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Folder Title: Memoranda for the Record - Memoranda 06

Folder ID: 1771493

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4543S

Series: Memoranda for the record

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 19, 2012

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McNamara Papers

Memo. for record
1972 (Jul. - Dec.)

The World Bank Group
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1771493

A1995-254 Other #: 1

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President's papers - Robert S. McNamara Memoranda for the Record - Memoranda 06

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792/1/108

Meetings to Discuss Mr. McNamara's Speech to the Governors 1973, December 6 and December 20, 1972

December 6, 1972

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

Mr. Chenery suggested that the speech include reference to the distribution of the benefits of aid. He had recently completed a paper together with Mr. Carter on the relations between aid, exports and supplies of foreign exchange. As a country is transformed into an exporter of manufactures, then the terms of aid can be hardened. India is close to reaching that stage, while Bangladesh is still far away.

Mr. McNamara would like to include a table of income distribution as a result of recent research. He would like to refer to the distribution of public services and, if possible, illustrate with examples. He would like to state what progress is being made to implement the policy statements which were made in the 1972 Governors Speech.

Mr. Stern suggested that he could address the future relations between the rich and the poor countries which would be particularly relevant in September 1973, when monetary and trade talks have progressed further. He cited the articles by Mr. Fred Bergsten and others. Mr. McNamara was not sure that this was timely or that he could address the subject as well as he would like to.

December 20, 1972

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

Mr. McNamara was attracted by the topic of relations between rich and poor nations but felt that it would take him into too many fields not germane to the Bank's activities. He, therefore, proposed to speak on "Distribution and Poverty Revisited." He would like to bring out the results of our research in this field and to stress particularly the need for increase in agricultural production and emphasis on rural development.

Mr. Haq suggested also stating some new objectives, such as activities in the field of rural works and nutrition. He said that 60% of the people in the poor countries live on 40% of the land but have not been affected by Bank lending to date. Mr. McNamara asked that he be provided with a set of specific objectives for the Bank's activities for the next five-year period. This would be much more difficult than the almost arbitrary statement of objectives that he had made in his first speech to the Governors.

Education is still a difficult and incompletely researched subject and Mr. McNamara decided not to devote a large part of his speech to it this time. However, while discussing the distribution of public services, reference could be made to education and it should be said that the Bank will try to break the severe maldistribution of public services in developing countries. The least developed countries should receive increasing Bank activity. Rural works, rural development and land reform should be treated. There should be a section on the distribution of income, including a table at the end of the speech showing the Bank's most recent estimates, qualified by a statement of their preliminary nature.

Mr. McNamara asked Mr. Maddux to give thought to bringing out the moral imperative argument, since this is constant, while other arguments shift in time.

The Policy Planning Department would submit an annotated outline of a technical draft to Mr. McNamara by January 22, including a date for a complete technical draft. Then time should be allowed for the writing of the speech, review by an outside group of experts, review within the Bank and finally Mr. McNamara's final review and revision of the speech.

AL
December 26, 1972

MEMORANDUM FOR THE RECORD

792/1/107

Meeting to Discuss Outline of Mid-Year Review of Operating and Financial Programs,
December 14, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Blaxall, Stern

Mr. McNamara said that, while the outline contained four main parts: the mid-year review, the preview of FY74, the FY74-FY78 program and the paper on financial policies, he would like to defer the FY74-FY78 review as being unnecessary until early 1974. However, it would not be possible to postpone the paper on financial policies which had been promised to the Board beyond the date of the review of the FY74 program, including the borrowing program. He consequently suggested that the financial policies paper be discussed by the Board on April 24, 1973. In the preview of FY74 budget and program on February 27, the topics of borrowing and liquidity policies would be excluded.

Mr. Aldewereld mentioned that the FY74 borrowing program would include a large borrowing in Japan which should be agreed upon in March. Mr. McNamara said that this could be done without a prior detailed review of the FY74 borrowing program.

Mr. McNamara asked Mr. Blaxall to ensure that the January Board schedule would show that the February 27 meeting would consider mid-year review of FY73 program and the outlook for the FY74 program and, secondly, that the April 24 meeting would include a review of the Bank's financial policies.

In response to Mr. Blaxall's question, Mr. McNamara decided that the review of the lending rate would also be postponed until the April 24 meeting, which would cover the principles. The actual lending rate would be reviewed in June 1973. Mr. McNamara asked that Mr. Aldewereld prepare a background note for the January meeting which would say that the cost of borrowing has increased and consequently there can be no consideration of lowering the Bank's lending rate at that time.

Mr. McNamara said that he would like the Board discussion of the FY74 budget to be open and frank in order to avoid later resistance by the French and the U.S.

Mr. McNamara asked Mr. Blaxall to prepare a revised outline of the papers discussed and a time schedule for their preparation through the April 24 meeting.

Mr. McNamara mentioned that Mr. Rotberg had sent him a paper on liquidity management using a probabilistic decision model. He said that the approach is interesting and work should continue on it, but, for the time being, it would not be directly employed in financial management, and the Bank's liquidity policy cannot at this time be based on the model.

AL
December 18, 1972

President has seen

792/1/106

MEMORANDUM FOR THE RECORD

Meeting to Discuss Agriculture Work Program, December 14, 1972

Present: Messrs. McNamara, Knapp, Stern, Baum, Stevenson, Yudelman, Reutlinger, van der Tak, Hendry, Evans

Mr. Knapp asked about what assumptions had been made about staff availability in FY74 and was told that they were about the same as in FY73. He commented that the unit would be understaffed and questioned whether more staff would be necessary. Mr. McNamara agreed that the program was ambitious but said that rather than increase staff there would have to be a focusing of priorities on the essential projects. Mr. Knapp asked whether three man-days per project of quality control and operational support would be sufficient and whether 5% of time spent on administration would be enough since it was less than for some other sectors.

Mr. Stern said that the system of consultation between CPS and DPS was not working well. He cited the examples of the rural development study. The relations were unclear between the proposed policy paper to the work of the task force currently underway. Secondly, he said that Mr. Reutlinger is already working on a land reform study. Mr. McNamara asked that a section be added to the work program showing other agricultural work being performed in the Bank and that a rural development policy paper be discussed again after the results of the task force had been received. In the case of land reform, he asked that the program be revised to take into account other work on this subject. He would like a study to start one step earlier with the situation and changes in land ownership and cultivation. The paper should then discuss the productivity of various forms of ownership and cultivation and trends in this respect. Finally the paper should cite changes which can be made and conclude with the role of the Bank. There should be specific country examples.

Mr. McNamara asked that top priority be placed on two papers: the land reform paper mentioned and the paper on the extension of credit to small farmers. He asked that Messrs. Stern and Yudelman meet to discuss the approach to the problem of land reform to make sure that it was properly coordinated in the whole Bank.

Mr. Evans asked whether more time should be allocated to quality control in operations. He felt that the Division Chiefs in Regional Projects Departments were strained by the load of work and the need to cover a diverse set of agricultural sub-sectors.

Mr. McNamara agreed to an increase of three to four man-days per project of operational support in quality control. This time would have to be taken out of low priority research and policy work. He advised the Department to focus their top manpower on fewer research and policy topics. He asked that the study of on-farm mechanization be deferred.

Mr. Yudelman asked how the agricultural credit policy paper should be approached. Mr. McNamara said that the paper should be prepared quickly on the basis of available material. He would advise starting with the need for credit throughout the world, the problem of creating institutions to make it available to farmers and, finally, the problem of matching supply and demand for credit to make it flow.

Mr. McNamara asked Mr. Baum that all sectors be covered by an inventory of sector studies, to be prepared in connection with the five-year program. Sector work would be done mostly by the Regions but would be monitored by Central Projects staff. He asked that the description of the project "Guidelines on conduct of agricultural sector surveys" would be clarified to include defining what constitutes a sector study.

Mr. McNamara asked to receive a revised program when issued.

AL

December 18, 1972

President has seen

792/1/105

MEMORANDUM FOR THE RECORD

Meeting to Discuss Public Utilities Work Program, December 14, 1972

Present: Messrs. McNamara, Knapp, Baum, Stern, van der Tak, Rovani, Jennings, Warford

Mr. McNamara said that several of the policy papers were ill-defined and that he would like to have more extensive statements of their content. Mr. Knapp said that the work program showed a high allocation of time to administration. Mr. Rovani said that there is more operational support on the program than is evident from the paper.

Mr. Knapp questioned the priority of the research project on insurance. He was told that this was designed to utilize a staff member who could not travel. Mr. McNamara asked that the staff member be retained and transferred to other types of work but that the insurance project not be pursued further.

Mr. McNamara attached importance to the research into the developmental impact of the Bank's lending for telecommunications.

Mr. McNamara asked to receive summaries of the Public Utilities Notes when issued in addition to the three water and waste papers and the papers on village water and sewerage and village electrification.

Mr. Baum said that the intention was to regionalize telecommunications as had been done with the DFC Department and that three regions would receive telecommunications groups in FY74.

AL
December 18, 1972

President has seen

792/1/104

Meeting to Review the Work Program of the Policy Planning and Program Review Department

Present: Messrs. McNamara, Knapp, Chenery, Stern, Haq

The discussion was based on a paper submitted by Mr. Chenery. Mr. McNamara had passed the paper on to Mr. Kearns for comments on the organization aspects.

Mr. McNamara emphasized that it should be within the responsibilities of the Policy Planning Division to review continuously the Bank's over-all lending operations in relation to its objectives and, in particular, see that the Bank is fulfilling its mission in particular geographic areas and sectors. Care should be taken that work of P&B is not duplicated. (Mr. Stern will send a separate proposal for this activity.)

It was agreed that the Development Policy staff would be responsible for revising the FY74-FY78 lending program including projections.

A number of comments and changes were made to the list of policy papers:

1. A paper on IDA lending policies would be written so as not to counteract the prime objective of maximizing Fourth IDA Replenishment.
2. Mr. McNamara said that he was skeptical to the idea of lending to high-income countries at a higher interest rate unless a third window had been established.
3. The paper concerning Bank Group lending to small countries was changed to be entitled "Bank Group Lending to the Least Developed Countries." This paper would be completed by March 1, 1973.
4. The study on Bank/IDA financing of recurrent costs would be limited to the area of rural development.
5. The paper on the Bank's lending to housing would be given higher priority than that concerning lending for health.
6. Mr. McNamara asked for a time schedule for the preparation of the paper on choice of technologies.

Mr. McNamara said that he attached vital importance to policy papers being prepared at the right time and in a way which made them suitable for the political needs of presentation to the Board. He would like to receive a quarterly report on the Department's activities.

AL
December 7, 1972

President has seen

792/1/103

MEMORANDUM FOR THE RECORD

Meeting to Discuss Paper on Policy Towards Countries Dependent on Exports of Primary Commodities

Present: Messrs. McNamara, Chenery, Demuth, Hayes, Stern, Hulley

Mr. McNamara asked that a new draft be prepared which would play down the importance of supplementary financing schemes and focus on the main problem, that of dependence on export earnings from primary commodities. The rejection of supplementary financing schemes should follow only as one of several conclusions. The summary should be transformed into a covering letter from the President to the Directors. This should include a careful formulation of the proposed Bank policy.

AL
December 7, 1972

President has seen

792/1/102

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Central Projects Staff Education Work Program, December 4, 1972

Present: Messrs. McNamara, Knapp, Chenery, Ballantine, Baum, Stevenson, van der Tak, Hultin

Mr. Knapp commented on the large number and scope of studies. Mr. McNamara was concerned that the research program would not be completed and that staff time would be too much divided between different tasks. He therefore asked that initial focus be placed on fewer and shorter tasks. It was also agreed that only three staff members of the 11 in the Education Department would spend full time on research while the others would give priority to operational support during FY73. He asked that each task be well-defined and that, in addition to the proposed studies, work be done to evaluate the success of vocational education in various countries, obtaining statistics on the occupations of vocational education program graduates. He asked that all those present at the meeting receive a summary of each study as it is completed.

It was decided that, after the policy work had yielded enough new results, a new sector paper on education would be prepared and that by January 15, 1973, Mr. McNamara would receive a program for preparation of all new sector papers.

AL
December 7, 1972

President has seen

792/9/101

MEMORANDUM FOR THE RECORD

Subject: Discussion with U.S. Treasury

Mr. Paul Volcker, Undersecretary for Monetary Affairs in the U.S. Treasury, called on Mr. McNamara at 5:30 p.m. on Tuesday, November 7th. Mr. Wiczorowski and I were also present.

Mr. Volcker began by talking about the allocation of IDA funds which was to be discussed at the meeting of representatives of Part I countries on Thursday, November 9th. The U.S. Administration had a very strong conviction that the allocation to India of 40% of IDA resources was too big a load to be carried through the period of the Fourth Replenishment. We should take into account the possible needs for the reconstruction of Vietnam. What IDA could do for this might prove to be important in maintaining support for the institution. He had no definite ideas at this stage about the amount that would be needed or the proportions to be found from bilateral aid from the Asian Development Bank or from IDA. It would clearly be easier, however, for IDA to find the resources which might be needed for Vietnam if there could be some downward trend in the percentage allocated to India. This would certainly ease the task of the Administration in getting legislative approval for IDA replenishment.

Mr. McNamara said that he would have no difficulty in agreeing that the discussion on Thursday of that week would be concerned only with the allocation of IDA resources in FY73 and that there was no commitment at this time to maintain a percentage allocation of 40% for India in the remaining year (FY74) of the period over which Third Replenishment resources would be committed. It should be borne in mind, however, that the present percentage of 40% represented a considerable reduction as compared with what had previously been allocated to India. This reduction (from 52% to 40%) had been made at the time of the Second Replenishment. In negotiations for the Third Replenishment there had been some understanding that this was the level of allocation intended for India. Nevertheless, we would accept that there should be no conclusion at the present time going beyond the second year of the commitment period of the Third Replenishment.

He agreed that Southeast Asia was an extremely important problem. He would be quite prepared to talk about it with those concerned in the U.S. Government and the World Bank Group would be ready to do whatever its members wished it to do. Staff resources were available to assist in the assessing of needs, the drawing up of plans, and the finding of finance perhaps through the formation of a consultative group. The Asian Development Bank should clearly play a role since this would be expected by the Japanese who would be important contributors to the operation. The manpower and financial resources of ADB were, however, limited. The first need would be for a thorough technical examination of the problem and he had already earmarked the necessary staff resources for this. He had hitherto discouraged any discussion of the topic either within the World Bank Group or with the U.S. Government as being premature at this time. Since the necessary preparatory work would take some time, it seemed unlikely that there would be any great demand for funds in FY73 and there would, therefore, be no conflict on that score with the needs of India.

As regards the future needs of India, it would help the IDA Management if the U.S. Administration would let them have quite unofficially a statement in writing of the arguments in favor of a reduction in the allocation of IDA resources to India. An attempt should be made to foresee the arguments which could be used against such a reduction and what reply could be made to them. The 40% share at

President has seen

present allocated to India could be justified by detailed calculations showing the development needs of India as compared with those of other countries. There would be very strong opposition on the part of certain donors to a reduction in the Indian allocation, say, to 35%.

Mr. Volcker thought that one of the main arguments for such a reduction would be to secure a more equal distribution of IDA resources between developing countries. There was some merit in "distribution for distribution's sake".

Mr. McNamara pointed out that in looking at allocations to countries, Bank loans, which contained an appreciable concessionary element, must be taken into account. The case should be analyzed in detail even though he recognized that in the last resort it might turn on the ability of the U.S. Government to get political support for IDA.

Mr. Volcker agreed with this. It was not a question of equity but a hard practical problem. The first hurdle was to get through the meeting on Thursday and he was glad to hear that this would involve no commitment beyond the present fiscal year.

Mr. Volcker then raised the question of lending to Iraq. There was some indication that the Iraqi Government might be willing to negotiate. The companies intended to submit an offer on November 11th. The test would be how the Iraqi Government would respond. Some weeks might elapse before the reaction of the Iraqi Government could be assessed. During that period it was most important that the World Bank should not make any move in the direction of further lending to Iraq.

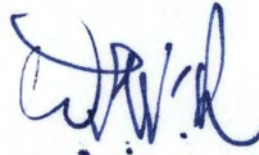
Mr. McNamara said that no further action on this would be taken by the World Bank during the next ten days. He would then look at the matter again. He had had a discussion a few days previously with the mediator and would have a further discussion with him.

The discussion then turned to the Fourth Replenishment of IDA. Mr. Volcker said that the U.S. were faced with serious problems of timing in their relations with Congress on this subject. While the suggestions made by the IDA Management about the payments schedule were interesting to them, the basic problem concerned the ability of the U.S. Administration to agree to provide fresh commitment authority when IDA needed it. This would require consultation with Mr. Passman. It should not take place until a certain interval after the effective date of the Third Replenishment had elapsed. Mr. McNamara said that we had attempted to find a formula which would meet the basic needs of the U.S. Administration. These could be elaborated further in various respects in future discussions.

Some discussion followed about the development needs of the poorest countries. Mr. Volcker referred to the view which he said was widespread that developing countries might be better off without aid.

Mr. McNamara said that he knew of no major personality in the political or economic world who spoke from conviction in that way. Senator Fulbright might oppose development assistance but did so because of a quarrel with the Administration.

He did not believe that Prof. Galbraith (whom Mr. Volcker had mentioned) held such views. He (Mr. McNamara) would be willing to meet any group or individual to discuss this question. Aid was not a panacea but without it the developing countries could only make progress if they adopted the communist system of curtailing consumption by what amounted to forced savings. During the next two or three years special efforts should be made to rebuild the constituency for aid.

A handwritten signature in blue ink, appearing to read 'D. H. F. Rickett', written in a cursive style.

D. H. F. Rickett
Vice President
November 8, 1972

792/1/100

Meeting to Discuss the Work Program of the Transportation Department in the
Central Projects Staff, November 6, 1972

Present: Messrs. McNamara, Knapp, Chenery, Baum, van der Tak, Jaycox

Mr. McNamara said that the meeting was only intended as a preliminary review of the program, to be followed by another meeting in 60 to 90 days. No decisions were to be taken.

Mr. Chenery thought the draft program was good and observed that the program for various sectors would be quite different. He stressed the importance of defining the relations with rural development and urbanization.

Mr. McNamara said he agreed with the prime objective of giving support to the regions in their operational work during FY73. The 14 operational specialists would be devoted to this task. He would recommend an approach consisting of first defining a standard level of support in terms of man-years and then giving full priority to this support for the fiscal year. Mr. McNamara said that other topics of importance would be:

- (a) A five-year sector study program. This should be completed by March 1, 1973 and should include definition of a sector study, an inventory of existing studies and a program of work. It would not at all times be possible to await the preparation of basic economic reports before a sector study is undertaken.
- (b) A transportation sector program paper. The paper would be completed some time in FY74 but, more important, an outline should be submitted to Messrs. McNamara, Knapp and Chenery by February 1, 1973, and be discussed by the group. An attempt would be made to review all sector program paper outlines by April 1, 1973. Among the topics to be covered in this sector program paper on transportation would be the amount of investment allocated to the sector. Mr. Chenery would be responsible for this topic since it had inter-sectoral implications. The topic would be standard in all sector program papers. Another special topic for transportation would be the role of the pilot automobile. This topic would be subcontracted to Mr. Sadove.

Mr. McNamara said that he was looking forward to seeing the results of the study of labor-intensive methods in transportation.

There would be another meeting on the preliminary transportation program when a new version had been completed.

AL
November 7, 1972

President has seen

792/1/99

Meeting to Discuss Chilean Request for Debt Rescheduling, November 6, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Alter

Mr. Alter had proposed a formula for debt rescheduling which essentially consisted of a short-term postponement of capital payments. Mr. McNamara approached the problem by posing three questions:

1. If the Bank had adopted Mr. Alter's proposal a few years back, which countries would have been affected by debt rescheduling?
2. Assuming that there is no improvement in the Chilean economic situation and the proposed short-term rescheduling takes place, how much debt would be affected by a later default?
3. Is Mr. Alter's proposal better in the long run compared to the alternatives:
 - (a) an agreement with Chile to allow local currency repayments backed by a conversion guarantee which would be implemented later. The schedule of repayments would be the same as present.
 - (b) refusing to agree to any rescheduling and assuming that Chile may default on its debt.

Mr. Knapp felt that alternative (a) was undesirable since he would not place much value on the conversion guarantee, nor would the Bank's Board or the capital markets where the Bank has to borrow. Also it would not alleviate criticism against the President of the Bank for taking a firm stand against Chile. Mr. Aldewereld agreed with Mr. Knapp and said that he thought it was not likely that Chile in fact would default. Mr. Knapp thought it would be more likely that Chile would approach the Bank's Board, citing the Articles of Agreement, and requesting a change of repayment schedule or other concession.

Mr. McNamara emphasized the importance of looking at the problem in the long term and its effect on relations with other countries. It was agreed that Mr. Aldewereld would request P&B to supply the answer to Mr. McNamara's first question. The group would then reconvene in Mr. McNamara's absence and, if necessary, make a decision and act accordingly.

AL
November 7, 1972

President has seen

October 20, 1972

792/1/98

MEMORANDUM FOR THE RECORD

Meeting to Review Work Programs of the Regions, October 13, 1972

Present: Messrs. McNamara, Knapp, Blaxall and Schulmann, in addition to the Regional Vice Presidents and their colleagues, who participated in sequence.

Mr. McNamara expressed concern to each group for the shortfall in achievement of the Fiscal '73 program and posed the question whether the program should be cut, together with the budget, or whether it would still be possible to save the Fiscal '73 program. It was generally agreed that a major effort would be made to save the program as originally planned. Mr. McNamara asked Messrs. Blaxall and Schulmann to work with their Regional counterparts to design a planning tool for control of the program, which would allow maximum flexibility in switching resources to the activities which at any point in time would be most productive. To achieve this, it would be necessary to identify controllable and uncontrollable causes of delays, and to seek to remove controllable causes.

Throughout the meeting there was discussion of the bunching problem and its causes: vacations, the cycle of project preparation, the psychology of deadlines, optimistic scheduling, etc.

Mr. Benjenk reported that he had almost completed work on a planning tool which would perform the function desired by Mr. McNamara. Mr. Wapenhans asked about priorities, to which Mr. McNamara replied that supervision should have first priority although he feared that too much dispersed effort was spent on it already with not enough return. Second in priority would be Fiscal '73 programs, with some care taken that the Sector work does not suffer unnecessarily.

If there are legislative obstacles to loan presentation, the Regions were invited to bring the matter to the attention of Mr. Knapp or Mr. McNamara, who could intervene personally with senior members of government.

It was agreed that a new series of meetings would take place in sixty to ninety days to take stock of progress on the Fiscal '73 program and to discuss the bunching problem.

AL

President has seen

October 20, 1972

792/1/97

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Bank's Approach to Rural Development, October 16, 1972

Present: Messrs. McNamara, Knapp, Shoaib, Chadenet, Baum, Stern and Kearns

There were two basic questions to be answered. First, should there be a study of the Bank's approach to Rural Development, and, second, how should the Bank organize this approach? Mr. McNamara felt that if there were to be a study, which he hoped, the staffs of Development Policy, Projects and Organization Management Development should cooperate to produce the paper.

Mr. Knapp felt that it was important that the substantive issue of the Bank's approach to Rural Development in policy terms be attacked before organizational proposals were put forward. Mr. Baum advocated not splitting the function of Rural Development away from Agriculture, while Mr. Stern suggested postponing a study somewhat until Mr. Yudelman has an opportunity to make himself at home in the Bank. Mr. McNamara said that the study would have to show whether it would be wiser to have Agriculture and Rural Development together or as separate organizational units. He felt that it would not be wise to postpone commissioning a study since Mr. Evans would be leaving in March of 1973.

Mr. Chadenet said that the concept of Rural Development needs closer definition in view of the wide and varying definitions used. Mr. Kearns expressed concern that the merging of Sector and Projects work in Agriculture and Rural Development would make one of the components suffer.

Mr. McNamara assigned to Mr. Shoaib, with Mr. Kearns providing staff support, organization of the study and was favorable to the idea of an outside advisory panel which could well come to the Bank for one or several sessions. He envisaged a two-month period for the substantive work program and two weeks for the organization work, and it was agreed that mid-January would be the target date for the completion of both.

AL

President has seen

October 17, 1972

792/1/96

MEMORANDUM FOR THE RECORD

Meeting to Decide Upon Appointments for Senior Positions in Development Policy

Present: Messrs. McNamara, Shoaib, Chadenet, Stern and Kearns

Mr. McNamara was skeptical of introducing too many new persons into senior positions since there had already been sufficient turmoil with senior staff leaving. In addition, he was against appointment of Mr. Gulhati if he was a reluctant candidate. Mr. Stern said that Mr. Gulhati had now made up his mind to accept the post as Deputy Director of the Development Economics Department without special assurances or conditions.

It was decided that Mr. Stevenson would be acting head of the Development Economics Department until his departure and that Mr. Gulhati would serve as Deputy Director without assurance of appointment as Director. The post of Deputy Director would be deleted if and when Mr. Gulhati replaces Mr. Stevenson.

Mr. Stern proposed Mr. Kuczynski as head of the Policy Planning Division. Mr. McNamara was doubtful as to the wisdom of this choice since he had understood that Mr. Kuczynski was reluctant to come and not available until January and sorely needed in the Latin American region.

It was decided that Mr. ul Haq would serve as Director of the Policy Planning and Program Review Department and as Acting Division Chief of the Policy Planning Division. The Chief of the Program Review Division would be left "to be appointed." Mr. Shoaib would contact Mr. Kuczynski immediately upon his arrival back to the Bank on Friday, October 20.

The name of the Computing Activities Department would be retained.

The circular to the staff announcing the changes of organization in the Development Policy Staff, as revised by Mr. McNamara, and incorporating Mr. Baum's changes, would be distributed by Tuesday afternoon, October 17.

AL

President has seen

October 6, 1972

792/1/95

MEMORANDUM FOR THE RECORD

Meeting to Discuss Organization of Development Policy Staff, October 6, 1972

Present: Messrs. McNamara, Knapp, Chenery, Stern, Shoaib, Chadenet, Baum and Kearns

Mr. McNamara distributed a proposed statement of the organization and an organization chart to serve as the basis for discussion.

Mr. Baum commented that rural development was omitted from the statement and chart, and Mr. McNamara replied that this had been done intentionally since no decision had been made or would be made at present. The function of rural development would be left as it is at present and he had asked Mr. Kearns to head a group to work on a proposal for its future organization. Any statement issued about the organization of Development Policy should make this clear.

Mr. McNamara said that there were four ways to resolve the organization of Sector Policy work. It could be allocated all to Development Policy or all to Projects Central Staff. It could be split either by sector or by function. Although there were proponents for each solution, he favored splitting responsibility by sector.

Mr. Baum asked for clarification that sector operating policy would be entirely within the Central Projects staff and that pure research tasks would fall within the domains of Mr. Chenery. The middle ground of Sector Policy is the contended area. Mr. McNamara confirmed this and added that the ultimate purpose is the Bank's operation and that the maintenance of good personal relations between Messrs. Baum and Chenery and their respective staffs would determine the results, especially in the case of Sector Studies and Sector Program Papers.

Mr. Knapp said that he basically accepted the criterion implicit in allocating to Development Policy the primary responsibility for new and emerging sectors and for those in which the Projects staff had significant operating responsibilities, but he wondered what policy work would be done in some Sectors, for example, in Tourism. Mr. McNamara agreed that Tourism would not be the subject of much policy research but would be left in the indicated position for reasons of symmetry.

On the other hand, Mr. McNamara said he felt uncomfortable in the Sectors of Agriculture and Education where the Bank had not shown the ability to produce satisfactory Sector Program Papers, and, therefore, did not have an adequate Sector policy. Success in these Sectors would depend crucially on Mr. Baum personally and the extent to which he would receive advice and support from Messrs. Chenery and Stern, and others.

Mr. Chenery said that he agreed with the principle that he would see it as a severe loss if people working on special topics, such as the substitution of labor for capital in various sectors would be transferred to the Projects

President has seen

staff. Even if these individuals are labeled as working in particular sectors, their skills lie mainly in the inter-disciplinary approach, and Mr. Chenery would see it as a severe loss if these individuals were transferred to the Projects Department. He also stressed that it would be unjust to transfer the positions occupied by these people to Projects, giving them only the alternative to leave. Mr. McNamara assured him that this type of treatment was not contemplated. Mr. Stern stressed that the main issue was to retain the capacity for inter-sectoral research in the Development Policy Unit. It is not a question of numbers but of skills. While Mr. Baum maintained that research into the substitution of labor for capital in highway projects rightfully should be performed within the Projects Unit, Mr. Stern said that this would make it impossible to incorporate the labor-capital aspect of other sectors into the work. Mr. McNamara felt that the Economic staff was divided into too many units with too many diverse tasks and it should focus more closely on the main problems of development.

Mr. Baum said that he had indications that certain Economic staff would be quite willing to move over to the Projects side and he also stressed that staff rotation should be a natural element of the new organization.

Mr. McNamara concluded that since he could not justify an increase of the budget, Messrs. Chenery, Baum and Kearns should work on a solution which would consist of transfer to Projects the Sectoral Policy staff while leaving those individuals necessary for the Central Economic work of an inter-disciplinary character, leaving the total budget in terms of positions the same as before. It was subsequently decided that of the Transportation and Public Utilities Division, two staff would remain in the Development Policy Unit. Similarly, in Education, two staff would remain. All Agriculture Section staff from the Agriculture and Rural Development Division would be transferred to the Agriculture Projects Department. Finally, all Development Finance Company staff would remain in the Projects Unit.

In Urbanization, Mr. McNamara decided to allocate the responsibility for overall policy with the Development Policy Unit while operating policy would be the responsibility of Projects in order not to burden Mr. Sadove unnecessarily. Mr. Baum agreed on the condition that operating policy is interpreted liberally enough to allow Mr. Sadove's unit to function efficiently.

The overall policy for the Development Finance Companies would be the responsibility of the Development Policy Unit but no special staff would be assigned to it. These tasks would be carried mainly by the Domestic Finance Division and the economics of Industry Division.

Mr. McNamara asked Messrs. Chenery, Stern and Kearns to define the position of the Policy Planning Division within the Economic Policy Unit and suggest suitable names of staff. Mr. Chenery would ratify the internal organization of the Development Policy Unit, and it was agreed that deputies to department heads would be allowed, if they could be considered qualified as successors to the department heads. He also asked that Messrs. Baum and Chenery together discuss whether functions and individuals could be transferred and Mr. Chenery stated the intention to offer positions to individuals once an overall plan had been

established. Mr. McNamara asked that Messrs. Baum and Chenery analyze the whole organization and the allocation process between themselves in order to identify the problem cases, and only then bring others into the discussion as needed. Meanwhile, Mr. Kearns would draft a statement about the reorganization to be issued to the staff. A final proposal would be put to Mr. McNamara on Tuesday, October 10.

AL
October 6, 1972

OFFICE MEMORANDUM

792/1/93

TO: Files

DATE: September 11, 1972

FROM: R. A. Clarke *R. Clarke*SUBJECT: Staff Association Meeting with Mr. McNamara

On July 19 the Executive Committee of the Staff Association discussed the desirability of occasional periodic meetings with Mr. McNamara to express their experience to date, the feelings of the staff either generally or on live issues and their hopes for the future. Several members of the Executive Committee felt that such meetings would do much to dispell the (according to them) wide-spread if unfounded belief that top management is indifferent to or unaware of the feelings of the staff. The Chairman (Mr. Chaffey) and the two Vice Chairmen (Miss Kaplan and Mr. Elmendorf) felt much less strongly on the desirability of such meetings than did some of their colleagues.

2. On August 30 Miss Kaplan, acting on behalf of the Executive Committee in the absence of Mr. Chaffey, formally requested a meeting with Mr. McNamara to discuss problems arising in the implementation of the re-organization. Mr. McNamara agreed to such a meeting but before it could be arranged Mr. Chaffey and Mr. Elmendorf returned to the Bank. They appeared to feel strongly that such a meeting at this stage would not serve a useful purpose. The matter was therefore discussed again in the Executive Committee on September 6, the majority being in favor of a meeting to let Mr. McNamara know of the staff feelings on the re-organization and to invite him to address the Delegate Assembly on September 11 or some other convenient time.

3. The meeting accordingly took place in Mr. McNamara's office at 5:00 p.m. on September 8 and was attended by:

Mr. McNamara
Mr. Shoaib
Mr. Chadenet
Mr. Clarke
Mr. Kearns

Mr. Chaffey
Miss Kaplan
Mr. Elmendorf

4. By way of introduction Mr. McNamara asked Mr. Chaffey to express his views on the relationship so far between Management and the Staff Association. Mr. Chaffey said the Association had already built up a close relationship and rapport with the Personnel Department which was proving very beneficial to the Association. Mr. McNamara welcomed this statement, stressing the importance he attached to fostering a sound relationship on a solid basis, particularly since Management would need the help and advice of the Staff Association on many issues in the coming months and particularly on the results of the McKinsey Compensation Study.

/...

5. Mr. Chaffey then outlined the reasons for seeking the meeting. Originally the Association held the view that the organizational structure of the Bank Group is exclusively a Management concern and that the Association's role would be limited to consultation on such issues as the treatment of staff whose posts were abolished and did not find a place in the new organization. However, in the past week there was wide-spread and growing unhappiness and uncertainty on the part of the staff in general, which the Executive Committee felt it proper to bring to Mr. McNamara's attention. There was an opinion that the reorganization was being reached without proper staff work--although it was almost a month since the new organization had been announced, staff still did not know what their assignments would be. All this tended to lend credence to the feeling that Mr. McNamara did not care about individuals. Mr. Chaffey therefore invited Mr. McNamara to address the Delegate Assembly meeting on Monday.

6. Mr. McNamara acknowledged that a period of turbulence is understandable and indeed inevitable whilst the reorganization is being implemented. It has probably risen in particularly acute form in the past week since so many staff who will be affected have just returned from vacation. The problem is basically a lack of information and the consequent opportunity for rumor. Mr. McNamara amplified his belief that the reorganization is very much in the interests of the real purpose of the Bank Group and of the staff--once the present uncertainty is over all should begin to enjoy the longer term benefits. Nevertheless, he was vitally concerned to reduce to the minimum the period of uncertainty and turbulence. It was therefore agreed that:-

- (i) the assignments of the professional and special services staff would be announced by September 15;
- (ii) every attempt would be made to finalize and announce secretarial assignments by September 22;
- (iii) individuals who feel that their interests had not been given adequate consideration in the reorganization should feel free to talk with Messrs. Shoaib, Chadenet, Clarke or their Personnel Officer;
- (iv) there would be a further meeting on September ~~25~~ ^{19 or 20} ~~26~~ to review the position.

Mr. McNamara regretted that, due to a prior commitment which he could not break, he could not himself attend the Delegate Assembly meeting on September 11, but he asked Mr. Shoaib to do so in his place.

7. Mr. McNamara expressed his very great concern at the suggestion that he and his senior associates did not care about individuals, adding that he would indeed be shocked if such a feeling were wide-spread. On the other hand, he did not really think that making speeches to the staff or answering questions would help to eliminate such a feeling if it existed; rather, this must depend upon the record he builds up in office. He had felt that the

indications so far were favorable. No organization can achieve results without a highly motivated staff and this implies that people are treated equitably and their interests given great importance. The Bank Group had achieved remarkable results in recent years and this was coupled with a very low turnover rate and little difficulty in attracting recruits, particularly for the Young Professionals Program, although he conceded that recruits did not necessarily know what they were letting themselves in for. Mr. McNamara therefore expressed the hope that Mr. Chaffey and his associates would feel free to let him know at any time if he or top management were doing anything which the Association felt to be counter to the interests of the staff or not doing anything which they should be doing.

RAClarke:ss

792/1/94

Meeting to Discuss Mr. McNamara's Speech to the ECOSOC, September 12, 1972

Present: Messrs. McNamara, Knapp, Chenery, Demuth, Adler, Clark and Hoffman

The meeting discussed topics proposed by Mr. Demuth in draft paragraphs.

Internationally Supported Technological Research

Although the UNDP seemed reluctant to support it and did not have a program, it was likely that support could be enlisted from the United States, Canada and others and it was agreed that the speech would include reference to this topic based on Mr. Weiss's report.

The Bank's Economic Reporting System

This subject would be treated with special reference as to how the Bank's economic reporting fits in with the work of others. The Fund should be especially mentioned.

Periodic Reports on the State of Development

In view of the existence of the Committee on Development Planning and considering the danger of becoming constrained to the objectives of the Second Development Decade, it was agreed that there would be reference but no detailed proposal regarding a report on the state of development.

It was agreed that the speech would to some extent summarize Mr. McNamara's speech to the Governors at the Annual Meeting with some material from his speeches at UNCTAD and the UN Environment Conference earlier. Specific reference should be made at some point to the UNFPA. Mr. Demuth would be in charge of the preparation of a draft to be submitted to Mr. McNamara by October 2.

AL
September 15, 1972

President has seen

792/1/92

President's Council Luncheon to Discuss McKinsey Recommendations Regarding the Bank's Organization, July 31, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Broches, Chenery, Demuth, Rickett, Shoaib, Adler and Clark; Messrs. Bower, Rohrbacher and Garrity of McKinsey & Company

Mr. Bower said that the Bank was a clear case for reorganization, that the McKinsey team had received excellent support from Bank staff and the Steering Committee, but that the recommendations were McKinsey's own.

He said that the increasing size and complexity of the Bank's activity required a change in organization structure and management style to achieve decentralization, accountability and fulfillment of the Bank's objectives, which he mentioned as stated in the report. Interviews had shown, however, that the Bank's objectives are not fully understood on all levels.

McKinsey presents an "in principle" plan which is to be implemented over a longer time period and is unrelated to persons but possible to accomplish with existing staff.

McKinsey's core recommendation is a combination of Area and Projects Departments. There is certain to be a feeling among Projects staff that their role will be diminished. This feeling must be minimized by objective orientation about the advantages of the proposed solutions.

Mr. Rohrbacher of McKinsey gave an outline of the report and said that more detailed recommendations will be worked out subsequently. Work is continuing on job descriptions.

Mr. Garrity said that the Steering Committee had provided a wide specter of opinions and the team's visits to 11 countries had further increased their understanding of the Bank. Mr. Bower said that the titles used in organization charts are for communication only.

Mr. Clark asked whether in allocating activities under five regions the team had considered the role of Resident Missions. Mr. Bower said that several different solutions had been tried with three to five regions but that the specific role of Resident Missions had not yet been considered. Mr. McNamara underlined that this would be done at a later stage.

Mr. Chenery asked which regions would actually be considered. Mr. Rohrbacher said that Asia, Europe, Middle East and North Africa, East Africa, West Africa and Latin America were the preliminary choice of regions. But this would depend on a closer study of the personnel available.

Mr. Aldewereld pointed out that, in the merging of Area and Projects Departments, the distinction between Area and Projects is still retained within each new region. He was concerned that quality of project preparation may be adversely affected and that the cross-fertilization of the Area/Projects interplay would disappear. He thought it would be difficult to find a project manager for each of those sectors which would be allocated to regions. He therefore recommended that less than five regions be chosen.

Mr. Bower argued that the checks and balances system would remain in the proposed solution and Mr. Garrity said that the team had realized that it is not possible to merge Area and Projects down to the country level but the aim had been to go as low as possible.

Mr. Knapp agreed that the time is ripe for reorganization but felt that alternative solutions had not been discussed in sufficient detail. Further consideration should have been given to the extent to which operations could be improved merely through improvements in procedures while retaining Projects and Area Departments separate. In particular, the authority of Projects central management would be largely diluted. It is also important to assure even-handed treatment of borrowers and continuity of high-lending standards. He asked how this conclusion was reached. Mr. Aldewereld interjected that he would agree with the proposed solution if it were possible to find people of the quality of Mr. Knapp and present Projects Departments Directors for each region.

Mr. Bower said that merely shifting more authority to Area Departments, while retaining Projects Departments, would not fully accomplish delegation and accountability and would not achieve the amount of disruption which would be healthy at this point in time. Even-handed treatment now depends on channeling a great number of decisions through the Loan Committee. As a substitute, the new solution would provide for technical review by the Central Technical Staff and a system of checks and balances within the new regional units. He suggested that Mr. Knapp be provided with the previous reports of the group in order to appreciate the detail in which alternatives had been considered. Mr. Garrity added that too much control in the hands of Area Departments would erode the authority of projects specialists, while the proposed solution provided both for internal and external check on project quality.

Mr. Demuth said that control must come from within the regional departments and feared that going immediately to five regions would affect lending quality adversely and, therefore, proposed three regions. He agreed with the necessity to use disruption as a means to strengthen the organization.

Mr. Rohrbacher said that the studies already performed showed that a solution between three and five regions can be staffed with existing personnel.

Mr. Chenery attached great importance to integration of sector specialists in the economic structure but said that the report is weak both in arguing this point and in explaining how planning and policy formulation would be carried out. He maintained that the success of decentralization will largely depend on the quality of policy guidelines. He asked whether there would be one IDA budget for each region and finally suggested that there be only one region for Africa.

Mr. Bower conceded that the report is thin on guidelines and policy formulation. Mr. McNamara added that the question of policy should be addressed during the implementation phase and that the Bank would certainly need an organizational unit dealing with organization and procedures development.

Mr. Adler agreed with Mr. Chenery that the report is thin on policy formulation but disagreed that sectoral policy formulation should be placed in Economics structure. Mr. Bower agreed that the report should be clarified on this point.

Mr. Broches agreed with the principle of restructuring but agreed with Mr. Adler regarding the allocation of responsibility for formulating sector policy.

Mr. McNamara said that he would plan to call the PC to a meeting later in the same week when they would hear the Steering Committee's recommendations. The Senior Staff Meeting in mid-week would provide an opportunity for the McKinsey team to present their recommendations to senior staff, and finally on August 8 they would do the same to the Board.

AL
August 3, 1972

792/1/91

Senior Staff Meeting to Discuss McKinsey Recommendations on the Bank's Organization,
August 2, 1972

Mr. McNamara opened by explaining the purpose of the meeting. Mr. Shoaib introduced the McKinsey team and mentioned that a staff committee, a steering committee and Mr. Davidson Sommers had also been involved in the organization work.

Mr. Bower introduced with essentially the same words as at the PC meeting on July 31 and emphasized particularly the objective of the reorganization as being decentralization and accountability for results.

Mr. Shoaib presented the McKinsey recommendations, closely following the outline of the report submitted to the Bank's management. Before the meeting was opened to questions, Mr. Shoaib said that the report presents McKinsey's recommendations only and that this was the time for asking questions and challenging the report. Mr. McNamara outlined the sequence of events; the submission of McKinsey's report to the PC and the meeting which had been held, the Senior Staff Meeting, a staff committee report on its recommendations, a Board presentation by McKinsey and a decision by the Bank's management on the core organization.

Mr. Kamarck mentioned that the Bank's primary objective had been stated as the making of sound loans to help the development of member countries and that technical assistance towards development was only a secondary objective, in which case he suggested that loans be made to developed countries to maximize "soundness." Mr. Bower replied that it was not the intention. Development is the objective, loans are means to this end.

Mr. Hoffman asked whether in dividing the world into regions any consideration had been made of the country groupings within other international organizations. Mr. Rohrbacher said that such an attempt had been made.

Mr. Cargill asked why two regions had two assistant Vice Presidents for Program Operations while others had one. Mr. Rohrbacher replied that this was meant to illustrate possible variations.

Mr. Rotberg asked how the Area/Projects dialectic would be replaced by accountability. Mr. Rohrbacher said that this would be done through an intensified programming system and more detailed standards and guidelines. Mr. Bower emphasized that the dialectic would continue on the regional level.

Mr. Ballantine said that pragmatism had been the trademark of the Bank in the past. He questioned how policy could evolve out of operations in a regionalized organization. Mr. Rohrbacher said that there would be no separate policy-making which would be followed slavishly in practical operations. As in the past, policy must evolve through an interplay between operations and policy-making units, but there would be a more firm theoretical base for sector policy in the proposed organization. It was intended that policy planning staff would participate in some field work. Mr. Bower added that policy recommendations must be reviewed by operating units and, if there is disagreement, final decision must go to the President.

Mr. Benjenk said that he could see that accountability for results could be improved but he felt that delegation of decision-making would not be obviously achieved in the proposed solution. Some 60% of the Bank's staff would be responsible

to the senior Vice President for operations. Mr. Rohrbacher said that this would largely be achieved through a change in "management style" which was not apparent from the organization chart.

Mr. Muller said that accountability requires information and he queried the proposal on two points, first, the alienation between the researchers and the doers in the organization, a danger which he had seen in previous work in the Research Committee; second, how he questioned the cost and time necessary to achieve accountability and underlined especially the important changes in the data base which would be necessary. He also complained he had not been consulted by the working group on these subjects.

Mr. Nurick asked how special policy issues such as expropriation and procurement would be dealt with in the new organization and, second, how outdated manuals would be avoided. Mr. Rohrbacher said that policy will be made in other places apart from the units headed by the Senior Vice President in charge of Research and Policy Planning, but exactly how this would be conducted had not been considered. Mr. Stern testified to AID's dismal experience with extensive and useless manuals.

Mr. Baum underlined accountability as the most important objective but questioned whether the suggested structure below the Regional Vice Presidents would increase the accountability for results compared to the existing organization. Mr. Rohrbacher replied that this would be achieved largely through indoctrination of staff and more stringent work programs.

Mr. Fuchs asked which criteria had been used to establish which Projects Departments would be allocated to the regional units. Mr. Rohrbacher said the basis was the past and future work programs and time records kept by projects personnel.

Mr. Evans doubted that it would be possible to break down Projects staff into regions without losing flexibility and mentioned the example of the variety of specialists represented in his Department. Mr. Rohrbacher said that this had been taken into consideration but would be studied and decided in detail in the implementation phase. Mr. Garrity added that the group had studied the various skills necessary and available in the Bank and how they would be distributed among regions. Mr. McNamara interjected that the problem was that certain specialities were too scarce in the Bank to be able to fulfill the operating objectives.

Mr. Clarke asked about the number of staff and the change in specialties required under the new organization. Mr. Rohrbacher said that existing staff levels had been accepted and that career planning and staff development would be the responsibility of a Vice President.

Mr. Muller said that a "minimum critical mass" of people would be needed for each particular activity. Mr. Rohrbacher replied that the allocation between the Central Technical Group and the regions would take into account this criterion.

Mr. Lejeune asked how uniform standards and consistency of treatment would be ensured as between regions. Mr. Rohrbacher replied that control in the short run would be the responsibility of the SVP Operations and in the long run operations would be guided by more specific policy guidelines.

Mr. Glaessner pointed out that part of the Bank's strength lies in the world-wide experience of the staff. He asked what would happen to this cross-fertilization when its activities are regionalized. Mr. Rohrbacher said that he would expect that personnel would move between regions.

AL

August 3, 1972

OFFICE MEMORANDUM

7/2/1/90

TO: Files

DATE: July 20, 1972

FROM: D. S. Ballantine *DSB*SUBJECT: Visit to Mr. McNamara by Messrs. Paget and Kornfeld
of Cresap, McCormick & Paget - July 18, 1972

Mr. Paget explained the interest of Cresap, McCormick & Paget in the field of educational and health institutions which had broadened from an initial concern with financial aspects to the full range of management techniques. Some years back CMP had undertaken financial studies for five colleges, a program which was later picked up and financed by the Ford Foundation. At the same time a number of institutions had employed CMP directly.

7/21 Today 25% to 30% of CMP's practice is with educational and health institutions. Its advisory services have moved from the business side exclusively to all aspects of institutional life including curriculum reform, faculty organization, etc. Of its educational and health business, approximately 80% is domestic and 20% overseas, mostly with developing countries and mostly educational. Of this approximately 70% is higher education and 30% at the lower levels. A small portion has been total systems analysis as in its present work for Ethiopia. Another recent broader project was an undertaking for SEAMES, financed by AID, to determine the needs for training in management skills. CMP found this type of assignment - simply writing a report - unsatisfying and was looking for tasks which had an action follow-up.

A general discussion followed on the Bank's and CMP's interest in the educational field.

DSB:sfu

cc: Mr. McNamara

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President has seen

792/1/89

MEMORANDUM FOR THE RECORD

Meeting to Discuss Preferences in Procurement, July 7, 1972

Present: Messrs. McNamara, Knapp, Rickett, Stern, Chadenet, Baum, van der Tak

The various options were discussed for a revised recommendation in paragraph 57 of the Board paper on Preferential Tariffs and Bank Procurement.

It was agreed that Messrs. Baum and Stern continue to formulate the recommendation and show it to the Directors with a view to reaching a consensus. It would then be distributed to the Directors and voted upon.

AL
July 12, 1972

President has seen

MEMORANDUM FOR THE RECORD

792/1/88

Meeting to Discuss Board Presentation of the Paper on Preferences in Procurement,
July 5, 1972

Present: Messrs. McNamara, Knapp, Rickett, Cope, Stern, Baum, van der Tak

Mr. Knapp said that there had been no questions so far on how to treat indirect procurement. Mr. McNamara suggested that, if the question were raised, the paper's argument should be used that taking indirect procurement into account would be administratively too cumbersome.

A second major question was the treatment of common markets among developing countries. It was agreed that initially only the Central American Common Market would be treated as such, and only at borrower's request. If Board members exerted pressure to liberalize the definition of common markets, Mr. McNamara would suggest examining other cases as requests come up.

Mr. Knapp said that Mr. Rinnooy Kan had suggested excluding Finland and other more developed Bank borrowers, but that this proposal would be rejected.

In applying the paper's recommendations in combination with the 15% preference to local suppliers, the outcome of bidding could be different, depending on whether the main objective was to obtain lowest economic cost or to favor bids going to local suppliers. It was agreed to apply a two-stage process whereby first, a comparison be made among competing foreign suppliers and the successful bid, and thereafter the successful foreign bid be compared to the lowest local bid.

It was agreed that the arrangement among South Africa, Lesotho, Botswana and other countries would be treated as a special case.

Mr. Baum would introduce the paper at the Board Meeting.

AL
July 5, 1972

President has seen.

792/11/87

Mr. McNamara:

June 30, 1972

Meeting with Mr. Tornqvist on June 27, 1972

At his request, I met with Mr. Tornqvist to tell him of the main results of Mr. McNamara's discussions with the Swedish and Norwegian authorities on June 7 and 9, 1972. Mr. Tornqvist responded favorably to the agreements reached with the Norwegians and Swedes to explore further cooperation in research and financing and said he would follow these matters closely. He also promised to persuade the Swedish Central Bank to invest in World Bank two-year bonds.

Mr. Tornqvist favored the idea of a Part I Country meeting but, since he felt that the previous one had only been moderately productive, he proposed that the meeting be based on a Bank staff paper, and, in his drastic way, advocated a confrontation of views over the policies and future of IDA. He evidently feels this may clear the air and bring the parties closer together.

He also thought that the Part I Country meeting could usefully be preceded by a meeting between the representatives of the Nordic countries and the Bank's management. Such a meeting may be useful for several reasons: (my views)

1. to defuse plans to stage a confrontation in the Part I Country meeting;
2. to provide an opportunity for the Nordic countries to emphasize the differences they see between the Bank and IDA, and advocate changes in IDA policy; and
3. to introduce to Bank management Mr. Kastoft, presently head of DANIDA, and likely successor of Mr. Tornqvist.

AL

President has seen

792/1/86

Memorandum of Conversation

Participants: Henry E. Gonzalez, Chairman
Sub-Committee on International Financial Institutions
Kelsay Meek, Legislative Assistant to Mr. Gonzalez
Robert S. McNamara, President, IBRD
John E. Merriam, IBRD

Mr. McNamara's Dining Room, 8⁰⁰ p.m., June 27, 1972

After a lengthy and warm conversation on current American politics, discussion turned to problems of IDA and the Bank. Mr. Gonzalez said that he felt that an unfavorable tide was running against IFI's on Capitol Hill and that criticism by Passman and others would eventually do damage. He said that Congress had yet to digest the effects of \$1.6 billion MOV appropriations. Gonzalez said that now was the time to move against this tide, even if legislation was not before the Congress.

6/27
Mr. McNamara said that he knew the Chairman was concerned about the expropriations issue. Mr. Gonzalez said that he felt that the Congress had to take a policy position on this issue both to let Latin America know what U.S. policy should be and to make it possible to get last year's IFI legislation through. He said that he had been thinking about this problem for a long time and had decided that something more effective and less undiplomatic than the Hickenlooper amendment was needed. He described the history of the amendment and its relationship last year to the White House statement noting that he had been motivated to pursue the amendment in part because of strong Republican feelings in the Sub-Committee.

Mr. Gonzalez pointed out, and Mr. McNamara agreed, that his amendment was very similar to the stated policy of the World Bank and that there was ample room for the President to make a determination of reasonable progress

President has seen

toward settlement in expropriations cases. Mr. Gonzalez said that he thought that Latin American governments should be urged to seek arbitration.

Mr. McNamara pointed out that this was a very difficult problem and that most Latin nations were strongly opposed to this idea.

Mr. Gonzalez said that he had been told by the State Department that he was getting a bad name in Latin America. This didn't bother him, he said, since he regarded his position as far better than Hickenlooper's. In the course of this discussion Mr. McNamara went over a number of recent expropriations cases explaining their complexity and the problems involved in invoking the Bank's policy. Mr. Gonzalez acknowledged that the issue was complex and not subject to simple solutions.

After leaving Mr. McNamara, Mr. Gonzalez indicated that he would like to continue contact and was thinking (a) of a luncheon for his Sub-Committee at which members of the Foreign Affairs Committee and Appropriations Committee might be present together with Mr. McNamara; (b) a trip to visit Bank projects in Asia and (c) an information kit which would brief Sub-Committee members on all IFI activities.

Gonzalez indicated that he would speak with Treasury about getting Mahon's support for ratification of 3 IDA. He said Mahon treated his Sub-Committee Chairman as autonomous and would not fight Passman, but might be willing to give the Treasury his own word on finding of the first \$320 million. Gonzalez thought this might be sufficient.

MEMORANDUM FOR THE RECORD

792/1/85

Meetings to Discuss the Bank's Paper on Lending Rate, June 21 and 26, 1972

Present: Messrs. McNamara, Knapp, Chenery, Nurick, Adler and Blaxall

There was general agreement that the paper was unsatisfactory but views differed as to what factors were most important in determining investors' views of Bank bonds as instruments of investment and therefore as to what is the ideal capital structure, incomes policy and lending rate policy for the Bank.

In view of the short time available, Mr. McNamara suggested that the paper be amended to play down the role of the present formula for determining interest rate and avoid emphasis on any particular determining factor for the rating of the Bank's bonds.

It was agreed that a more sophisticated approach should be sought and Mr. McNamara asked Mr. Adler to discuss with him in mid-October how the next paper on the Bank's lending rate policy should be written.

At the later meeting the paper was edited for circulation.

AL
June 27, 1972

President has seen

792/1/84

Management Review of the Mining Sector Program Paper, June 5, 1972

Present: Messrs. McNamara, Knapp, Aldewereld, Chenery, Broches, Demuth, Gaud, Cope, Adler, Chadenet, Baum, Henderson, Fuchs, Hughes, Ozal, Bosson

Mr. Knapp said that the paper requires a great deal more work before it could be considered suitable for presentation to the Board, or even serve adequately for internal guidance. He added that while the paper covered the two extremes of a "spectrum," (i) the role played by the large multinational firm in the mineral sector; and (ii) the problem of helping the poorer countries to foster a mining industry, it has not covered, with sufficient depth, the relationship between the mining companies and the host governments, or the capacities of the developing countries to promote, manage and finance their mineral sectors.

Mr. Knapp added that he does not believe that the Mineral Development Fund proposed in paras 41 and 42 is a viable proposition and that the Bank should not consider segregating its funds for any purpose.

Mr. Chenery pointed out that one important function of the paper was to clarify internal policy, and that the paper had attempted to do this by putting forward several new ideas. He also noted that this paper has had one of the smoothest passages of all the sector papers at the technical levels of review, but agreed that management should have been forewarned of controversial issues raised by the paper.

Mr. Gaud explained that he had problems with Part D (Major Policy Issues for the Bank Group) of the paper, particularly the proposal to support national mineral exploration funds (para. 33) and suggested that it was more important for a country to have a suitable mining code than to participate directly in exploration. Mr. Gaud was opposed to the idea of a development tax and the proposal of a Mineral Development Fund stating that the host countries can share in the benefits of mineral exploitation through taxes, rent on infrastructure, secondary benefits, etc., and that the Bank Group's main concern should be merely to ensure that the country gets a fair deal. He added that Government participation in the ownership of a mineral venture was not necessary or even necessarily desirable.

Mr. Gaud suggested that before any further paper was prepared, the issues concerning Bank Group policy should be more fully identified and discussed at the senior management level.

Mr. Aldewereld suggested that whereas the mineral sector should be considered in two parts (1) the small mines; and (2) the large mines, with different calls on the Bank, the paper had treated both groups as one. He added that he did not see anything wrong with the paper raising the different issues in Part D for internal discussion, but had some doubts about how much should be retained for Board presentation. He also wondered whether a paper of such high sensitivity should be presented to the Board at all.

Mr. McNamara stated that the unsatisfactory nature of the Bank's past operations in the mineral sector had been pointed out in the paper, which, however, had failed--probably due to a lack of adequate expertise within the Bank--to put forward satisfactory proposals to correct the situation. Mr. McNamara therefore suggested that a new study be undertaken under the direction of Mr. Demuth. Any expertise required for the study but not available within the Bank Group may be obtained by engaging outside consultants. No time limit would be set on the study at this time, which would evaluate the sector on a country by country basis, with the objective of

identifying those countries (if any) for which Bank participation is important and necessary, and of formulating a suitable program for further Bank activity in the sector. Bank participation in the mineral sector would continue only if the study can show the need for such participation. Until the study is completed the Bank's operations in the sector are to continue as before, even if the program is heavily oriented towards Latin America.

Mr. Broches thought that in the past the umbrella effect on the Bank Group participation had importantly contributed to the individual projects, and particularly for the more recent projects the Bank had influenced the projects substantially. The situation has therefore not been as "bleak" as indicated by the paper.

Mr. Fuchs stressed the need to consider both the provision of technical and financial assistance jointly; without direct lending participation technical assistance was not likely to be successful. The meeting finished with some discussion on other minor points of the paper.

AL
(from notes by R. Bosson
and P.D. Henderson)
June 13, 1972