNamara wondered whether Mr. Green's chair might not be willing to support strongly our view that the Board should concentrate on policy issues and leave operations to management. Having the Board interfere in operations could hurt the professional status of the staff and might politicize the staff. This should be avoided at all costs.

SB
September 23, 1975

7912/2/135

MEMORANDUM FOR THE RECORD

First Meeting to Discuss the IBRD Capital Structure Paper, October 20, 1975

Present: Messrs. McNamara, Knapp, Goodman, Nurick, Sommers, Wood and Bock

It was agreed that the paper would be redrafted by Wednesday night, October 22, and distributed to PC members for comment by Friday night, October 24. A new draft would then be prepared by Tuesday night, October 28. This version would then be finally discussed by Messrs. McNamara, Knapp, Cargill, Goodman, Chenery, Stern, Broches, Sommers, Wood and Bock on Thursday morning, October 30, and distributed to the Board on November 4. Two Board discussions might be required: the first on December 9 and the second on December 23.

cc: Mr. Goodman

SB
October 21, 1975

MEMORANDUM FOR THE RECORD

792/2/134

Meetings with Regions and Central Staff to Discuss World Bank Programming Procedures, October 15 and 16, 1975

General

Mr. McNamara said that the Bank's objectives were to provide technical assistance and transfer financial resources. The input/output relationships related to these objectives were shown in Table I where the number of projects was an indicator of the technical assistance effort and the lending commitments an illustration of the transfer of financial resources. Inputs were illustrated by professional staff and the administrative budget. The input/output relationships implied by Table I were the backbone of the Bank's work. It was only because these relationships had been maintained over time that the governments had been willing to allow the Bank to expand. A system of planning and control was necessary to maintain these relationships. It was evident from Tables II and III that this system now was in disarray.

Mr. McNamara said that he wanted to accomplish three things with these meetings: (a) to establish a realistic FY76 program and a basis for Third Window programming; (b) to revise the present planning system; and (c) to discuss the discretionary authority which could be delegated to the RVPs.

The Regions should submit a revised and realistic FY76 program to P&B by end of business October 17. The programs should show projects by quarter but could include a column for unscheduled projects. Supplemental financing would not be shown as projects but the amounts would be counted in the totals. Mr. McNamara and Mr. Knapp would discuss the program on October 20 and make necessary adjustments in the programs in agreement with the Regions. The agreed programs would be known as the Regional Lending Programs for FY76. Mr. McNamara said that it was unlikely that the Third Window could be additional in FY76. Additionality would only be possible over FY76 and FY77 combined. It was therefore essential that the Regions submit their FY77 programs showing projects by quarter, the total number of IBRD and IDA projects for the year, and total amounts to P&B as soon as possible.

In due course a uniform revised system should be agreed upon by the Regions, the central staff and the Senior Vice President. Until then the revised system would consist of the distributed Tables 1 to 4. These four tables should be updated every month at the end of the month and submitted to P&B. There would be a short meeting every month among Mr. McNamara, Mr. Knapp, central staff and the Regions to monitor the system.

Maximum authority should be delegated to the Regions consistent with managing the institution within the given constraints. The basic principle was that decisions should not be made at higher levels than necessary. Without formalizing the system at this stage, Mr. McNamara said that the following guidlines would apply:

(a) The RVP cannot increase the regional lending program since this would affect the entire Bank.

(b) Within the regional lending program, the RVP can change projects and amounts so long as he remains within the country program for any given country with the exception that projects can be brought forward from FY77 if the program is adjusted accordingly, so long as basic lending principles are not violated and so long as the total regional lending program is not exceeded. However, changes in program loans would have to be cleared with the Senior Vice President.

(c) The RVP can reduce the regional lending program proportionately so long as he stays within acceptable lower limits. Disproportionate reductions would have to be cleared by the Senior Vice President, since they would have direct effects on the basic relationships outlined in Table I.

Throughout the meetings, Mr. McNamara stressed that he did not want to blame anyone in particular for the failure of the present system. If anyone were to be blamed, it was himself. These matters now belonged to the past and the aim of the meetings should be to create a new system acceptable to all.

East Africa Region

Present: Messrs. McNamara, Knapp, Chadenet, JAdler, Kearns, Lewis, Bowron, Dosik, JKing, Husain, HAdler, Roulet, Barry, Loh

Mr. McNamara said that the program looked realistic and properly planned. Mr. Husain said that, if he had the money, he could do 39 projects and the program loan for Tanzania. He then briefly explained the programming system within the Region which consisted of identifying first-priority projects and having standby second-priority projects which would be ready to go ahead when the first priority-projects were not possible. He suggested that the regional share of the Bank's workload should be a definite proportion of the World Bank lending program. Mr. McNamara disagreed with this, saying that this was not the way the Regions built their budgets and that the total of the regional lending programs must exceed the World Bank program.

EMENA

Present: Messrs. McNamara, Knapp, Chadenet, JAdler, Goodman, Kearns, Lewis, Bowron, Dosik, JKing, Wapenhans, Wyatt, Siebeck, Finzi, Kopp

Mr. McNamara said that the program was badly distributed over the year. It was unacceptable to plan for 24 Board presentations in the fourth quarter. He would also suggest that the regional lending program be cut to 45 projects. Mr. Wapenhans agreed with this and said that he could not do more than 45 projects in FY76 irrespective of whether more money would be available.

East Asia and Pacific

Present: Messrs. McNamara, Knapp, Chadenet, Schulmann, Kearns, Goodman, Dosik, Lewis, Bowron, JKing, Kirmani, Loos, Ruddy.

Mr. McNamara said that the program was reasonably well planned, although performance in the first quarter had been somewhat disappointing. Thirty-five projects for the year seemed about right, but the original lending program had included 40 projects so the amounts would have to be cut proportionately. Mr. Kirmani said that 35 projects were reasonably firm and that the Region could not carry a bigger workload than this in FY76, even if more money were available. Mr. Kirmani had no objections to the proposed changes in the sustem but he said that even the best system would not eliminate certain basic problems. The Region had lost several projects after they had reached the green cover stage. Thirteen out of 40 projects were being reappraised, mainly because the lending program had not been agreed with the governments. He suggested that the program should have sufficient cushion to overcome this and should be in reasonable agreement with the countries concerned. It was particularly difficult to obtain agreements on agricultural and educational projects. Mr. McNamara said that this was the Region's responsibility. Mr. Kirmani said that the

Divisions must know what they are committed to do. Mr. McNamara was surprised that this was not taken for granted, since this was an absolutely basic principle of management. The manager must prepare his program, accept and understand changes in it, and then feel committed towards carrying it out. Mr. Kirmani finally made the point that, if 50% of the appraisals had not been carried out by the end of June of the previous year, it would be impossible to avoid bunching in the fiscal year. Mr. McNamara agreed.

West Africa

Present: Messrs. McNamara, Knapp, Chadenet, Schulmann, Kearns, Goodman, Dosik, Lewis, Bowron, JKing, Chaufournier, Steckhan, Wright, Thalwitz, Denning

Mr. McNamara said that the regional program should be cut to 35 projects and the dollar amounts adjusted accordingly. Mr. Chaufournier said that 35 projects and not 39 was his lending program to begin with. He would be able to do one more project if he had more IDA money. He said that the increased use of cofinancing made the program more complicated and particularly diminished the control at the later stages of project processing. He felt that this program was realistic since it was now prepared by the projects divisions. Program divisions had a tendency to inflate the programs.

Latin America

Present: Messrs. McNamara, Knapp, Chadenet, Schulmann, Kearns, Goodman, Baum, Dosik, Lewis, Bowron, Krieger, Knox, Lerdau, Wiese, Perez

Mr. McNamara said that the Region's estimate for Board presentations in September showed poor initial planning and an inadequate control system. Major surgery in the lending program was required. Mr. McNamara suggested 42 projects for the year. However, if the Region felt that projects could be added before April 1, 1976, Mr. McNamara would be willing to consider providing more money for carrying out a larger program. Mr. Krieger said that the four tables could be misleading since they provided no possibility for qualifying the figures. Ten out of the 50 suggested projects in Latin America had country problems: one in Argentina, four in Peru, three in Chile and two in the Dominican Republic. Mr. McNamara said that he would count on at most three of these ten projects and carry them as unscheduled in the program. Mr. Krieger said that he faced many of the same problems that Mr. Kirmani had previously outlined. Mr. McNamara said that with respect to losing and reappraising projects it was necessary to obtain an implicit contract with the governments that, when a project had entered the project cycle, it would go through if it met general economic objectives.

When discussing delegation of authority to the Regions, Mr. Baum suggested that the number of projects should be looked upon as a floor. The Region might be able to carry out more projects for the same amount of money. Mr. McNamara said that this could not be left to the Region to decide since it would destroy the basic relationship outlined in Table I.

South Asia

Present: Messrs. McNamara, Knapp, Chadenet, Schulmann, Kearns, Goodman, Lewis, Bowron, JKing, Stern, Diamond, van der Meer, Street

Mr. Stern said that the pipeline for India was in good shape. He could in fact present 32 projects to the Board in FY76 if $1400 million could be allocated to his Region. Mr. McNamara said to go ahead and plan on that basis. Mr. Stern said that he had problems with the projects managed by CPS. He felt that he should have the responsibility with respect to these projects. Mr. McNamara agreed and asked Mr. Stern to contact Mr. Baum on this matter.

Programming & Budgeting

Present: Messrs. McNamara, Knapp, Schulmann, Bowron, Lewis, Goodman

Mr. McNamara said that he would like to have the aggregate FY76 program by noon on October 20. He would like to have the original Tables 1-4 from the Regions as well. He and Mr. Knapp would then go over the program, make the required changes and have them accepted by the Regions. This would then be the FY76 regional lending program to which the RVPs could make changes according to the new procedures. He would also like to have the lending by country compared with the standard tables. Mr. Schulmann said that he would revise Standard Table 4 accordingly. Mr. McNamara said that the first revision of the FY76 regional lending program should take place not long after October 31.

The FY77 program should consist of the high probability projects from the Regions. Mr. McNamara said that P&B should not volunteer any information to the Regions at this stage on staff availability since this could lead to a lengthy budget discussion which was not appropriate at this stage.

The statement on RVP discretionary authority should be drafted after the FY76 program had been prepared.

Mr. McNamara would like to have an estimate of Bank-wide cofinancing before the Board Meeting on October 28.

SB
October 17, 1975

792/2/133

MEMORANDUM FOR THE RECORD

Meeting to Discuss Financial Policies, October 13, 1975

Present: Messrs. McNamara, Adler, Goodman

Programming. Mr. McNamara said that two studies should be undertaken: (1) an analysis of the time required for project processing over a number of years, and (2) the manpower cost required per project over time and between Regions, possibly broken down by project and program staff.

Third Window. Mr. Adler said that a memorandum on programming of Third Window lending for FY76 was with Mr. Knapp. Mr. Goodman had prepared a memorandum on terms and conditions of Third Window lending which was also with Mr. Knapp. Mr. McNamara said that he would raise the subject again next week.

Pension Fund Performance Measurement. Mr. McNamara would like to have a study on this subject included on the work schedule for the Vice President, Finance. He said that Mr. Sommers might be helpful in this.

Programming Procedures. After a lengthy discussion, it was decided that a written procedure should be established after Mr. McNamara had talked with the Regions on FY76 programming this week.

Borrowing Program. Mr. Goodman said that the German market for public issues would be closed until at least December 1975. The Swiss issue of SF120 million was on track. Morgan Stanley had suggested a 20-year $500 million issue in the U.S. market at 9-1/4%. Mr. Goodman felt that the cost was too high and Mr. McNamara agreed. A Dutch issue of Dutch guilders 100 million at 8-3/4%, renewable after four years, was also considered too costly. Mr. McNamara asked Mr. Goodman to issue a new version of the standard borrowing program table.

cc: Mr. Goodman

SB
October 14, 1975

7012/2/132

MEMORANDUM FOR THE RECORD

Meeting to Discuss Letter to Minister Pronk, October 13, 1975

Present: Messrs. McNamara, Knapp, Broches, Clark, Chenery, Adler, Goodman, Diamond

It was decided that the letter should be delivered through Mr. Witte who should be asked to keep the letter confidential.

Mr. Chenery said that the most difficult problem was the contributions of OPEC countries. The U.S. might argue that OPEC had caused the problem and therefore was responsible for solving it. The answer should be given in terms of over-all aid flows to which OPEC countries were contributing about 2.5% of their GNPs. OPEC surpluses would only continue in the medium-term. Hence it was not fair that OPEC be asked to contribute on IDA terms. Mr. Goodman said that, if the same proportion of the aid effort as measured as percentage of GNP would go to IDA for both OECD and OPEC countries, we would arrive at an IDA figure for OPEC of about $250 million. Mr. McNamara said that this latter argument could be used when discussing with the Saudi Arabians.

It was decided that Mr. Adler would take due note of the comments at the meeting and prepare a new draft as soon as possible.

Mr. McNamara said that he would think about having 5IDA raised at the forthcoming summit meeting.

SB
October 14, 1975

MEMORANDUM FOR THE RECORD

792/2/131

Meeting to Discuss Congressman Obey's Second Letter to Mr. McNamara, October 10, 1975

Present: Messrs. McNamara, Knapp, Stern, Wapenhans, Broches, Chadenet, Nurick, Clark, Sommers, Riddleberger

Mr. Knapp said that we could simply not answer all the questions that Mr. Obey had raised. This would overburden the staff of the Bank and was not an appropriate workload to carry out for one member of a parliamentary committee in a member country. Mr. Stern agreed and said that the letter should be answered through the regular channel, namely, the U.S. ED. He did not feel that Mr. McNamara should meet with Congressman Obey in his office. Mr. Sommers said that it was not proper to deal bilaterally with Congressman Obey. He had established himself as a one-member Congressional committee and we could lose our independence if we started dealing directly with such self-established committees. Mr. Nurick agreed but said that we would have to deal with the factual matter even if we answered through the U.S. ED.

After some discussion, Mr. McNamara concluded that Messrs. Clark and Riddleberger should prepare a draft answer to Congressman Obey by October 17 in cooperation with Messrs. Broches, Nurick and Wapenhans. The letter should be warm and friendly but only deal directly with the narrow boycott issue. After the draft had been prepared, Mr. McNamara would contact Mr. Cooper. Mr. McNamara stressed that the discussion should be kept confidential.

SB
October 13, 1975

MEMORANDUM FOR THE RECORD

792/2/130

Financial Policy Meeting, October 6, 1975

Present: Messrs. McNamara, Adler, Goodman, Diamond, Wood

Third Window. Mr. Goodman said that Mr. Cargill would follow up on Kuwait's contribution in the field. Mr. McNamara would like to know where we stand on Kuwait by October 12. Mr. Goodman said that no answer had been received from Iran.

Capital Markets Paper. A draft would be ready by October 24. Mr. McNamara said that, if there were any judgmental issues, they could be raised with him before October 24.

5IDA. Mr. McNamara would like to have tables prepared showing past and future GNP for each donor country in local currency and dollars from the 3IDA period through FY80; deflators for the same years; GNP rate of growth in real terms; ODA in local currency and dollars as a percent of GNP past and future; a table for all donors similar to the one prepared in his brief on Germany showing donor contribution to IDA, Third Window, IBRD Capital Subscription, and IFC Capital Increase. The parliamentary process in all donor countries should be carefully studied, as well as the politics associated with budgetary procedures. Mr. Diamond should become an expert on this. This might be done by talking to the EDs and should in any event be done before the Paris meeting. The letter to Mr. Pronk should be drafted by October 9. A somewhat different letter should be prepared for Mr. Michanek in Sweden. Mr. Goodman said that he would await the first sounding of Messrs. Cargill and Gaud before approaching Canada. Mr. McNamara agreed but said that Canada should be approached before the Paris meeting, possibly by November 1. The memorandum to the Deputies and the Agenda should be ready by October 24. A table of 5IDA visits and contacts should be prepared. Mr. McNamara might be visiting the Arab countries, Sweden and Canada within the next six months. Mr. Knapp would go to Japan in November. It was agreed that Mr. Rotberg would take material on 5IDA along on his trip to Japan for preliminary discussions in preparation of Mr. Knapp's visit.

Capital Structure Paper. Mr. Wood said that he would have a draft ready by October 17.

IFC Capital Increase. Mr. McNamara said that Mr. von Hoffmann was going ahead with the paper.

cc: Mr. Goodman

SB
October 7, 1975

792/2/129

MEMORANDUM FOR THE RECORD

Meeting to Discuss Loan/Credit Documentation Procedures, October 3, 1975

Present: Messrs. McNamara, Knapp, Baum, Damry, Kearns

The meeting discussed points raised in Messrs. Damry and Kearns memorandum to Mr. McNamara dated October 2, 1975.

Length of President's Report. Messrs. Janssen and Browning wanted to keep the President's Report short.

Material to EDs. Some LDC EDs were concerned that they wouldn't get the same material as the Loan Committee. Mr. Knapp said that they would get the same material as management.

Length of Staff Report. Mr. Barrios was concerned that the new report would have less statistical material than the old Appraisal Report. Mr. Baum said that the Staff Project Report would be fully adequate to serve the need of relevant information on the project at hand.

EDs Discussion of Staff Project Report. Mr. McNamara asked Mr. Damry to research the background on asking EDs not to discuss Appraisal Reports at Board Meetings. Calling the new report "Staff Appraisal Report" rather than "Staff Project Report" presented no problem.

Special Procedure. The Japanese and the British would like to have more projects under Special Procedure. Mr. McNamara asked Mr. Damry to contact Mr. Hori to have him express this feeling during the Board discussion. Mr. Knapp was concerned that EDs hadn't realized that there was a double test with respect to Special Procedure, namely, that the project amount should be less than $15 million and the project should be a routine project.

CPPs. Messrs. Cooper and Drake had mentioned the desire for more Board involvement in the CPP process. Mr. Reynolds was against this but might not be able to convince Mr. Cooper. Mr. McNamara was concerned about this and said that it would be very difficult to discuss the CPPs with the Board. It would easily lead to polarization of the Board. He would hope to be able to make a statement at the Board Meeting along the lines of "the Board has recognized the danger at getting involved in detailed allocation among countries."

Keeping EDs Informed. Messrs. Al-Atrash and Barrios had complained that they weren't always adequately informed. Mr. McNamara asked Mr. Damry to straighten this out and said that he would remind the Senior Staff at the meeting Monday October 6.

Programs/Projects Responsibilities. It was agreed that it was not the Board's business to get involved in such staff issues. Mr. Knapp would tell the RVPs that staff members should not discuss such purely internal organizational matters with EDs.

Dr. Sen's Annex. Mr. Damry said that Dr. Sen had second thoughts about paragraph 1(g) in his Annex. He might express willingness to drop this paragraph during the lunch the same day. Mr. McNamara said that we should have more contacts with the EDs and not leave this function only to Mr. Damry. Lunches like the one scheduled for the same day could be useful.

Projects Performance Audit. It was decided that the same group, plus Messrs. Weiner and Shoaib, would meet to discuss Projects Performance Evaluation before the October 28 meeting. Mr. Baum felt that Mr. Willoughby had given too detailed recommendations on minor operational procedures. This gave the Board an opportunity to move into operations which was not its proper role. Mr. McNamara agreed.

SB
October 6, 1975

792/2/127

MEMORANDUM FOR THE RECORD

Meeting to Discuss Procurement for the Balikh Irrigation Project in Syria - October 2, 1975

Present: Messrs. McNamara, Knapp, Wapenhans, Baum, Nurick

Mr. Knapp said that there were two possible positions with respect to the Arab boycott: (a) the Bank would not finance any contract which was not awarded to the lowest evaluated bidder and should reduce the amount of the loan correspondingly; or (b) assure that all potential bidders would bid by requesting the country either to abandon the restrictive law or make an exception to such a law and publish the exception internationally. Mr. McNamara said that he found position (b) too extreme and that he was not sure whether the loan amount should be reduced correspondingly under position (a). However, he stressed very strongly that we would under no circumstances comply with the Arab boycott. The restrictive clause in the Syrian tender documents referring to the laws of Syria would therefore have to go.

Mr. Nurick said that even taking out the clause would not help, since Syrian law would still be in effect. Mr. McNamara said that similar laws existed in other Arab countries and we were still able to avoid the boycott. He stressed that the difficulty in his opinion was not legal but political. We and the sympathetic Syrians should attempt to arrive at an acceptable political formula.

Mr. Baum said that none of the boycotted firms was likely to bid for this civil works contract. Mr. McNamara said that, be that as it may, we should focus for the moment on the narrow issue of form and leave substance till later.

Mr. Wapenhans said that there were individuals in Syria probably including the Minister of the Euphrates Dam who would like to see Syria break its relations with the Bank. Mr. McNamara agreed and said that failure to reach agreement with the Syrians could mean the end of 5IDA and our relationship with the Arabs. He asked Mr. Wapenhans to prepare a careful background note on the history of the Balikh Irrigation Project. Mr. Wapenhans commented that the issue of procurement had been handled very nicely with the Saudi Development Fund, where Mr. Jalal wisely had refused to have explained the implications of international competitive bidding.

Mr. McNamara then dictated the attached note on the Bank's position with regard to the Balikh Irrigation Project. It was decided that Mr. Wapenhans should call Mr. Bart in Syria. In case Mr. Bart still had difficulty in removing the prohibited clause, he should be called back to Washington for discussion.

Mr. Nurick emphasized the need to keep the discussion confidential. Everyone agreed.

SB
October 2, 1975

With respect to the Balikh irrigation project in Syria, we cannot finance the contract if:

1) the request for bids contains a statement that bids from "boycotted firms" will not be accepted or if the request for bids refers to a Syrian law which prohibits acceptance of bids from "boycotted firms"; or

2) if in practice Syria, when evaluating the bids received under the request for bids, refuses to evaluate bids from "boycotted firms" or if having evaluated such bids refuses to award the contract to the lowest bidder because he is a "boycotted firm."

RMcN

10/2/75

Copies to: Mr. Knapp
Mr. Nurick
Mr. Baum
Mr. Wapenhans
Mr. Burmester

792/2/128

MEMORANDUM FOR THE RECORD October 3, 1975

Meetings to Discuss Financial Policies, October 2, 1975

1. 5IDA--Tanzania

Present: Messrs. McNamara, Cargill, Husain, WClark

It was decided that Messrs. Husain and Clark would draft a letter for Mr. McNamara's signature to send to President Nyerere stating that 5IDA was facing serious difficulties, that the support of the Nordic countries was essential, and that Mr. Husain would go to Tanzania to discuss this matter with President Nyerere in the last week of October. Messrs. Husain and Clark would also prepare a draft cable from President Nyerere to Prime Minister Palme which Mr. Husain would discuss with President Nyerere during his visit to Tanzania.

2. 5IDA--Paper on OPEC Contributions

Present: Messrs. McNamara, Cargill, Adler, Vibert

Mr. McNamara said that he was not happy with the present draft paper on OPEC contributions. He said that the paper should be revised so it could be shown to both OECD and OPEC donors. He gave his annotated copy to Mr. Vibert.

3. Paper on Capital Structure

Present: Messrs. McNamara, Cargill, Adler, Wood

Mr. McNamara said that the paper should not assume that a selective increase would be undertaken. He agreed that a change in financial policies could not meet the magnitude of the Bank's capital requirements. He suggested that these policies be discussed in an annex. The paper should focus on FY87. Mr. McNamara gave his annotated copy to Mr. Wood.

4. Iran

Present: Messrs. McNamara, Knapp, Cargill

Mr. McNamara said that it might not be wise to consider all outstanding issues regarding Bank/Iran relations as a package. If Mr. Cargill would be seeking satisfaction on all four points, he might end up with nothing. The real problem was a breakdown in our communications with Iran. It was decided that Mr. Cargill would probe the Iranian economy, cash flow and reserves on the spot and then decide how to go ahead. Mr. de Lusignan should attempt to arrange a personal meeting between Mr. Cargill and Mr. Ansary. Mr. McNamara said that he would be willing to give up the $50 million in offset lending for a good contribution to 5IDA if this were necessary. It was apparent that Iran in its own eyes was slipping back to Part II status, wanting lending as any other Part II country without offset and feeling no obligation towards the Third Window and 5IDA.

Mr. Knapp mentioned the problems with respect to the small farm consolidation and rural cooperative project. He said that the Iranians plan to lend to the farmers on very lenient terms, something like 20% grant and 80% loan with 2% interest. This would have two serious consequences for Iran: (a) it would encourage capital-intensive investment, and (b) it would not improve the income distribution since both rich and poor farmers are members of the cooperatives and no discrimination is made between these two groups in the lending terms. Mr. Knapp felt that the Bank would probably have to cave in to the Government's policy as we had done in Northeast Brazil and Nigeria, but that the precedent created could give us problems elsewhere. Mr. McNamara said that this was only acceptable if the final result would be a better distribution of income. It was decided that Mr. Cargill would not raise the issue during his visit.

SB

MEMORANDUM FOR THE RECORD

792/2/126

Meeting to Discuss IDA5, September 22, 1975

Present: Messrs. McNamara, Knapp, Cargill, Broches, Adler, Gabriel, Goodman, Vibert

The meeting discussed Mr. Vibert's memorandum on IDA5:Issues and Positions, dated September 12, 1975.

Amount of Replenishment. Mr. McNamara said that at the initial meeting with donors it might be wise to limit the Bank's statement to saying that governments would wish to fully offset inflation and, in addition, provide some real increase over IDA4 for IDA5. He said that several governments had urged him to stay away from mentioning amounts. The ideal would be to have donors suggest as large an amount as possible. Mr. Cargill agreed and said that the Germans planned for a IDA5 of $2.5 billion in their budget. Mr. McNamara said that he had heard that and also that several EDs were discussing along the lines of $2.5 billion for IDA5. He hoped, however, that the Dutch and the Canadians would suggest higher figures. The effect of inflation on IDA5 should be worked out. A possible formula would be to find the amount necessary for IDA5 to purchase the same amount of real goods as was anticipated for IDA4 in Nairobi, including at that time an allowance for 3% inflation. Estimates of real GNP growth for potential donors should also be presented at the donor meeting. After having introduced the effects of inflation and estimates of real growth, donors could then be told that a reasonable formula for IDA5 would be to provide the same percentage of GNP for IDA5 as had been intended for IDA4 at Nairobi. Mr. McNamara said that a separate paper on OPEC countries' contribution was necessary. OPEC countries should be divided into three categories: (a) Part II OPEC countries not expected to contribute, such as Indonesia; (b) Part II OPEC countries which, hopefully, would contribute, such as Iran; and (c) Part I OPEC capital-surplus countries which should contribute. Mr. McNamara said that he wished to discuss this paper with the participants on his return from Germany, September 30. At this stage, total amounts rather than shares should be discussed. Discussion of possible forms of contribution should be deferred at the first meeting but, at some point, we could be flexible. Mr. McNamara asked for a table showing countries and the calls to be made upon them for IDA 1 through 3, IDA4, IDA5, Selective Capital Increase and IFC Capital Increase.

Burden-Sharing. OECD shares should be the same as negotiated in Nairobi. Non-OPEC Part II countries should be examined to identify countries which might contribute to IDA, such as Romania, Mexico, Greece and Brazil.

Voting Rights. This question should be left until the very last meeting with donor governments. However, the Regions should be asked to urge Part II countries to establish legislation which would permit them to take up their subscriptions. Mr. McNamara said that we would probably move towards making special arrangements for voting rights for IDA5, as outlined in the paper.

Terms. Mr. McNamara said that volume was more important than terms. He would like to have a brief note on the political cost of loans versus grants for donor countries.

Objectives of IDA. Mr. McNamara said that this should not be discussed among donors right now. It was recognized that IFAD might interfere with IDA5.

Maintenance of Value. Mr. McNamara said that he was neutral on this issue.

Method of Payment. It was recognized that budgetary provisions had often been burdensome for donor governments. The question of payment method should therefore be examined carefully and the U.S. should not be treated more favorably than other donors.

SB
September 24, 1975

MEMORANDUM FOR THE RECORD

792/2/125

Meeting to Discuss Bank Group Work with Respect to U.S. Proposals to the Special Session of the UN General Assembly and the Resolution of the Assembly, September 18, 1975

Present: Messrs. McNamara, Knapp, Baum, Cargill, Chenery, von Hoffmann, Hoffman, Stern

Mr. McNamara said that the purpose of the meeting was to get work under way in the World Bank with respect to what he called "The Kissinger Plan" and the "UN Resolution." It was decided that Mr. Stern would monitor the work within the Bank and coordinate with the U.S. Government.

The following assignments were given:

1. Earnings Stabilization Development Security Facility. Mr. Tims would produce an outline of a paper by October 15.

2. International Investment Trust. Mr. von Hoffmann would prepare a paper by October 15.

3. International Energy Institute. Mr. Baum would find out what the U.S. had in mind and prepare a note by October 15.

4. Consultative Group on Non-Food Agricultural Products. Mr. Baum would do a paper by October 15.

5. Primary Commodity Production. The U.S. had stated that the World Bank should play a major role in mobilizing financial and technical resources. Mr. von Hoffmann said that Mr. McNamara had asked Mr. Cooper for a technical paper on the subject. Mr. McNamara said that this was unlikely to be forthcoming soon. He asked Mr. von Hoffmann to contact the U.S. Government starting with Mr. Robinson and prepare a note by September 25. A meeting would then be held to discuss the note and the papers on World Bank copper production financing and commodity stabilization.

6. Food Grain Losses. Mr. Baum would contact Mr. Martin and ask for a note by October 15.

7. LDC Access to Capital Markets. The Development Committee was dealing with this subject. Mr. Stern would monitor.

8. Trade Problems. Mr. Avramovic would monitor the situation, particularly with respect to UNCTAD IV.

9. Debt. Mr. Tims would prepare an outline of a paper on debt problems of LDCs by October 15.

10. Export Financing Guarantee. Mr. von Hoffmann would prepare a paper by October 31.

11. UN Fund for Natural Resources. Mr. Baum would prepare a note by October 15.

cc: Mr. Stern

SB
September 19, 1975

MEMORANDUM FOR THE RECORD

792/2/124

Meeting to Discuss the International Fund for Agricultural Development, September 18, 1975

Present: Messrs. McNamara, Knapp, Baum, Broches, Yudelman, Goodman, Hoffman, Stern, Sella

Mr. Knapp said that IFAD could operate in two ways--either give general guidance for allocation of funds and have the World Bank or the regional banks do the projects, possibly in a co-financing arrangement, or have the World Bank or regional banks staff prepare projects for presentation to IFAD's board. The first method was by far the most preferable. Mr. McNamara agreed and said that it was impossible for IFAD to handle $1.2 billion with 20-30 professional staff. Even though IFAD was a potential competitor to VIDA, it was our duty to see that it worked efficiently. The structure of IFAD should be discussed in Geneva, but Mr. McNamara did not feel that Geneva was the right forum to discuss such things as the details of cooperation between IFAD and the World Bank. This could be much better done in direct contact with donor governments. Mr. Hoffman said that it might be too late to obtain changes in IFAD after the Geneva meeting. Mr. McNamara agreed and said that contact with donor governments should start immediately. The U.S. had not focused on IFAD yet but Mr. McNamara would discuss this with Mr. Cooper at lunch. Mr. McNamara asked Mr. Knapp to contact Mr. Drake on the same matter. When in Geneva, the World Bank delegation should talk to the U.S., the European Community and OPEC and say that, in our opinion, IFAD's purpose is to give prompt assistance to food production in LDCs. This requires staff which only exists in the World Bank and the regional banks. We would be prepared to help implement IFAD as promptly and efficiently as possible.

SB
September 19, 1975

792/2/122

MEMORANDUM FOR THE RECORD

Meeting to Discuss Mr. Chenery's Conflict of Interest, September 17, 1975

Present: Messrs. McNamara, Chadenet, Nurick, Merriam

Mr. McNamara said that Congressman Obey had written the U.S. Treasury and that Mr. Cooper now wanted to talk to Mr. McNamara about Mr. Chenery's potential conflict of interest.

Mr. McNamara asked Mr. Nurick what the U.S. conflict of interest rules of relevance to the Chenery case were, whether Mr. Chenery conformed to these rules, and, if not, what Mr. Chenery should do to conform to the U.S. rules or to some reasonable criteria established by the World Bank. Mr. Nurick said that Mr. Cooper probably would tell Mr. McNamara that Mr. Chenery was in violation of U.S. rules. These rules were included in an Executive Order and were very general. They required senior staff to disclose their investments. If a conflict of interest existed for a staff member, this staff member would be prevented from participating in decisions which could create a conflict of interest or requested to divest his holdings or put them in a blind trust. Mr. McNamara said that it would be impossible to restrict Mr. Chenery's activities. As he saw it, the facts of the case were the following:

a. There had been full disclosure of Mr. Chenery's holdings.

b. The acquisition of the investment holdings was recent and through an estate with limited power to divest.

c. The tax restraints on liquidation of the Chenery Corporation had now disappeared. Therefore the Corporation intended to liquidate in November 1975 and divest the underlying securities in November of 1975 and in January 1976. 50% of the securities would be put into a trust fund.

It was decided that Mr. Chenery should be requested to divest those securities which would be given directly to him on liquidation of the Chenery Corporation and to place his trust holdings in a blind trust. Mr. Chadenet would study the general implication of the ruling on Mr. Chenery, particularly as Messrs. McNamara, Cargill, Rotberg, Hittmair and von Hoffmann were concerned.

SB
September 18, 1975

792/2/123

MEMORANDUM FOR THE RECORD

Meeting to Discuss DPS Work Program, September 16, 1975

Present: Messrs. McNamara, Chenery, Stern, Karaosmanoglu

Mr. McNamara said that he would like to discuss DPS work with respect to the Governors' Speech for 1976, a successor to the Prospects Paper for LDCs, and the policy work in general of DPS.

Mr. Stern said that an appropriate topic for the Governors' Speech could be resource mobilization. This subject could be divided into three subheadings:

(a) domestic resource mobilization, including financial and fiscal policies of LDCs;

(b) external resource mobilization, including creditworthiness problems and need for expansion of exports; and

(c) capital requirements leading up to the role of the Bank in such areas as VIDA and increase in capital structure.

Mr. McNamara said that a debt study would be required under subheading (b) if the recent UNCTAD study on debt were not sufficient. Such a debt study should be handled by DPS, although responsibility for specific country creditworthiness studies rested with the Vice President for Finance.

On a successor to Report 802, Mr. Chenery said that this could be a yearly event based on the several models which had been established in the Bank. The models were unique and enabled the Bank to produce the most important development studies in the world. On the basis of this, Mr. Chenery felt that successors to R-802 deserved public distribution. Mr. McNamara disagreed and said that the sensitivity of subjects treated in reports like 802 would not let the Board agree to public distribution.

Mr. Chenery said that, within the general policy work, most sectors had now been covered. Some work was needed on LDC financial institutions. The income distribution work should continue. Mr. McNamara agreed and said that more work was also needed on food production programs for major LDC food producers and on population. Mr. Chenery said that the major general thrust of the policy work should aim at giving general guidance to the Regions and top management on the medium-term problems of LDCs. He would define these medium problems as requirements for readjustment of LDC economies with respect to import substitution, export expansion and employment.

Mr. McNamara asked Mr. Chenery to prepare a detailed work program based on the discussion and submit it within three weeks.

SB
September 18, 1975

MEMORANDUM FOR THE RECORD

792/2/121

Meeting to Discuss Required Bank Group Organization for Implementation of Recent U.S. Proposals in the Development Field, September 16, 1975

Present: McNamara, Knapp, Cargill, Chenery, Stern, Kearns

Mr. McNamara said that it was necessary to find a person who could coordinate and organize the Bank's work with respect to the Development Committee, the proposals of the UN Special Assembly, and the Kissinger speech to that Assembly. The same person should also keep in touch with the development aid and monetary committees of the energy conference proposed by the French. Relations with the IMF were also increasingly important as the IMF moved into the development field. The person chosen should have political sensitivity and intellectual competence to coordinate the work within the Bank as well as perform the liaison with the U.S. Government, the Development Committee and the UN. Mr. Chenery said that the liaison with the U.S. could be separated from the other functions. Mr. McNamara disagreed since the Development Committee, to a large extent, was a U.S. creation. Mr. Stern said that the liaison with the U.S. was not a very time-consuming job. If the person knew the officials in the U.S. Government, it would not take more than 10%-20% of his time. Mr. Stern suggested that we see how the new arrangement in DPS works out and postpone the decision to a later date. As previously agreed, he would continue his work with the Development Committee until after the Kingston meeting.

It was agreed to meet again on Thursday, September 18, to further discuss the required organization and to place responsibility within the Bank for the studies outlined in Mr. Stern's memorandum of September 12. It was also decided to include Messrs. Baum, Hoffman and von Hoffmann in the Thursday meeting.

SB
September 17, 1975

MEMORANDUM FOR THE RECORD

792/2/120

Meeting with U.S. Treasury Officials, August 28, 1975

Present: Messrs. McNamara, Knapp, von Hoffmann, Cooper, Bushnell, Reynolds

Investment in Minerals. Mr. Cooper said that the paper on "Increasing World Bank Group Investment in Minerals Development" had the blessing of the U.S. President and Cabinet. He had earlier mentioned to Mr. McNamara that Mr. Simon and Mr. Kissinger would support the increase in IFC capital in their speeches to be given to the Annual Meeting and the Special General Assembly. However, the increase in IFC capital should be linked to investment in minerals. The U.S. Government was concerned that the World Bank in certain cases might replace private finance. Mr. McNamara said that the Bank was prepared to do what it could. Investments could, however, not be limited exclusively to private enterprises in cases where the governments were not interested. Neither could we directly endorse the wording in the paper. Mr. McNamara said that he would mention the need for an increase in IFC capital at his summing up at the end of the Annual Meeting. There had not been much LDC support for this proposal so far but Mr. von Hoffmann was trying to convince the Africans and the Latin Americans were certain to go along with an increase. He asked the U.S. Treasury to submit a technical note to the Bank indicating which minerals should be chosen and the amounts required.

Letter from Congressman Obey. Mr. McNamara said that Bank staff was working on a response to the letter and would be in contact with U.S. Treasury officials. He said that he would talk directly to Congressman Obey.

Buffer Stock Financing. Mr. McNamara said that there would be talk about this subject during the Annual Meeting but that he would not directly raise it. He would concentrate on Third Window, IDA5 and IBRD Capital Structure.

Nationalization of Marcona Property in Peru. Mr. Cooper said that the U.S. Government was concerned that the Marcona property had been nationalized without compensation in Peru. He thought that the Peruvian Finance Minister might raise this during the Annual Meeting. Mr. McNamara asked to be kept informed of further U.S. talks with the Peruvians.

China Membership. Mr. McNamara hoped that this issue would not be raised during the Annual Meeting. In case it did come up, it would be referred to the Procedures Committee.

Representation of South Vietnam. Mr. McNamara said that the South Vietnamese representative was expected to take his seat during the Annual Meeting and that there was no problem with this as far as the Bank was concerned.

SB
August 29, 1975

MEMORANDUM FOR THE RECORD

7-92/2/119

Meeting to Discuss Lending to India, Pakistan and Bangladesh, August 26, 1975

Present: Messrs. McNamara, Knapp, Cargill, Weiner, Stern, Diamond, Wolf, Alisbah

India. After some discussion, it was decided that the Indian Minister of Finance, during the Annual Meeting, should be told that the IDA program for FY76 would be $680 million, IBRD $50 million to $60 million, and a substantial assistance from the Third Window could be expected if and when the Third Window was established. The need for increase in food production and exports should be stressed during the discussions. Program lending should only take place if tied to export expansion. Mr. McNamara said that the Region should consider whether it might not be useful to have two staff members examine the possibilities for export expansion in India and become experts on the subject. There was a long discussion of program lending. Mr. McNamara said that it was hard to justify program lending for India when the Government did not have a program to support. The Region said that the program loans were not in fact pure program lending but were always attached to specific objectives in the industrial sector. It was agreed, however, that the Indians now were asking the right questions and that a program might emerge within the next year or so.

Pakistan. It was decided that no program lending should be discussed with the Delegation during the Annual Meeting.

Bangladesh. Mr. Knapp said that our program lending to Bangladesh had functioned as "blood transfusions." We were now negotiating a new program loan for $100 million. He felt that this was too high and that $50 million might be more appropriate. Mr. McNamara agreed and said that even the $50 million program loan should not be a "blood transfusion" but should be tied to specific objectives in jute or related industries. Furthermore the IDA allocation for FY76 should not exceed $150 million.

SB
August 27, 1975

MEMORANDUM FOR THE RECORD

792/2/118

Meeting to Discuss Financial Policies, August 26, 1975

Present: Messrs. McNamara, Cargill, Adler, Goodman, Wood

Two-Year Central Bank Issue. Mr. Cargill said that the two-year issue had been priced at 40 basic points above similar U.S. Treasury issues.

Capital Structure Paper. Mr. Cargill said that Mr. Wood was preparing an issues paper which would be ready by September 16, 1975, and serve as a basis for the Board paper. Mr. McNamara said that the Bank had never examined its financial structure as a private institution which was trying to accomplish the same objectives would do. If we did, we would probably find that we were over-capitalized. If we came to that conclusion, a major program of education of the capital markets would be required to avoid a penalty when issuing bonds. Because of this possible penalty, we should continue present practices if governments were willing to replenish our capital structure. If the governments felt that the political cost of replenishment were too high, we should move towards normal market behavior. Share allocation and voting rights should not be included in the paper, even though the Alternate ED for Scandinavia had expressed concern that the LDC share might fall. Mr. Wood said that the EIB and other regional banks would be examined in the paper. Mr. McNamara added that the 15% reserve objective against bad debt was probably too high. The important question was how large a part of the reserves would be needed for bad debt.

Capital Market Paper. Mr. McNamara said that the paper should include a thorough analysis of the Euromarket. He also wanted a note about the circumstances under which the U.S. would give permission to borrow in dollars. Before presenting the paper to the Board, we should assemble a high-level advisory group and hear its suggestions.

IDA5. Mr. Adler said that $2.8 billion was suggested for Part I countries and $200 million for OPEC. He considered $200 million from OPEC as an absolute maximum, since .05% of OPEC GNP was only equivalent to $50 million and this GNP target was the one applied to OECD. Mr. McNamara agreed. Mr. McNamara said that the Trilateral Commission would endorse IDA5.

FY76 Programming. There had been some objection to the procedure outlined in Mr. Adler's memorandum of August 12, 1975. Mr. McNamara asked Messrs. Cargill, Adler and Schulmann to contact Mr. Knapp and meet with the RVPs this week. He said that it was essential that an IBRD/IDA base program be established before including Third Window and that both projects and amounts must be programmed.

FY76 Borrowing. It was agreed that the borrowing program was in reasonably good shape. Saudi Arabia might do more than $500 million, whereas getting $300 million from Venezuela and $200 million from Iran would be difficult.

cc: Mr. Goodman

SB
August 27, 1975

792/2/117

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Annual Meeting, August 25, 1975

Present: Messrs. McNamara, Knapp, Damry

Mr. Damry said that there was nothing in particular that the Chairman, Mr. Rodriguez, should be informed about. He was now preparing his speech and it would be available in Spanish on Tuesday. Mr. McNamara asked Mr. Damry to prepare a status report for the Third Window to be delivered to the Development Committee either by himself or Mr. Knapp.

Mr. McNamara said that there would probably be a majority in favor of the U.K. proposal on remuneration of EDs. He asked Mr. Damry to draft a second report for Mr. Rodriguez to be submitted by mail to the Governors on September 5. A new committee on remuneration would be selected by the new Chairman later in the year. The new committee should review the length of term of EDs and the criteria for selection of EDs.

SB
August 26, 1975

792/2 /116

MEMORANDUM FOR THE RECORD

Meeting to Discuss Financial Policies, August 15, 1975

Present: Messrs. McNamara, Knapp, Cargill

IDA5. The discussion was based on Mr. Adler's draft memorandum to Mr. Cargill "Preparations for IDA5." Mr. McNamara said that the first paper on the subject should not give specific amounts for OPEC contributions. The suggested justification for an OPEC contribution equivalent to 10% of the OECD contribution based on the relationship between OPEC and OECD GNP was not very good. The OPEC countries likely to contribute were Saudi Arabia, Kuwait, Qatar, UAE, Iran and Venezuela, and it was difficult to see how they would contribute $250 million a year. Mr. Knapp added that, even with a $250 million contribution, the OECD countries should be urged to request OPEC to give a substantial contribution to IDA5. Mr. Cargill said that Messrs. Adler and Wood would produce a note to be used as a basis for discussion at the Annual Meeting. An amount of $2,750 million to $3,000 million would be suggested but burden-sharing would not be emphasized at this stage. The note would be drafted so it could be reviewed with the Dutch, the Canadians, the British and other sympathetic parties. A payment schedule would also be prepared showing countries' contributions by year to IDA4, IDA5, Selective Capital Increase and General Capital Increase. Mr. Cargill also said that some arrangement between the Internal Fund for Agricultural Development and IDA5 might be possible. Mr. Knapp felt that the draft memorandum was pessimistic with respect to other countries' reaction to deferred payments for the U.S. He also suggested including maintenance-of-value possibly based on SDRs. Mr. McNamara said that there would not be objection to a "double option" if credit were given for the present value of IDA 5 contributions. He was sympathetic to a maintenance-of-value clause but was not sure that the donor countries would accept this.

Two-Year Central Bank Issue. Mr. Cargill said that a $350 million two-year central bank issue was planned to be discussed with the Board on August 19. Two-year U.S. Treasury would probably be trading between 8.20% and 8.25% by then. With a 20-basic point margin, the total cost for the Bank might be approximately 8.45%. Mr. Knapp said that this was fairly expensive and that there might be resistance in the Board. Mr. McNamara concluded that we should go ahead with the issue if the cost were less than 8.50%. If the cost rose above this level, we should cut back on the amount. He added that borrowing costs would be higher than expected in this fiscal year. We would be lucky to get $3.8 billion at 8.50%.

Miscellaneous. Mr. McNamara said that he was interested in Mr. Rotberg's proposal to sell six-month CDs but still somewhat reluctant to go ahead full-scale with the proposal. He was looking forward to reading Mr. Rotberg's paper on the eurodollar market. Mr. Cargill said that Mr. Wallich was an expert on the eurodollar market and that he would contact Mr. Wallich in the near future.

cc: Mr. Goodman

SB
August 19, 1975

MEMORANDUM FOR THE RECORD

7 92/2/115

Meeting to Discuss Population, July 18, 1975

Present: Messrs. McNamara, Knapp, Baum, Stern

Mr. McNamara said that he was uneasy about our population work. Projects were not well formulated; they often were not integrated into a country program; projects were not carried out effectively. With these worries in mind, he suggested that we examine our past and future projects to see whether they are geared to assist country population programs. Mr. Stern said that Mr. Willoughby had already started such an examination. Mr. McNamara said that neither Mr. Willoughby nor Dr. Kanagaratnam should perform this examination and he asked Mr. Knapp, through Mr. Shoaib, to tell Mr. Willoughby to stop his work in this area. Mr. Baum suggested that an outsider would work with an inside group to make this examination. Mr. McNamara agreed and suggested that a person like Mr. Friedman or Mr. Berelson could perform this task.

Mr. McNamara suggested that a small advisory group of outside consultants be established to examine whether we had chosen the right countries for our population projects and whether the projects had been rightly formulated. This advisory group should be small but high level.

Finally Mr. McNamara suggested that the sector policy paper be prepared by April 1, 1976. Mr. Stern felt that the SPP would come on top of the white paper and might involve waste of manpower. He said that a more appropriate date might be April 1977. Mr. McNamara asked Mr. Baum to look into appropriate timing for the SPP. However, if the paper were submitted in 1976, it should be on April 1 and not June 1. Mr. McNamara asked whether, with the rather dismal results in the population field, we should continue our work. Mr. Baum said that we should examine the projects case-by-case on their own merits. Mr. McNamara asked Mr. Baum to give some thought to our population work, taking into account the comments made at the meeting and to meet again in a couple of months.

SB
July 18, 1975

MEMORANDUM FOR THE RECORD

792/2/114

Meeting to Discuss Questions Submitted by Hobart Rowen of the Washington Post, in his letter of July 18, 1975 to Mr. McNamara, July 18, 1975

Present: Messrs. McNamara, Knapp, Chadenet, Clark, Stern, Hoffman, Kearns, Nurick

Mr. McNamara briefly reported on Mr. Watson's and Mr. Rowen's conversations with Bank staff and his own two conversations with Mr. Rowen. The conversations had not been very fruitful. Mr. McNamara had refused to be on-the-record and requested Mr. Rowen to obtain his permission before using any quotations. Mr. McNamara asked the participants how he should deal with Mr. Rowen's questions. Mr. Chadenet said that the best thing was to ignore Mr. Rowen. Mr. Stern agreed. Mr. Sommers said that there were four types of questions: some directed to the President of the World Bank; others to Mr. McNamara as an individual; some factual questions which could be answered; and some which involved confidential matters and could not be answered. It might be useful to inform the EDs. Mr. Knapp said that we should not talk to the EDs about the matter and not to give any on-the-record answers. It was agreed not to mention the matter to the EDs.

Mr. McNamara then distributed Mr. Clark's draft response to Mr. Rowen to the participants. It was agreed that a response along those lines would be sent to Mr. Rowen and that Messrs. Clark and Hoffman would work further on the draft for Mr. McNamara's signature.

SB
July 18, 1975

MEMORANDUM FOR THE RECORD

792/2/113

Meeting to Review the Fertilizer Requirements of the Developing Countries, July 18, 1975

Present: Messrs. McNamara, Knapp, Baum, Kuczynski, Pollan, Rowe, Krieger, Weiner, HAdler, JAdler, Haq, Stern, Fuchs, Votaw, Chadenet, Yudelman, Sheldrick, Stier, Burki,

Mr. Knapp agreed with the suggested Bank Group operations program but said that something should be added on Bank dialogue with LDCs on policies in the fertilizer field.

Mr. Knapp turned to the question of subsidies for fertilizers. He said that the paper had no clear statement on this and that a separate paper might be in order. Mr. Baum said that the paper, without stating it explicitly, made a good argument for the use of subsidies. Furthermore such subsidies would tend to disappear over time if the paper's price forecast for agricultural products would hold. Mr. Stern was concerned about the use of subsidies. They often had adverse distributive effects and tended to become institutionalized. Mr. McNamara said that a separate paper on subsidies for agricultural inputs, such as fertilizer, water and credit, should be prepared. Furthermore the statement on subsidies in paragraph 5.02 should be qualified.

Mr. Knapp said that the paper did not have very much explicit information on OPEC plans for fertilizer production and the possible significance of this for worldwide production levels. Mr. Fuchs said that we knew very little about concrete OPEC plans. Mr. McNamara suggested that something on this uncertainty might be inserted in the paper.

Mr. Stern found paragraph 4.14 on buffer stocks unpersuasive. Mr. McNamara agreed and said it should be eliminated.

Mr. Stern said that the benefits of one reliable source of data were overstated in paragraph 4.16. On a similar point Mr. Weiner said that he doubted the unit could prepare fertilizer statistics as stated in paragraph 4.07. It was agreed that the word "prepare" should be deleted from paragraph 4.07.

Mr. Stern also felt that paragraph 5.34(e) on pesticides was not very specific. Mr. Fuchs said that investments in pesticide production were fairly small and that demand was reasonably covered.

Mr. Weiner referred to paragraph 2.09 and said that the paragraph could be interpreted to mean that the Bank was willing to finance fertilizer imports. Mr. Baum said that we would only finance fertilizer for development projects and that he would clarify the paragraph accordingly.

Mr. Kuczynski asked about the cost composition of fertilizer prices. Mr. Sheldrick said that non-factory costs could range from 30% to as much as 100%. Mr. McNamara did not feel that this required any modifications.

Mr. McNamara said that the footnote on page 13 should include price projections for 1980, even though the projections were very preliminary. When final projections became available, they could be forwarded to the readers. He also said that the footnote on page 22 should refer to specific projects. He requested that the paper be modified according to the comments of the meeting and then distributed to the Executive Directors.

SB
July 18, 1975

792/2/112

MEMORANDUM FOR THE RECORD

Meeting to Discuss Bank Action Program to Attack Urban Poverty, July 16, 1975

Present: Messrs. McNamara, Knapp, Baum, Chenery, Stern, Jaycox, Kearns

Mr. Knapp found Mr. Jaycox's memorandum of July 11, 1975, an excellent base for establishing a work program. He was happy that the issue of provision of basic services versus increase in productivity of the urban poor would be researched but he hoped that the emphasis would be on increase in productivity. Another important area to look into was the use of public procurement for fostering small enterprise.

Mr. Chenery said that it was most difficult to establish meaningful objectives in the urban area. We did know about as much as we did when we started work on rural development but it was more difficult to operate in the urban environment since our perception of what had to be done often would be different from the country's.

Mr. McNamara said that we still did not know how to expand the productivity of the urban poor. It would be difficult to identify the target group and it would be equally difficult to find out what happened to the target group. It was still not clear what mixture of policy advice, infrastructure, service availability, and capital application would be the right one, but we should go ahead and learn as we go. It was very important to build in data collection and data evaluation in the urban projects. He was willing to allocate up to 5% of project cost for this purpose. Mr. McNamara asked Mr. Jaycox to add Messrs. Qureshi and Gustafson to the suggested task group and establish its terms of reference. Mr. Gustafson should be replaced by Mr. Gordon after October 15 and Mrs. Hughes should review the October 15 paper. Work in the near future should concentrate on small enterprises. He was happy that a policy paper on small-scale industrial development would be included in the action program. He also asked Mr. Jaycox to work with Messrs. Baum and Kearns on the organization of the Transportation and Urban Projects Department. If required, additional manpower resources could be allocated to the action program.

Mr. Jaycox said that by October 15 he intended to have the target population defined, the objectives clarified and a detailed work program established, including the selection of some important representative target cities. Mr. McNamara agreed to this.

SB
July 17, 1975

792/2/111

MEMORANDUM FOR THE RECORD

Second Meeting to Discuss Third Window Paper, July 15, 1975

Present: Messrs. McNamara, Knapp, Broches, Shoaib, Adler, Nurick

A line-by-line revision of the paper was made. The paper should be distributed on July 15 for Board discussion on July 29.

Mr. McNamara asked Mr. Adler to prepare a schedule of payments to be made by the Interest Subsidization Fund and to prepare, with the help of Mr. Rotberg, recommendations about methods of investing Interest Subsidy Fund resources so as to yield the estimated outpayments of the Fund.

Mr. McNamara also asked Mr. Adler to develop a method of evaluating the contributions made to the Interest Subsidy Fund at various times and in different forms of contributions.

cc: Mr. Goodman o/r

SB
July 18, 1975

MEMORANDUM FOR THE RECORD

792/2/110

Policy Review Committee Meeting to Discuss the DFC Policy Paper, July 15, 1975

Present: Messrs. McNamara, Knapp, Baum, Chenery, von Hoffmann, Bell, Benjenk, Chaufournier, Kuczynski, Dosik, Burki, Krieger, Weiner, Chadenet, HAdler, Haq, Stern, Alter, Gustafson, Loeschner, Gulhati

Mr. Knapp referred to the discussion of real interest rates in paragraph 50. He said that it was not appropriate to show a specific real interest rate, but rather to indicate that real interest rates should be significant. Mr. McNamara felt that the paper's statement was unrealistic and asked Messrs. Alter, Gustafson and Knapp to prepare alternative language and submit to him within a day or two. Mr. Knapp felt that paragraph 88 on internal organizational rationalization should be deleted but Mr. McNamara preferred to leave it in. Finally, Mr. Knapp suggested that IFC should be mentioned in paragraph 91 on proper coordination of Bank Group efforts. Mr. McNamara agreed.

Mr. Gulhati referred to the forthcoming Annual Meeting speech which stressed urban development and said that, in view of this, the paper should reflect the need to examine the appropriateness of industrial technology for small-scale industries, answer the question of whether DFCs were appropriate vehicles for supporting small industries, and allow for differential interest rates to be used in different risk situations. Mr. McNamara said that the paper should not refer to urban development and that it did not foreclose the use of differential interest rates.

Mr. Baum suggested that DFCs could be a good vehicle to increase interest rates on agricultural credits. Mr. McNamara doubted this and said that the general discussion with the government based on the economic report was the best vehicle.

Mr. von Hoffmann said that such issues as interest rate structure, availability of foreign and domestic money, and the economic evaluation of the DFC could more appropriately be raised with the government than with the DFC institution itself. Mr. McNamara asked Messrs. Gustafson and von Hoffmann to look at this and insert appropriate language.

Mr. HAdler said that it was not quite clear whether IBRD money could be used for local currency financing to subborrowers through DFCs. Mr. McNamara said that in principle we should only supply foreign exchange for foreign exchange financing. He asked Mr. Knapp to look at the OPM where local currency financing was mentioned.

Mr. McNamara referred to paragraph 61 and said that DFCs were rarely prevented from borrowing on country creditworthiness grounds, but much more often for lack of ability to pay adequate interest rates. He also referred to the quintupling of lending to Latin America in paragraph 81. Mr. Gustafson said that this was due to the slow development of DFCs in Latin America in the past. A very large proportion of lending would go to DFCs in Mexico, Colombia and Brazil. Mr. McNamara said that it should be checked very carefully whether these DFCs couldn't borrow in the capital markets rather than from the Bank.

SB
July 16, 1975

MEMORANDUM FOR THE RECORD

792/2/109

Meeting to Discuss the Third Window Paper, July 14, 1975

Present: Messrs. McNamara, Knapp, Broches, Shoaib, Nurick, Adler

Mr. Knapp said that Third Window loans should be considered 4-1/2% loans rather than 8-1/2% loans with the 4% subsidy. Mr. McNamara agreed and said that this should not make any difference to the underwriters. However, lending to countries which were less creditworthy than normally required for Bank lending could create a problem and we should examine it carefully.

There was some discussion of the effective date for the Third Window. It was decided that the Third Window would become effective when "formal notification" had been received from the donor countries. Mr. McNamara asked Mr. Adler to prepare a list of dates for formal notification when Mr. Cargill returns. The resolution should state that $100 million was required in the Subsidy Fund for the Third Window to become effective.

The paper was then revised page-by-page. Messrs. Adler and Nurick would redraft the paper for discussion again on July 15 at 2:00 p.m.

cc: Mr. Goodman o/r

SB
July 15, 1975

7912/2/108

MEMORANDUM FOR THE RECORD

Financial Policy Meeting, July 7, 1975

Present: Messrs. McNamara, Knapp, Cargill, Shoaib, Nurick, Adler, Wood

The following subjects were discussed:

1. Paper on Allocation of FY75 IBRD Net Income. A page-by-page review was undertaken by the participants. Mr. McNamara gave his copy to Mr. Wood and said that he would like to see the paper again before it was released.

2. Paper on Selective Increases in IBRD Capital Subscriptions. Mr. McNamara was surprised that the 5% extra increase to OPEC had not been covered within the total selective increase as decided in the meeting on June 30. Messrs. Knapp, Nurick and Wood explained that this was not possible, if the relationship between non-OPEC countries should remain as in the IMF. After some discussion it was decided to leave the issue as drafted in the paper. Mr. McNamara was also surprised that paragraph 13 indicated that legislative action for a general capital increase might be required by FY76. He asked Mr. Adler to prepare a technical note on this before the end of the week.

cc: Mr. Goodman

SB
July 8, 1975

792/2/107

MEMORANDUM FOR THE RECORD

Financial Policy Meeting, June 30, 1975

Present: Messrs. McNamara, Knapp, Cargill, Goodman, Schulmann, Nurick, Wood

The following subjects were discussed:

1. Selective Capital Increase. It was decided that Mr. Nurick should check with the IMF for comments and distribute the paper on July 8 for Board discussion on July 29. The lowest common denominator in the IMF increase should be considered as general and the 5% extra increase to OPEC in IBRD should be covered within the total selective increase.

2. Third Window. The memorandum to the Board should be distributed on July 15 for discussion on July 29. After the memorandum had been drafted, it should be discussed with EDs representing donor countries. During the coming week, Mr. Cargill should attempt to finalize the contributions from Canada, U.K., Netherlands, Saudi Arabia, Venezuela and Kuwait. The memorandum should discuss additionality and the effect on number of projects, lending commitments and the administrative budget. The memorandum should state what the amount of firm commitment for the Subsidy Fund was, when the Window would start operating and that the Window would be kept open for further contributions. There was some discussion of additionality and the FY75 overrun. Mr. McNamara said that the Third Window should be additional in both amount and projects. If necessary IBRD/Third Window blending should be used. Mr. Knapp said that the Third Window could be used for financing small projects. $500 million in commitments were equivalent to 16 "average" projects, but this might not be sufficient to satisfy donor priorities. With respect to the overrun, Mr. McNamara said that the CPPs should be watched carefully to ensure that lending programs were not excessive for FY77 and that, on the other hand, they were high enough for FY78 through FY80.

3. General Capital Increase. Mr. McNamara said that the paper should follow the options established in the PC the same morning, namely:

a. Keeping Articles and capital structure as they are. Alternatives of keeping lending constant in nominal or in real terms should be discussed along with the impact on development.

b. An increase in subscribed capital from 50% to 100% based on envisaged lending in the '80s.

c. Changing the capital structure by applying the same standards to IBRD as the financial community applies to other financial institutions. The results of the LPAU would be required for this purpose.

IBRD shareholders might want to combine (b) and (c). Mr. McNamara asked Mr. Wood to outline the paper and a timetable for discussion at the Financial Meeting next Monday, July 7.

4. Capital Market Study. Mr. McNamara said that we should do a four-week in-house analysis before asking outsiders to undertake parts of the study.

5. Transfer of IBRD Income to IDA. It was decided that $100 million would be transferred from IBRD to IDA.

6. Mid-Year Review. The review would take the form of a short progress report on the administrative budget, borrowing program and lending program for FY76.

7. <u>Table 1(c)</u>. Mr. McNamara asked Mr. Cargill to carefully watch the income, disbursements and lending commitments forecast in Table 1(c). Mr. Cargill said that he would like to experiment with these forecasts in the next few months and not circulate to the Board during that period. Mr. McNamara agreed.

cc: Mr. Goodman

SB
July 1, 1975