Folder Title: Records of President Robert S. McNamara President's Council minutes - Minutes 21

Folder ID: 1770834

Dates: 5/1/1980 - 12/31/1980

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President's Council Minutes
. May - Dec. 1980.

Folder ~~#~~ 21

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 21	1770834

Document Date	Document Type
May 21, 1980	Minutes

Correspondents / Participants

Subject / Title
Office of the President - President's Council Meeting, May 12, 1980.

Exception(s)
Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	27-Feb-17

822/8/2

OFFICE OF THE PRESIDENT

President's Council Meeting, May 19, 1980

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Bart, Chenery, Gabriel, Hopper, Husain, Nurick, Paijmans, Qureshi, Stern, Thahane, Wapenhans, Weiner, Thalwitz, JClarke, Mrs. Boskey

Brandt Commission Recommendation Number 3 Concerning Imposition of Political Conditions on Operations of Multilateral Financial Institutions

The meeting discussed the draft paper on the above Brandt Commission recommendation dated May 2, 1980.

Mr. Nurick commented that nationalization policies of governments should not be included in this paper. The Bank's policy on this issue had not been discussed by the EDs. Mr. McNamara commented that the Bank's policy was poorly formulated. Mr. Stern noted that the Bank's policy was a formula of maximum flexibility. Mr. McNamara said that whether, for example, China repaid the debt vis-a-vis British bondholders or not would have no impact on China's creditworthiness; thus, the Bank policy was very poor.

Mr. Qureshi said that the paper dealt with an area characterized by lack of clarity. His approach would be to deal only with those areas where the Bank had to respond to the Brandt Commission; such an approach would not deal with nationalization policies. He agreed that the Bank's policy on the subject was unclear.

Mr. Benjenk argued that the Bank had promised to deal with the 17 recommendations of the Brandt Commission relating to the Bank. In his view, there was no issue which had created so much bitterness in the past 30 years as nationalization. He admitted, however, that this had been much less the case over the last five years. Mr. McNamara agreed, particularly with the statement that there had been much less controversy over the last five years.

Mr. Thahane said that the emphasis of the Brandt Commission had been on maximizing resource transfer to LDCs; therefore, the Commission had dealt with those political conditions which impinged on that objective. If the paper dealt with the nationalization issue, EDs would try to get more precise instructions from their governments on the matter; this was not desirable.

Mr. McNamara concluded that the section dealing with nationalization policies should be taken out of the paper.

Mr. Stern questioned the paper's definition of what constituted a political condition. He said that the Bank as a very large institution would always be subject to political pressure. In his view, if an ED were instructed by his government to make a point--e.g., to vote against a loan which would finance the production of a commodity competing with his country's production of the same commodity--this should not be considered a political condition; however, if a government tied the provision of funds to the Bank to a condition--e.g., that the Bank not finance the production of a certain commodity--then this had to be considered an imposition of a political condition.

Mr. Qureshi argued that the question was where to draw the line; in many areas, political and economic conditions were intertwined closely, and it was therefore impossible to distinguish between them. The emphasis had to be on determining whether <u>primarily</u> political criteria were applied by a government; e.g., the tieing of the provision of funds to conditions limiting Bank country and commodity lending, the application of human rights criteria to the Bank, and the positions taken by certain governments on the issue of lending to Chile could be considered to constitute an imposition of political conditions.

Mr. Baum said that the more one tried to define a political condition the less clear the issue became.

Mr. McNamara emphasized that the Brandt Commission was right in pointing out that political conditions should not be imposed on the operations of IFIs. This was a serious problem and he frequently felt the pressures.

Mr. Benjenk agreed that the form of pressure exerted by governments was the important point. Whereas an ED's vote could be beaten, other forms of pressure were more worrisome and could come close to outright sanctions.

Mr. Stern said that management had to be clear about the objective of the paper. The Brandt Commission had emphasized that the question of how members saw the Bank was an acute issue. The paper as it stood would not be successful in sensitizing governments to the problem. At the outset the paper would have to make the point that the Bank could only survive if it were seen as unpolitical; only then should the paper deal with the specific points.

In response to a point made by Mr. Nurick, Mr. Baum said that the positions taken by the U.S. on compensation and travel were foremost in the minds of the staff in the context of political conditions imposed on the Bank and it should therefore be dealt with by the paper. Mr. McNamara disagreed; the Brandt Commission had thought of issues such as human rights and commodity restrictions and not of travel and compensation. Also, governments' attempts to influence Bank staff decisions should not be dealt with by the paper.

Mr. McNamara concluded that the paper should not focus on specific instructions of governments to EDs, but rather on conditions attached to the provision of funds. As Mr. Stern had suggested, the paper should first make the more general points. He asked Mr. Benjenk to redraft the paper and bring it back to the PC for approval.

China's GNP Per Capita

Mr. McNamara said that he disagreed with the recommendation contained in a note sent to him, namely, to use the official PRC figure of a GNP per capita of $230 for the WDR and WDI. This figure understated China's purchasing power. He suggested an estimate of about $275 with a footnote that this was not the official PRC figure. Mr. Chenery explained that an AEA group, applying the Kravis methodology and analyzing about 100 commodities, had reached the conclusion that the PRC's GNP per capita was at the level of The Philippines. However, the Bank did very few adjustments of the figures provided by governments, except for some exchange rate corrections. He mentioned that the CIA estimate put China's GNP per capita at about $400. Mr. McNamara replied that the CIA was clearly wrong. Mr. Husain agreed that the Bank should use an estimate of about $275. Mr. McNamara asked Messrs. Stern, Chenery and Husain to consider the issue further.

Quarterly Review of Economic Trends

Mr. McNamara suggested discussing the DPS Quarterly Review of Economic Trends every three months in the PC. The April report would be scheduled for PC discussion two weeks from today. The PC should consider whether the report should be discussed by the Board on a quarterly basis and be released to the public. In his view, the text of the review could be further sharpened.

Brandt Commission Meeting on Holland

Mr. Stern reported on his participation in the final meeting of the Brandt Commission in Holland last week. Dutch public reaction to the report was most impressive; the book was available in all book stores and was a best seller. Every aspect of the country's political life had been pulled into the discussion. At the meeting, Ted Heath and Minister de Koning had given excellent speeches on the required program of action. However, the follow-up discussion had been fairly weak. As to the possibility of convening a mini-summit to consider the recommendations of the Report, there seemed to be no clarity yet. The recommendations of the Brandt Commission would be put on the agenda of the various forthcoming summit meetings, e.g., in Venice. The Dutch Government would finance a follow-up bureau for the Brandt Commission.

Mr. McNamara asked Mr. Benjenk to call Mr. Pronk in a week to discuss the so far disappointing results of efforts to distribute the Report widely in a large number of countries. The Bank had a list of 80,000 potentially interested individuals; each of them should get a free copy.

Mr. Benjenk mentioned that, while 60,000 copies of the Report had been sold in the UK, less than 10,000 had been sold in the U.S.

WDR III

Mr. Chenery said that Part II of the WDR III had just been distributed to PC members. Part I would be distributed later this week. Mr. McNamara urged that the PC members read the report carefully and give their comments to Mr. Chenery.

CKW
May 28, 1980

OFFICE OF THE PRESIDENT

822/8/3

President's Council Meeting, May 27, 1980

Present: Messrs. McNamara, Barletta, van der Tak, Benjenk, Chaufournier, Waide, Gabriel, Hopper, Kirmani, Nurick, Paijmans, Qureshi, Rotberg, Stern, Kraske, Kapur, Thahane, Thalwitz

The meeting discussed the revised draft of the paper on Brandt Commission Recommendation Number 3 Concerning Imposition of Political Conditions on Operations of Multilateral Financial Institutions, dated May 19, 1980.

Mr. Benjenk summarized that the revisions included (a) deletion of the section dealing with instructions by governments to the EDs as a form of imposing political conditions, (b) deletion of the section on nationalization policies, and (c) presentation of some of the main conclusions at the beginning of the paper rather than at the end.

Mr. Qureshi commented that the paper's critical statements were tilted almost entirely at the U.S.; as a result, the paper reflected that the fact that other countries also took political positions (e.g., Iraq in the case of Egypt) did not disturb the Bank. Mr. Thahane agreed with Mr. Qureshi's comment and suggested shortening the statements on human rights as well as commodity and country restrictions.

Mr. Hopper said that he liked the paper as it stood. One could eliminate the U.S. tilt by not explicitly referring to "one country's legislation." Messrs. McNamara and Stern agreed with Mr. Hopper. Mr. McNamara emphasized that U.S. political pressures had caused serious problems and the paper should reflect that.

Mr. Nurick suggested deleting the last part of paragraph 4 in order not to create the impression that loan covenants were political. The meeting agreed.

Mr. Paijmans argued that paragraph 6, listing the Brandt Commission's concerns with regard to imposition of political conditions, should also mention the interference of governments in Bank compensation policies. Mr. McNamara disagreed; these were not political conditions under the definition of the Brandt Commission.

Mr. McNamara concluded that the paper should be revised to (a) take account of Mr. Nurick's comment on paragraph 4, (b) "thicken up" the points relating to countries other than the U.S., and (c) take account of the simple drafting change suggested by Mr. Hopper.

CKW
June 2, 1980

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 21	1770834

Document Date	Document Type
June 3, 1980	Minutes

Correspondents / Participants

Subject / Title

Office of the President - President's Council Meeting, June 2, 1980.

Exception(s)

Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	27-Feb-17

OFFICE OF THE PRESIDENT

822/8/5

President's Council Meeting, June 9, 1980

Present: Messrs. McNamara, Barletta, Baum, Chadenet, Karaosmanoglu, Chenery, Gabriel, Picciotto, Husain, Nurick, Paijmans, McClure, Rotberg, Stern, Thahane, Gue, Kapur, Thalwitz, Mrs. Boskey

Mr. McNamara's Resignation

Mr. McNamara informed the PC that he had just met with the Executive Directors to announce that he would retire a year from now and to suggest setting up a search committee to deal with the succession. The EDs had asked that he reconsider but he was not planning to do so. The Decade of the 80s would be a period of great change and the Bank would be well-served by having a new President a year from now, hopefully to direct the institution through that entire period. He had no plans regarding his future but he would certainly "not sit by the road to see the world go by." He would be available for assignments by the Bank. An announcement to the staff and the press would be issued this morning.

Denomination of IDA Commitments and SDRs

The meeting briefly discussed and approved the Board paper on the Denomination of IDA Commitments in SDRs.

Lending Rate

Mr. McNamara pointed to the extremely volative financial markets and said that, in applying the formula, the Bank's lending rate would have to be increased to 9.41% effective July 1. However, since this would constitute a rather large increase from the present 8.25% level, he suggested recommending to the Board that the rate be raised now to 9.25%; a further review would take place before October 1. If at that point costs were as now projected for the next six months, it was likely that the rate would go to 9.60% or 9.75% by January 1.

Mr. Gabriel pointed to the fact that P&B's latest calculations over the weekend indicated that the lending rate should be set at 9.35%. He would still recommend a phased approach but questioned whether the rate should now be set at 9.25%. Mr. McNamara asked Mr. Gabriel to send him the latest figures.

The PC agreed that management should not slavishly follow the formula and should adopt a phased approach.

Board Ad Hoc Committee

Mr. McNamara asked Mr. Stern to discuss Mr. Thahane's paper first with the OVPs and then bring the issue before the PC.

China's Request for a Special Capital Increase

Mr. McNamara said that the PRC had now formally requested a special increase to take effect before the October elections to the Board. It was the Government's view that China's share should be between India's and Japan's The Bank had responded that the Fund would have to take action on the quota increase first and that such a special capital subscription required a 75% Board vote on increasing the authorized stock. He asked Mr. Thahane to inform the Board of the request.

CKW
June 23, 1980

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 21	1770834

Document Date	Document Type
July 1, 1980	Minutes

Correspondents / Participants

Subject / Title

Office of the President - President's Council Meeting, June 16, 1980.

Exception(s)

Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	27-Feb-17

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 21	1770834

Document Date	Document Type
July 8, 1980	Minutes

Correspondents / Participants

Subject / Title

Office of the President - President's Council Meeting, June 30, 1980.

Exception(s)

Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	27-Feb-17

OFFICE OF THE PRESIDENT

822/8/8

President's Council Meeting, July 7, 1980

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Knox, Chenery, Baneth, Picciotto, Husain, Golsong, Paijmans, Qureshi, Rotberg, Stern, Thahane, Wapenhans, Weiner, de la Renaudiere

Use of Bank Income

Mr. Qureshi reported that the paper on Use of Bank Income, to be issued to the Board shortly, would propose transferring only $100 million to IDA this year. This decision had to be seen in light of the new emerging claims on Bank resources; first, structural adjustment lending had so far been fitted into existing programs, but would claim additional resources in the future. Second, the change of representation of China in the Bank would eventually lead to substantially increased lending requirements. Third, energy exploration and development, possibly the creation of an energy affiliate as recommended by the Venice Summit, would require additional lending. All these claims had to be seen against the background of higher than expected inflation rates; the Bank adhered very closely in nominal terms to the lending targets planned in 1977. For the future, Bank reserves had to be strengthened. Also, if the Bank's capital structure were to be modified at some future date, management had to ensure that the paid-in portion of the capital base was large. However, in view of certain IDA donors' expectations and the fact that a part of IDA transfers was already committed to the Bank's contribution to the funding of the onchocerciasis program and CGIAR, it had been decided not to recommend a zero transfer of IBRD profits to IDA. Mr. McNamara added that roughly $18 million of IDA transfers were committed to funding of CGIAR and the River Blindness program.

Mr. Benjenk pointed to the fact that China, energy and structural adjustment lending were also reasons for increasing IDA lending. Mr. McNamara replied that these additional demands on IDA had to be met from a reallocation of IDA funds from countries with improved IBRD creditworthiness, such as Indonesia, to the poorest countries. Management deliberately had not yet analyzed the creditworthiness of the IDA countries concerned because this would be a very controversial issue.

Mr. Wapenhans expressed his dismay at the decision to limit this year's transfer to IDA to $100 million; Africa badly needed all the IDA funds it could get. Mr. McNamara argued that $100 million was not a large amount in the context of a $12 billion IDA VI replenishment. The issue to be addressed was whether more lending could be obtained from the poor countries by leveraging up IBRD or by transferring money into IDA. The issue of how to leverage up IBRD had not yet been properly addressed.

Board Discussion of FY81 Financial and Operating Programs

Mr. McNamara reported that at last week's Board discussion of the FY81 Financial and Operating Programs agreement had been reached on

(a) the program and budget as presented;

(b) the fact that the program failed to take into account four events which had occurred since the program had been planned in 1977, namely, that (i) the Bank had adhered to the 1977 plan despite a higher than expected inflation rate, resulting in the fact that the present 5% real growth plan is on a base which is much lower than originally expected; (ii) China had entered the Bank and, once the Government would have sorted out its political and economic problems, the country would need to obtain some part of the required substantial external flows from the IFIs; (iii) it was proposed to increase the energy program from $15 billion to $25 billion; and (iv) the intermediation of flows through structural adjustment lending might require $1-$1.25 billion additional lending per year; and

(c) in the future to carry out a policy review by the Board in time for affecting next year's program, e.g., on the allocation of lending by country income groups, sectors and geographic areas; related to this issue, there had been requests by a number of EDs to establish a Board budget committee.

Mr. McNamara said that his Governors' speech would deal with the issues under (b) above. He would have a draft distributed to the PC around July 20-25 and would need the PC members' comments by early August in order to finalize the speech by August 15. In his view, the Bank needed a strong equity base for the coming years. It would be difficult to obtain OPEC equity money for the proposed energy affiliate; IBRD profits could of course be one source of funding the equity of this new organization.

With regard to the Board budget committee proposal, Mr. McNamara asked Mr. Golsong to check on the role of management vis-a-vis the Board as defined by the Articles of Agreement. The intention of the Articles was that operations were the responsiblity of management and policy the responsibility of the Board. A budget committee would lie in between and there was the risk that such a committee would become increasingly involved in recommendations of management to the Board.

Mr. Benjenk said that one way of avoiding the establishment of such a committee would be to emphasize further Board seminars on the operating programs and budgets, possibly to be held earlier in the calendar year. Mr. McNamara said that these seminars should not be conducted before management had submitted its proposal to the Board.

Finally, Mr. McNamara mentioned that two points would need future attention: (i) relaxation of lending terms as a substitute for increased lending, and (ii) the drawing forward to the next few years IBRD lending which under present plans would take place in later years.

Borrowing

At this point, Mr. McNamara had to leave the PC meeting; before he left, he asked Mr. Rotberg to report briefly on the FY81 borrowing program and he asked Mr. Cargill to make the announcement which he (Mr. Cargill) intended to make to the PC.

Mr. Rotberg reported that the borrowing program for FY81 was $6.5 billion and that he had so far borrowed about $1 billion at a cost of 8.9%. He estimated that another $1-$1.5 billion of the remaining $5.5 billion program would be borrowed in U.S. dollars. The cost of U.S. borrowing was now estimated to be about 100 basis points higher than planned, i.e., the Bank would have to do one-fifth of its borrowing at about 11.25%. This raised the total borrowing program cost to about 9%. He was presently trying to do as much borrowing as possible in deutschmarks and Swiss francs. In sum, the cost of the Bank's borrowing program was now projected to be about 25 basis points higher than originally planned.

Mr. Qureshi explained that, as the U.S. moved into an election year, the market reacted to the fact that the Government was loosening up its credit controls and was considering a tax cut. In other words, the market now expected higher inflation rates than some time ago.

Mr. Rotberg said that, after this year, the Bank would not have the flexibility any more of looking at break-even points, because it would have to borrow $8 billion next year.

Mr. Cargill's Retirement

Mr. Cargill said that he would like to make a brief personal statement. As the PC was aware, he would reach retirement age around October 1, 1980; however, he had decided to retire a week from today. He left with regret and was grateful to all his colleagues for having worked with him so cordially during the last 28 years.

CKW
July 8, 1980

Record Removal Notice

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 21	1770834

Document Date	Document Type
August 14, 1980	Minutes

Correspondents / Participants

Subject / Title

Office of the President - President's Council Meeting, July 28, 1980.

Exception(s)

Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	27-Feb-17

Record Removal Notice

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 21	1770834

Document Date	Document Type
October 2, 1980	Minutes

Correspondents / Participants

Subject / Title

Office of the President - President's Council Meeting, September 8, 1980.

Exception(s)

Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	27-Feb-17

OFFICE OF THE PRESIDENT

822/8/11

President's Council Meeting, September 15, 1980

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chadenet, Chaufournier, Gabriel, Chang, Hopper, Husain, Nurick, Paijmans, Qureshi, Hittmair, Stern, Thahane, Wapenhans, Weiner, Thalwitz, Waide, Knox, Golsong, Sommers

FY80 Merit Review

The meeting discussed the paper on the results of the FY80 merit review, dated July 25, 1980.

Mr. Paijmans explained that the Bank presently had two different systems: the Anniversary Evaluation and the Yearly Merit Increase Review. Work on improving the first system was presently underway. In early 1981, proposals for also changing the merit review systems would be put forward. However, some anomalies of the present system should be discussed now; e.g., the "close to the throne syndrome," consistently high above norm increases for certain functions, the lack of uniformity in how promotions during the year are taken into account in establishing merit increases, and the sharply divergent merit increase profiles among units.

Mr. McNamara said that merit review action during the next 3-4 months would have to be carried out according to last year's guidelines; there was no time to change the guidelines now.

10/28

Mr. Wapenhans made the following points: (a) the merit review was overwhelmed by the general salary increases, and (b) evaluation at the same time for all staff tended to emphasize equity more than individual performance. Mr. Husain said that an alternative would be to examine whether the annual performance review of an individual and his merit increase could not coincide.

Mr. Baum pointed to the problem of how to treat individuals who had been promoted during the year.

Mr. Hopper enquired why the norm increase had to be announced to staff. The Bank was the only institution which followed that practice.

Mr. McNamara said that there were clearly signs of weakness in the Bank's present merit review system. Increases had become near automatic. The system led to a rising average salary in real terms which constituted a serious problem. As a result, staff turnover was very low, which in turn led to an aging staff. He concluded that major changes in the system would have to await the results of Mr. Paijman's over-all policy review.

Committee Structure

Mr. McNamara said that the Bank was now close to a stable position in terms of its senior officer structure. This structure had to be supplemented with an improved committee structure. The President's Council was clearly too large a forum. A top policy committee with smaller membership for senior level discussions was needed. One suggestion was to create a Policy Committee with variable membership, i.e., with 4-5 permanent members and additional "subject membership."

Mr. Nurick commented that, in his mind, there was no alternative to the creation of such a group. Recent experience, for example, with the Finance Committee indicated that these meetings suffered from a lack of preparation. Mr. McNamara agreed. There was a lack of regularity and a lack of orderly preparation. Mr. Nurick added that the institution of such a smaller policy committee would of course make some people feel that they were left out.

Mr. Baum agreed that the PC was too large a group for being an effective decision-making body; however, a smaller group would have the problem that it did not represent all the different constituencies which present PC members represented. Thus, there was the trade-off between improving decision-making and maintaining proper representation of constituencies.

Mr. Chaufournier said that senior management had to tap the considerable expertise represented by the Bank's staff by selecting committee members who ensured proper representation. Mr. Husain agreed with Mr. Chaufournier. The problem of leaving entire groups (e.g., the RVPs) out should be avoided. The solution could be to introduce rotational assignments of OVPs to such a senior committee.

Mr. Thahane, while agreeing that there was a need for restructuring the present committees, pointed to the problem that OVPs frequently were not sufficiently involved. It was important to form a consensus of PC members on policy decisions reached in order to disseminate an understanding to the lower levels of staff.

Mr. Waide said that a senior management committee should probably have a strong secretariat because issues overlapped.

In concluding the discussion, Mr. McNamara suggested having another collective discussion in the future. In the meantime, he would consult with PC members individually. He did not want to act precipitously but soon.

PC Meeting During the Annual Meeting

Mr. McNamara said that a PC meeting during the Annual Meeting would be held at 6:30 p.m. on Wednesday, October 1, in order to consider the points to be made in his final statement.

Status of Women Working Group

Mr. Paijmans reported on Mr. McNamara's meeting with the Status of Women Working Group. The SWWG had emphasized the need for a policy statement from the President on women participation in the Bank and for increased efforts on recruitment. The Bank was still seen as a male-dominated institution. The Group had shown considerable interest in the Bank's work on the role of women in development and had suggested that more in-house work on these issues be conducted. The meeting had been productive and had been characterized by a good tone. He pointed to the differences of managers' behavior among different parts of the Bank; some Departments had clearly acted more vigorously on increasing women's participation.

Mr. McNamara said that he saw no excuse for the poor Bank Group performance in some areas. Three different areas of action had to be distinguished; (a) recruitment, (b) career development of female Bank staff, and (c) development of women in LDCs. As to the last, the SWWG had argued that the relevance of Bank projects for women should be increased by having these projects designed by women. Here the Group was clearly wrong. He asked Mr. Paijmans to arrange periodically for PC discussion of these issues.

CKW
October 7, 1980

OFFICE OF THE PRESIDENT

922/8/12

President's Council Meeting, September 22, 1980

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chadenet, Chaufournier, Chenery, Gabriel, Chang, Hopper, Husain, Knox, Nurick, Paijmans, Hittmair, Stern, Wapenhans, Weiner

PLO

Mr. McNamara briefed the participants on the latest developments regarding the PLO issue. The deadline for the returns of the mail vote on Section 5(b) of the By-Laws was last Friday at 6:00 p.m. On Friday evening, the Board met informally and was informed that (a) a quorum had been met (that is, at least 68 countries had replied); and (b) the results of the vote were in favor of the resolution. Efforts to reach a compromise are still underway. A compromise between the two major parties is still badly needed since, irrespective of which party loses, the other party wants to put the issue on the agenda for the opening day of the Annual Meeting. This could lead to a very acrimonious debate. An element of compromise would be to minimize the embarrassment to all parties. Many countries do not want it to be known whether and how they voted.

Mr. McNamara informed the participants on an amendment to the IMF Bill which was approved by the House of Representatives with a vote of 386 to 2. The amendment stipulates that the PLO should not be given observer status to the Fund and that, in the case that it obtained such status, this would result in a serious diminution of U.S. support to the Fund. Mr. McNamara added that the Bank Bill would probably be deferred.

Mr. McNamara said that he had released only part of the information to the Board and that at this point neither he nor the Board wished to make public the information on which countries had voted. He added that the Bank had gone further than the Fund where management did not release anything to the Board on Friday; he did not know when the Fund would release the results of the vote. He finally urged that the whole matter not be discussed outside the room.

M'Biye Case

Mr. McNamara said that he had read the Washington Post on Saturday regarding the story of the Zairian individual who had been able to pass himself fraudulently as an IFC consultant for several months. He said that this was a very serious case and that several important people had called him on Saturday on this matter.

Mr. McNamara said that: (a) the matter should be fully investigated in order to find out what exactly had happened; (b) some control procedures should be introduced; and (c) procedures for informing senior management in such cases should also be established. On the last point, he said that he found it amazing that this case had been known for weeks by many Bank people but senior management had not been informed. He added that staff should not be allowed to talk to the press. Mr. Paijmans provided some additional background information on what had happened. Mr. Benjenk said that he had not been aware that other Bank staff had known about the case for some weeks. He further said that IFC is relatively autonomous. Mr. McNamara concluded by reaffirming that procedures both on control and information need to be tightened.

Work Schedule on Increase in Lending Program

Mr. McNamara reminded the meeting that documents were to be presented to the Board on: (a) expanding the lending program (November 1, 1980); and (b) means of financing this expansion (December 1, 1980). These documents should be the basis for the preparation of the five-year program, to be submitted to the Board in mid-May for discussion in mid-June. Mr. McNamara emphasized that there are some delicate issues which had to be addressed; for example, since a scarcity of IDA funds is likely, there may be the need to shift countries from IDA to IBRD funds.

Board Committee on Staff Compensation: Interim Adjustment

Mr. Paijmans informed the PC on the meeting of the Ad Hoc Committee of EDs on Compensation which took place on Friday, September 19, 1980. Committee members are: Messrs. Drake, C.King, Kurth, Madinga, Mentre, Razafindrabe, Syeduz-Zaman, and Sola. The Committee met with Mr. McNamara to discuss a possible interim salary adjustment. Mr. McNamara had informed the Committee that the Staff Association had approached management with a request for an interim salary adjustment. Management had explained to Staff Association that no decision could be made on this issue before the Annual Meeting.

Mr. McNamara closed the meeting by saying he had just received a cable from Mr. Jamal requesting that, since the PLO was not invited, no other observers should be invited to the Annual Meeting.

OL
September 27, 1980

OFFICE OF THE PRESIDENT

822/8/13

President's Council Meeting, October 1, 1980

Present: Messrs. McNamara, Barletta, van der Tak, Benjenk, Chaufournier, Chenery, Gabriel, Hattori, Hopper, Husain, Knox, Paijmans, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Maddux

Mr. McNamara said that the statement should reflect the general agreement concerning the analysis of current problems of financial assistance to the developing countries. Current account deficits of these countries are now huge and they cannot be financed without greater intermediation of the Bank and the Fund. They should, however, be financed within the financial constraints of OECD countries. The need to expand the Bank's lending program is indisputable given: (a) China's membership in the Bank; (b) a higher-than-anticipated inflation rate; (c) the larger-than-anticipated current account deficits in oil-importing developing countries; and (d) the increased requirements for financing energy development. As a result, there is an increasing acceptance that the current lending program is inadequate, with a corresponding wide-spread support for an expansion of this lending program. Mr. McNamara said that the support received comes from Arab countries, oil-importing developing countries and OECD countries. Agreements must be reached, however, on the means to finance this expansion, including the possibility of establishing an energy affiliate. The intention now is to bring to the Board a series of papers before Spring 1981 for the preparation of the five-year lending program, the means of financing it, and the proposed budget and administrative program attached to it. These would be presented to the Board in May for discussion and decision in June.

Mr. McNamara suggested that Mr. Maddux make use of relevant sections of the written version of his annual address to the Board of Governors (especially pages 27/28, 31/32, and 35).

Mr. McNamara then commented that some people may think that the Bank is pessimistic in its over-all assessment of the world economic situation. He said, however, that, in case the Bank is wrong in its assessment, it would cost little to prepare fully in anticipation of what may develop. On the contrary, it would be extremely costly not to be prepared with contingency plans if the Bank assessment is correct.

Mr. McNamara concluded by recommending to Mr. Maddux a draft of not more than three double-spaced pages. He said he would not be inclined to put in the draft more than what he mentioned earlier.

OL
October 14, 1980

OFFICE OF THE PRESIDENT

822/8/14

President's Council Meeting, October 6, 1980

Present: Messrs. McNamara, Lerdau, Baum, Benjenk, Chaufournier, Chenery, Gabriel, Golsong, Hattori, Hopper, Husain, Knox, Paijmans, Qureshi, Hittmair, Stern, Thahane, Wapenhans, Weiner

Administrative Tribunal

Mr. Golsong reported on the latest developments regarding the initial work of the Administrative Tribunal. In his remarks, he included the results of an informal meeting which he had had with the members of the Tribunal. He said that, on last Monday, September 29, which was the deadline for staff to complete the forms of intervention, they had selected the first six "representative" cases of the 875 cases filed under the tax reimbursement and compensation claims. The reply by the Bank to the six cases is to be filed with the Tribunal by December 10. There were originally some 1,500 cases sponsored by the Staff Association, and it is clear that it would be impossible for the Tribunal to deal with them. The issue therefore is whether the cases should be dealt with on the basis of individual facts or on general principles. In any case, information on individual facts is needed.

The right of intervention could be operated at any time. Mr. Golsong said that he had agreed for each applicant to complete the simplified application form until December 1, 1980. He further said that a mechanism would need to be worked out to check personnel files for this purpose. In particular, one of the implications of the process may be the need to disclose the exchange of letters between the Bank and the candidate at the time of application for employment.

Mr. Golsong added that the Bank's intention is for oral pleading to take place as early as possible. The initial intention of the Tribunal members, however, was to meet in March in Paris to review the various written memoranda on the cases and then to meet in June for the oral pleadings. He then explained that he had conveyed the message to the Tribunal members that such a procedure would be very expensive and would go counter to normal procedures. He said that oral pleadings could take place in March in Washington. Mr. David Morse (of Surrey and Morse) would present the oral pleadings on behalf of staff.

Mr. Golsong emphasized that there was no clear indication about the grounds on which the Tribunal members would base their judgment. If they would grant judgment in favor of the applicants on general principles rather than on individual cases, then their rulings would have to be extended to all staff members whether or not they have filed cases with the Tribunal.

PLO

At Mr. McNamara's request, Mr. Thahane presented a summary of the developments on this issue over the last few weeks. He started by explaining that on September 19 a resolution had been adopted by the Board of Governors, through a mail vote, for the review of the scope of Section 5(b) of the By-Laws calling for amendment by March 1981. At the time of the Annual Meeting, representatives of Arab countries had prepared a memorandum entitled "Legal Issues Arising from the PLO Application." During the Annual Meeting, it was agreed that the issue would be dealt with in the Joint Procedures Committee. In the Committee, the Arab representative presented a resolution with respect to their memorandum. The resolution finally agreed on called for the establishment of a new Committee of Governors with the same members as the Committee established in Belgrade with the addition of Sweden. The Chairman of the Committee is Mr. Muldoon and the voting will be one country-one vote with the Chairman having the right to vote in case of a tie. The Terms of Reference of the Committee include taking a look at the legal issues arising from the actions taken by management and by the Board. Four main issues are to be dealt with regarding actions which have been taken since July 25, 1980: (a) decision to send a resolution to the Board of Governors; (b) decision to extend the voting period; (c) decision to count all replies for the determination of a quorum; and (d) adoption of the resolution on September 19.

There is general agreement that the end result of the work of the Committee should not be to undo what has been decided thus far, but rather to be prospective looking. Focus will be on a review of possible recommendation for modification of existing procedures. The Arabs wanted a decision to be applied retroactively but this was not accepted.

It was further agreed that representation in the Committee would involve the Governors themselves or their designated legal representatives. The Governors can have a legal adviser, but the actual work is to be done by them. The Committee would be expected to meet twice, the first time in Singapore in December.

Mr. McNamara intervened to comment that it would be very difficult to gather the Governors in Singapore. He added that it is indispensable to have the same people in the two meetings. Mr. Thahane said that it had to be the Governors who should meet and that Mr. Muldoon would put pressure on them to ensure that they would attend the meeting. Mr. McNamara repeated that he disagreed with the idea of meeting in Singapore and commented that the present situation would not have existed in the first place if the first Muldoon Committee created in Belgrade had functioned properly. Mr. Thahane explained that he was scheduled to meet Mr. Muldoon next week and that he would emphasize again that it should be the same people who should attend both meetings. The second meeting is scheduled for the end of January. The Committee would then conclude its work and present a report which would be sent to the Board. The Board would have to reach a decision by March 31, 1981. Mr. Thahane said that there had already been a meeting of the two secretaries and legal counsels of the Bank and the Fund to prepare the relevant documentation for the work of the Committee. Mr. Thahane added that he and Mr. Golsong felt that the two institutions should not appear as being on the defensive. The Chairman of the Committee should take the initiative in issuing instructions to the Committee members. He finally said that the Bank and the Fund would have to bear the financial cost of the functioning of the Committee.

Mr. Golsong commented that the whole issue had become very serious and highly political. He explained that in the Joint Procedures Committee there had been no discussion to change one sentence relating to the proposed Terms of Reference of the Committee of Governors to the effect that it should consider the issue of interpretation of the By-Laws "and other matters." In effect, the Committee should consider the questions raised in Mr. El-Naggar's memorandum. Mr. Golsong expressed further concern that the outcome of the proposed meetings will be to cast serious doubts on what happened. He also said that it was obvious that representatives of the EEC countries in the JPC had instructions to be as low-key as possible on this issue.

Mr. Benjenk expressed his feeling that there was some measure of reconciliation between the Arabs and the U.S. He felt that the compromise which had been found did not include the Bank. On the other hand, the issue of an enquiry into the Bank can do the Bank no good since the Arabs may be able to establish a precedent in pushing for such an enquiry. He felt that in the end the U.S. had come out reasonably well from all of this. Mr. McNamara strongly disagreed with Mr. Benjenk's views. He said that there had been no reconciliation and that the U.S., largely because of weak representation, had lost on technical grounds.

Turning to the issue of the UN as a forum for dealing with problems of this nature, Mr. McNamara observed that the UN had accomplished very little in the last 10 years, except providing exposure to a small number of important issues, e.g., environment, population and food. The main reason for such limited results, he argued, is the inappropriate governing structure of the UN. On the contrary the Specialized Agencies (Bank and Fund) have a narrow function which, in the case of the Bank, is to raise money, and the present structure of the Bank is what is needed to perform this function. The danger is that there are now pressures to change this structure. He then pointed to the fact that the management of the Bank was not responsible for what had happened. The Board of Governors, not management, had passed the resolution.

Mr. Golsong agreed, emphasizing that the Bank record on what had happened was absolutely correct. The main issue now is that this problem puts the Bank at a turning point, where it is not essential to look back but rather to prepare for the future.

Mr. Thahane stressed that the real objective is to get participation of the developing countries in the decision working structure of the institutions. This is at least the way most Governors look at the problem, although Mr. El-Naggar and a few others may have been driven by vindication. Mr. McNamara commented on this, arguing that what people say about Bank management is immaterial. He said that he obviously favored an increase in the participation of Part II countries. The real issue, however, is that it is impossible to obtain money from those who do not want to give it. He added that Bank management had had a successful record of obtaining money for 30 odd years. In fact, in his view, apart from the money issue, the running of the institution would not be different if Part II countries had 100% of the vote. He also stressed that management has a record of pushing for decisions which are in favor of developing countries and these countries know it. His main concern, therefore, is to be careful about not allowing changes in the rules which would reduce the Bank's ability to get money.

Mr. Chaufournier expressed his feeling that the problem is one of making changes at the cost of increased politicization of the decision-making process.

Mr. Golsong said that the voting right problem has to be put aside at this time. He further said that, for the last 35 years, the Bank was guided by primitive laws and there is an obvious need to look into this. Mr. McNamara agreed arguing, however, that the prevalent unsophisticated system had its advantages. In Mr. Golsong's view, however, there is now the risk of going to the other extreme.

Energy Affiliate

Mr. Baum enquired what the next step would be with respect to the energy affiliate. In his answer, Mr. McNamara explained first that there was a consensus for support in principle. He cautioned against excessive optimism, however, since it can be expected that prospective participants will not move quickly. In the first place, the OECD countries will want a larger share than oil countries, and, secondly, the distribution of voting power will be a serious problem.

Mr. Stern said that the basic OECD concern (and the Bank's) is about the OPEC share. He added that the French were thinking about a separate entity. Mr. McNamara commented that most other OECD countries were not thinking about a new entity. He suggested, however, that instead of looking at the energy affiliate per se, the fundamental questions should be put the other way round: Are we going to lend to China? If yes, then how much? And then where do we get the money from? He said categorically that in June 1981 the Bank will have a new five-year lending program and this will include lending to China.

Mr. Stern said that the distribution of capital is not especially relevant, although a key issue is that of the major shareholders. A 50-50 distribution between OECD and OPEC is not so important and the OECD (and the U.S. in particular) could go along with various alternatives. The most important thing, however, would be the possibility of borrowing directly from OPEC. Mr. Baum commented that he thought an IDA-type model would be the most appropriate form of institutionalization of the affiliate.

Mr. Paijmans asked what the various alternatives were, especially in view of a changing environment. He argued that to talk about having an energy affiliate in Paris, for instance, would imply that the Bank is very much perceived as a Part I country institution. Mr. McNamara said that location of the affiliate in Paris does not really address the problem. Most OECD countries do not want that. He added that for the moment OECD support is not so much a job as support from Part II countries. The Bank does have a problem in maintaining its strength to perform its functions. Mr. Thahane said that most institutions created by Part II countries are not very different from the Bank as far as the decision-making process is concerned.

Mr. Wapenhans observed that there is a difference between the voting structure in the Bank and in the Fund. He called attention to the fact that the Brandt Commission had talked about the creation of Regional Advisory Councils. Mr. McNamara commented that the Brandt Commission had been rather prudent about the problem of voting structure.

Turning to the more general problem of how to prevent erosion in the capacity of the Bank and the Fund to operate and perform their respective functions, Mr. McNamara said that there were widely divergent views on this problem. The fundamental issue is whether the UN should override the decisions of the Boards of the two institutions. Clearly the U.S., UK and Germany are against such a view.

Mr. Golsong commented that individual persons are behind every decision. There is therefore a need to educate these individuals and ensure adequate information.

OL
October 30, 1980

OFFICE OF THE PRESIDENT

922/8/15

President's Council Meeting, October 27, 1980

Present: Messrs. McNamara, van der Meer, van der Tak, Benjenk, Bart, Chenery, Gabriel, Golsong, Chang, Thalwitz, Husain, Knox, Paijmans, Qureshi, Rotberg, Stern, Thahane, Wapenhans, Weiner

UN Conference on the Least Developed Countries (LDCs)

Mr. McNamara asked Mr. Benjenk to brief the meeting on the UN Conference on the Least Developed Countries (LDCs), with specific reference on its proposed objectives, the results of the work of the Preparatory Committee, how the Bank would be affected and what could be its role.

Mr. Benjenk explained that the Conference had originally been decided at the UNCTAD meeting in Manila. It was scheduled to take place in September 1981. During the meeting of the Preparatory Committee in Geneva from October 9 to 17, it became obvious that more time would be needed to prepare the Conference adequately and a proposal was made by UNCTAD to postpone the Conference until March 1982. The Group of 77 decided, however, to push the Conference back to September 1981, largely because of the urgency of the situation in the 30 developing countries listed by the UN as least developed. The Preparatory Committee had first proposed to call consultative groups for each of the poorest countries. It had also asked the Bank to take a leading role in setting whatever groups would be necessary. The Bank told the Committee that it would not encourage such consultative groups. The Committee instead decided that the first step in preparing the Conference will be for each LDC to list its foreign assistance requirements for the next 10 years and to present lists of projects as well as the expected commitments from OECD countries for assistance. The Committee then decided that the meetings between individual LDCs and donors should be called by the countries themselves. Cluster meetings are therefore scheduled to take place between March and June of next year, the first one to take place at Arusha, Tanzania, where the East African LDCs will meet with donors at the invitation of the Tanzanian Government. The proposed grouping of countries and the review meeting dates are as follows: (a) Asia and the Pacific in March 1981; (b) Eastern Africa in April; (c) Western and Central Africa (including the Sahel) in May; and (d) Southern Africa in June. A separate country review will be made for Haiti in May.

Agencies such as the Bank are to help in the preparation of the documentation to serve as a basis for discussion in the meetings. The Bank has been asked for reports, which it has agreed to provide. The Bank has also been asked to submit lists of experts, especially in the planning area, and it may be asked for its views on various issues. The Bank, as have other international agencies, has been asked to inform its Resident Representatives in the various countries. In particular, two sets of papers would be expected from the Bank by April of next year: (a) an analytical view of how the Bank sees these LDCs which should not be a problem inasmuch as they are all covered within the WDR III; and (b) what is the Bank's program for these LDCs. In summary, Mr. Benjenk expressed his view that the report of the Preparatory Committee was rather confused and that the meeting itself had been rather strange with its focus more on matters of arranging for the Conference rather than on substance.

Commenting on Mr. Benjenk's report, Mr. McNamara said that the whole exercise could cut across a lot of the Bank's work. He added that this was an illustration of how difficult it is to organize and sort out the functions of Bank involvement in such undertakings, especially internally in the Bank. He spoke of the role of the External Relations in coordinating functions as it relates to the UN Agencies, mentioning that Mr. Benjenk was to be considered as the Bank's foreign minister. Mr. McNamara quoted the recent circular from Mr. Benjenk to all members of the PC concerning arrangements for Bank relationships with the UN, and asked all Vice President's to keep in close contact with Mr. Benjenk. He added that Mr. Benjenk could obviously experience some difficulties but that, when he does, he should bring these to him and to the PC. Mr. McNamara illustrated his point by explaining that Regional Vice Presidents usually deal with finance ministers, whereas, in the UN, mainly foreign ministers are involved. He added that over-all the Bank would have to do a better job in its external relations.

Referring to the problems of the LDCs and the requirements for studies from the Bank, Mr. Chenery commented that time could be a problem in terms of the current workload. He specifically asked what priority should be attached to what is required, and he commented that both OECD and the UN want more and more from the Bank. Mr. McNamara replied that at this stage there does not seem to be a need for much incremental work. In particular, the on-going sub-Saharan African study requires higher priority than any incremental work asked for with respect to the Conference. He observed that 23 of the 30 LDCs are in a group covered under the sub-Saharan African study. Mr. Stern said that there is always a tendency to be as nice as possible with the UN, but there are serious doubts that many of the studies required by the UN are either absolutely necessary or very useful. Mr. Golsong said that the whole process may constitute a new approach by the UN. If the UN keeps asking for Bank studies and programs for the various countries, it may become excessively involved in Bank business and too critical of the Bank. Mr. Golsong suggested that the Bank should not be too precise in the documentation submitted to the Conference. Both Messrs. McNamara and Stern answered that the Bank would not deal with the Conference on the basis of individual countries, but rather in groups. Mr. McNamara said that he certainly would object to a review of the Bank's programs by non-Bank bodies from the outside, but he felt that the Bank was not yet at this stage. Mr. Knox said that there was a timing problem in all this, especially since the African study is scheduled to go to the Development Committee in May 1981. Mr. McNamara said that this study should not be promised to the Conference, essentially because it had a different focus. He further expressed his concern that the Conference does not seem to be focused in a very precise way.

Mr. Thahane said that he agreed in general with what was said. However, he mentioned that, in the next 10 years, LDCs will increasingly run in various fora, especially the UN Agencies, to get additional support. It is therefore important for the Bank to be ready and prepared for new situations. Mr. McNamara agreed, explaining that it was precisely why he wanted Mr. Benjenk to be the Bank's foreign minister. He said, however, that the Bank ought to be very careful, as it should certainly support the UN, but not allow it to bring the Bank down to its level of ineffectiveness. He mentioned a recent luncheon which he had with Mr. Waldheim in New York, where Mr. Waldheim had expressed his deep concern about the UN becoming an exclusively political institution. Mr. McNamara had told him that the Bank was ready to be a productive and cooperative participant in the UN system. However, this was hard to accomplish in view of the lack of strong direction in the UN. He had told Mr. Waldheim, in reference to the North/South dialogue, that, if a package could be put together consistent with Mr. Waldheim's views, but not threatening to the Bank's Board of Governors, the Bank would be ready to help. In effect, the Bank cannot accept things that would change or threaten the decision-making process of the institution. Mr. Benjenk gave his impressions that Mr. Waldheim's general feeling is already percolating to some of the delegations at the UN, including the U.S. Delegation. There is an increasing concern about the integrity of the Bretton Woods institutions, and certainly more commonsense is being applied in approaching the issues being discussed. Mr. Benjenk also added that the ongoing study on external relations is now in its closing stages, and that, when ready, he would wish to have discussions on it. He emphasized his feeling that external relations is a function that cannot be done in isolation in the Bank.

OED

Mr. McNamara expressed his concern about the problem of internal absorption and use of the OED reports, both being very uneven in the various Regions. He suggested that discussions should take place on these issues and he instructed Messrs. Weiner, Baum and Lafourcade to schedule some discussions on this issue. He also said that discussions should take place on the question of evaluation functions to be undertaken by the countries themselves.

Zimbabwe

Mr. McNamara asked Mr. Wapenhans to give a report on the results of his recent trip to Zimbabwe. Mr. Wapenhans started by pointing to the "tremendous" potential of the country. However, he expressed his surprise at the extent to which the country was unprepared for independence. He said that a number of changes have taken place at the top of the Government, but a system of communication from the top with the existing Civil service has not yet been developed. He stated his fear that a real danger may be a crisis of expectations. He said that a problem of great importance is that of the refugees. Apparently nobody is prepared for the expected requirements for settlement of between 400,000 to 700,000 families. Mr. McNamara said that a part of the problem must be obtaining land from the whites. Mr. Wapenhans said that land could come from either land abandoned by white farmers or land which would have to be purchased. To Mr. McNamara who enquired what might be the total requirements in terms of hectares and cost, Mr. Wapenhans answered that, with an average of five hectares per family for a total of about 500,000 families and at an average price of US$200 per hectare, total requirements would amount to about $500 million. Continuing his presentation, Mr. Wapenhans stressed the present lack of leadership at the top of the Government, where there is no strong sense of direction of the Civil Service. With one exception, that of the Ministry of Economy and Planning where the Minister comes from UNCTAD, practically no African cadres are prepared.

Mr. Wapenhans explained that the Government is currently preparing for a donor's conference now scheduled in March instead of the earlier proposal for a January meeting. The Government has asked for the Bank's help to prepare for this conference, and the Bank has agreed to send a mission in the near future. The Government feels that it does not yet have a plan for development and it certainly would want one before the proposed conference. At this time, all it has is basically a shopping list. Mr. Wapenhans mentioned that there are at least two or three areas where the Bank could be active: (a) in the promotion of the use of the existing manufacturing capability; and (b) to contribute rapidly to rebuild the internal transport system. On this latter point, there is first the necessity to revitalize the secondary and tertiary feeder road system, this being obviously linked to the need for a resettlement plan. Second, as far as railroads are concerned, South Africa is withdrawing its assistance by pulling back its rolling stock and difficulties in that sector were arising. A problem is obviously the need to shift from South Africa to Mozambique and other countries as new outlets, and this leads to the problem of what to expect from the Maputo Conference. Mr. Husain asked whether the Bank was already planning some operations in Zimbabwe and Mr. Wapenhans replied that it was and that lending would be a blend of IDA and IBRD resources. To another question by Mr. Husain who wanted to know the country's per capita GNP, Mr. Wapenhans answered that it is estimated at $400. Mr. McNamara commented that one had to be careful in using this estimate which was obviously biased by the average per capita income of the white farmers.

Compensation

Mr. McNamara first asked that nothing of what would be discussed should go outside the Conference Room and he then asked Mr. Paijmans to report on the latest developments with respect to compensation. Mr. Paijmans reported that the Board Committee had met several times, and that it was apparent that they were ready and willing to do something in relation to an interim salary adjustment. However, he said that the feeling was that such an adjustment should not be linked to the cost-of-living and should not be seen as a precedent. Mr. Paijmans explained that the latest estimates show that the CPI in Washington is lower than for the rest of the country. He explained that the Fund is quite worried about what position to take, essentially because of their problem with the quota increase. He said, however, that he thought they would come along with the Bank, but it was clear that the Bank was "pulling the cart" at this time. He added that the next meeting of the Board Committee is scheduled for next Wednesday, and that he hoped that Bank management could come up with a position for that meeting. Mr. McNamara asked what the situation of the Fund Bill was in the U.S. Congress; Mr. Benjenk replied that the Appropriations Bill has already passed the House but not the Senate as yet.

Mr. Paijmans then explained that the Staff Association has been active. The Executive Committee is worried about the current feeling among staff with respect to the salary adjustment. However, he said that staff seem to be confident that the problem of compensation is not a neglected area on the part of management. In particular, he stressed the good atmosphere in the compensation group dealing with the Hay study. He reiterated, however, that he felt that there could be a serious backlash with the staff if nothing comes in terms of adjustment in salaries in the near future.

Turning to the subject of the merit increase, Mr. Paijmans said that there seems to be some confusion as to the guidelines for this year's annual merit review. He explained that the guidelines are currently being reviewed and a new proposal can be expected some time next spring. He said that some ideas had already been included in the current guidelines for this year's review, but without any change in the basic rules; however, he could sense some anxiety among managers. He said that some divisional managers had already gone to the Staff Association.

Mr. McNamara intervened, stating categorically that managers cannot be allowed to talk to the Staff Association; the only contacts should be through the Vice President for Personnel. He asked that if anybody in the room had any doubts about this he should talk to him quickly. At this point, Mr. Stern said that the essence of the problem is that managers should not be members of the Staff Association to start with. Mr. Chenery then asked what was the definition of management and to what level it goes. Mr. McNamara replied that at least division chief level is to be considered managerial level. He added that the only way to deal with management problems is to go to the management chain. Going back to Mr. Stern's point, Mr. McNamara stated that managers ought to be separated from the staff. He requested that Mr. Paijmans give thought about this point. Mr. Stern then said that there is a source of major conflicting signals, some managers seeing that going through the Staff Association could be an alternative for the normal channel. Mr. McNamara stated again that this was totally unacceptable.

Returning to his main point, Mr. Paijmans said that first the budget had not been slashed, and, second, the rules have not been changed. The main point is that Personnel suggests that there should be more differentiation in the rating of performance. He reminded the meeting that, as was discussed a few weeks ago, too many staff members get the norm and above-the-norm merit increases. Mr. McNamara stated that it is indeed very difficult to move away from a civil service system to a real merit system. Mr. Knox said that he had received no complaints from his managers about being tougher on application of criteria for this year's merit review, but rather that the problem is to give below-the-norm increases to good performers. He said that there is a misunderstanding on what a below-the-norm increase means.

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November 4, 1980

OFFICE OF THE PRESIDENT

President's Council Meeting, October 31, 1980

Present: Messrs. McNamara, Lari, van der Tak, Benjenk, Karaosmanoglu, Chenery, Gabriel, Golsong, Hattori, Husain, Knox, Paijmans, Qureshi, Rotberg, Hittmair, Stern, Thahane, Wapenhans

Clausen Nomination

Mr. McNamara opened the meeting saying that he wanted to give some information regarding the nomination of Mr. Clausen as his successor. Mr. Clausen has been the chief executive officer of the Bank of America during the last 10 years. He has apparently done a very good job there. This bank is now the largest in the world, and one of if not the most innovative of the big banks. The bank which used to be the Bank of Italy started in California under Mr. Giannini. When compared with the major banks of the eastern part of the States, the Bank of America has been much more innovative; it has truly been a development bank in California. It is also open to the international fronts, and 40% of its profits come from overseas operations. Mr. McNamara, who said that he had talked with Mr. Clausen last week when he was in California, added that the World Bank is both smaller and larger than the Bank of America. The latter has some 80,000 employees with huge operations since there are more than eight million accounts. In that sense, the World Bank is much smaller than the Bank of America. On the other hand, however, the role for intellectual leadership in the World Bank is much greater than it is in the Bank of America. He gave his opinion that Mr. Clausen is a very well qualified individual for the position with the World Bank.

Mr. McNamara explained that President Carter had asked him, a few months ago, for lists of potential candidates for his succession. He said that he offered two lists, one consisting of U.S. citizens and the other one of non-U.S. citizens. He further divided each list into two parts, one with the candidates less than 60 years of age, and the other with candidates who were more than 60 years old. He commented that, in his view, age is an extremely important element, since his successor should be able to spend at least one full term but preferably two terms in that position. He said that he had submitted nine names of U.S. citizens. On the issue of the U.S. versus non-U.S. citizens and candidates, Mr. McNamara said that, at a luncheon three or four weeks ago, Mr. Eugene Black had told him that there had been a number of difficulties in finding a successor to Mr. Eugene Meyer, and, at that time, a Canadian candidate had been considered. Indeed, there is nothing that says that the President of the Bank should be a U.S. citizen. Mr. McNamara then gave his opinion that he was sure that all the candidates who were considered this time would accept the offer. He then said that he had prepared a short list for each of the groups which he referred to and Mr. Clausen was on that list. No other governments asked for the lists which he had prepared but he would have been ready to give the lists if asked.

Mr. McNamara said that he had urged the U.S. Administration not to put the nomination before or immediately after the elections unless the name of the candidate had been cleared with the Republican side. This is what the Administration did. In fact, Mr. Clausen is presumably a Republican, but Mr. McNamara said that he did not know for sure.

Mr. McNamara said that Mr. Clausen is a very able person. He obviously does not know much about development and he will have to learn. For that matter, the top management of the Bank will have to help him, for example, through the organization of briefing sessions. Mr. McNamara said that he had given Mr. Clausen a copy of the Organization Chart of the Bank with short biographical sketches of each member of top management. He recalled the situation which he faced when he started as the new President of the Bank 12 years ago, where he did not have one piece of paper to work with. In the present case, it was one of the reasons why he had chosen June 30, 1981, as his retirement date in order to put through the Board the five-year lending program before his departure. That should place a lesser burden on Mr. Clausen who will, however, have to make a speech to the Governors of the Bank during the Annual Meeting in September. Mr. McNamara finally explained that the decision had been made about a week ago, and discussions had taken place with major governments to get initial reaction. He said that he was surprised how well the nomination was kept secret until the leak yesterday. He then asked whether there were any questions from the PC.

Mr. Paijmans asked whether some information should be sent to the staff. Mr. McNamara replied that this was not necessary at this time. He emphasized that there is still a formal process to go through; in particular the U.S. Government must first put a formal request to the Board. The Board will then have to consider the nomination and management will have to wait until the Board acts. Then some further information could be passed on to the staff which may be irrelevant anyway since everybody knows by now.

Mr. Golsong then asked whether the formal notification of submission of the nomination by President Carter would be made before November 4, Election Day. Mr. McNamara replied that, as of today, the Bank does not have a single official statement from the U.S. Administration, and he had asked Mr. Colby King to ensure that one would be forthcoming quickly. He added that he expected that such a formal notification would be sent on Monday.

Mr. Knox asked whether the PC members could tell staff what Mr. McNamara had just told them. Mr. McNamara told the meeting to say absolutely nothing.

Mrs. Boskey asked whether the Board would need to vote. Mr. Golsong commented that the procedure calls for a formal endorsement of the U.S. proposal. Executive Directors would meet first in Executive Session to review the application and then they would send three or four members to meet with the candidate. The actual election would be by consensus, with each Executive Director successively endorsing the nomination. Mr. McNamara commented that he did not expect any problem for the Board to endorse this nomination, inamsuch as there already is indication of large support from various governments.

Executive Committee

Mr. McNamara informed the meeting about his travel plans during the coming months, during which he will cross the Atlantic three times. He then said that, at Mrs. Boskey's request, he would be going to New York on Monday to attend the ACC meeting and, therefore, there will not be a PC meeting on Monday. He indicated that he had meant to discuss further the proposal for some structural changes in the top management system. He reiterated that there is the need for a more formal group for management. He further said that he did not want to leave this to his successor. The PC has become too large to be an effective decision-making process. For instance, it does not make sense have 20 people meeting to discuss compensation issues. The Finance Committee and the Personnel Management Committee have certainly been improvements, but it is not sufficient largely because they do not meet regularly enough and, furthermore, these two committees do not cover the whole range of issues to be addressed by management. He said that Mr. Benjenk had suggested the creation of a foreign relations committee. In his own view, however, there is a core group in the existing committees which could constitute an executive committee. This core group should meet each Monday. What is needed is a structure that can be fairly easy to change. He concluded this subject by saying he would try to get it organized in the near future.

Compensation

Mr. Paijmans informed the meeting that a paper prepared by management on the issue of interim salary adjustments had been sent to the Board. Mr. McNamara intervened to suggest that this paper should also go to all PC members. Mr. Paijmans summarized the contents of the paper which calls for a mid-term increase in salary, a 5% adjustment which would be considered an advance for the March 1981 salary adjustment. He commented that the 5% figure is "pretty much out of the air," since it was not to be directly related to cost-of-living and there is little information about the movements of salaries in comparator organizations. Mr. McNamara commented that the 5% figure was not really pulled out of the air in that there were two basic requirements which were taken into consideration. In the first place, the adjustment should not be seen as a precedent, and, second, it should not be linked to an indexation system. He said, however, that it is consistent with the 11.5% inflation rate over the past 12 months, indicating that there is a certain logic built into the proposal. He added that the proposal would be discussed and considered by the Board on November 11. He concluded by saying that the Fund will do the same thing, although they are concerned in view of the Fund Bill currently in Congress. In this situation, the Bank is moving first and they will follow; their Board discussion is scheduled for November 12.

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November 4, 1980

OFFICE OF THE PRESIDENT

822/8/17

President's Council Meeting, November 10, 1980

Present: Messrs. McNamara, Chaufournier, Chenery, Gabriel, Golsong, Hattori, Hopper, Husain, Knox, Paijmans, Qureshi, Rotberg, Thahane, Wapenhans, Weiner, Wood, Lerdau, van der Tak, Mrs. Boskey

Introduction

Mr. McNamara opened the meeting by giving a brief report on his visit to Rome at the end of last week to meet with Pope John Paul II and some other senior officials of The Vatican. He said he had first met on Friday with representatives of the Justice and Peace Commission, and had had dinner with Cardinal Baum and Cardinal Caprio, State Secretary of The Vatican. The meeting with the Pope had taken place on Saturday and it had been "fascinating" for him, although the conversation had remained fairly general. He said that he had suggested to The Pope that he attempt to mobilize the enormous human and spiritual resources of the Church in both developed and developing countries in support of development. Mr. McNamara expressed his feeling that a start had been made to establish more formal relationships between the Catholic Church and the Bank. He concluded on this subject by expressing his admiration for the thrust of The Pope's philosophy, as it had been expressed in various statements during his visits to Brazil and Mexico during the last year. In particular, the social objectives as indicated in his speeches are worth attention.

Mr. McNamara then reported that he is leaving again for Europe on Thursday, going to Brussels to receive the King Baudouin award on behalf of the CGIAR.

Referring to the Board Meeting on Thursday for consideration of Mr. Clausen's nomination, Mr. McNamara said that an agreement with the Board had been reached and that a formal discussion for the nomination would take place in the Board on November 25. He reported that there may be some difficulties for some EDs in communicating with several African governments in the time allocated.

Commenting on the results of the election, Mr. McNamara expressed his view that the vote had been one of selfishness. He commented on the editorial in last Friday's Wall Street Journal which he characterized as "astounding." He added that there is currently a very strong movement in the U.S., the UK and Japan towards selfishness for preserving not only their respective shares but also their absolute levels of wealth and wellbeing.

Memorandum to the EDs on Expansion of the Lending Program

Mr. McNamara first stated that the discussion of this paper in the Board would now have to be postponed after December 2, the date originally agreed on. He then said that one should forget about the issue of what the Bank would lend for, at least temporarily, and concentrate on the main issue at this point, namely, what is an appropriate level of lending for the Bank. He explained that the overriding factor in this respect has been the changes in the trend of capital flows over the last 3-4 years, and this is the main justification for the Bank to expand its lending. He said that this essential point does not come across clearly enough in the paper. He then asked for comments. Mr. Knox said that, while the paper talks in terms of gross flows, the main problem is to relate net flows to net gap. Mr. McNamara agreed but added that tactically this is not possible at this time. The main reason is that it is extremely difficult to get the relevant data; in fact the Bank cannot get from DPS reliable data even for the first half of the coming decade. Mr. Qureshi explained that the main object of an expanded lending program is to trigger reactions on the part of others. In his view, this is the biggest justification for this proposed expansion. Mr. Chaufournier said that the proposals for an expansion of the lending program included in the memorandum address only a small part of the problem. He said that he agreed with this approach, since tactically it may not be the best time to address the broader problems. Mr. McNamara said that the first task is to talk about the need for changes and then look at what is possible. Mr. Chaufournier said that in some instances the paper may be stretching the arguments a bit, e.g., says too much on China. On energy the sheer magnitude of the problem is such that the Bank cannot do much unless it is understood that lending will be incremental to rather than in substitution for the existing lending program. Mr. McNamara commented that Mr. Chaufournier's point is that increased lending does not necessarily have to be linked to China and/or energy.

Mr. McNamara then turned to the problem of the external requirements of the poorest countries. He said that the figures presented in the paper do not reflect properly what has happened since 1977. For example, he questioned the rationale for a 20% increment as presented for the poorest countries when it is 100% for the middle-income countries. He then suggested that Mr. Wood should talk to DPS on this. Mr. Wood commented that the main reason for the 20% is that there is no financing available for the poorest countries. Mr. McNamara again instructed Messrs. Wood, Chenery and Hopper to look into this, especially for the case of South Asian countries.

Mr. Husain said that, if he were hostile to the idea of an expanded lending program, the paper would give him some ammunition. The capital requirements of middle-income countries inevitably lead to the issue of intermediation. Then, he said, comes the question of the relevance of the Bank's role in intermediation. He added that, in his view, if the Bank does not step into the intermediation functions, then the whole world will embark on a deflationary course.

Mr. Chenery said that some countries now do not need the resource transfer, e.g., Mexico, Nigeria, Indonesia and Egypt. He said that the Bank argues that this situation is only temporary and it can probably be criticized for this. Mr. McNamara commented that he agreed with the fact that the Bank may not have protected itself fully, but he thought that this is not the main problem. In his view, the main point is that, if the world is to avoid the deflationary effect of the Bank not moving into the intermediation function, then should not the Bank be part of the bigger problem: He said that, if this is not done, the world will have to adjust to lower levels of output and income.

Mr. Paijmans asked how this expansion of the lending program is to be done. Mr. McNamara replied that this is a different question. He repeated that the main issue is to facilitate intermediation of unanticipated requirements of \$32 billion. Mr. Qureshi commented that an important aspect of intermediation, and therefore of the role of the Bank, is to improve creditworthiness. Mr. Rotberg added that part of the problem is to find out why the private sector will not fill the gap.

Mr. Paijmans then said that he had some problems with the implication of the strategy presented in the paper, namely, staffing, timing, etc. Mr. McNamara replied that again this was a different issue. He added that he did not want to get into too detailed a discussion at this point. The chances of getting this program through are not excessively great. He added that there was no alternative, however, than to push for it. In the first place, the problem is the prospect of worldwide deflation. Second, the question of the role of the Bank in intermediation is to be addressed. Third, the question becomes how the world is going to give the Bank the funds required.

Mr. Wapenhans spoke of the issue of possible correlation between the problem of additionality of funds and the changes of priorities in the lending program. Mr. Qureshi agreed, saying that there may have been changes of priorities. Mr. Wapenhans insisted that, in his view, the intermediation role is all the more needed.

Mr. Husain expressed his view that not too much was said on China, as had been implied by Mr. Chaufournier. Mr. McNamara agreed and said that it is the first time that something is being put on paper on China. He further added that the Bank is six months away from using the results of the current economic mission. He finally said that, tactically, it may be best not to put too much in the paper, since the more that is said in this paper the more questions will be asked.

Compensation

Mr. Paijmans reported that the Board meeting on compensation is scheduled for tomorrow. Mr. McNamara said that it is very important to talk to the EDs today on the issue of tomorrow's meeting. Mr. Thahane suggested that today's lunch with the incoming Directors could be a convenient way. He added that he did not see major problems, especially from Mr. El-Naggar. The only doubt is still Mr. King's position, especially after the results of last Tuesday's election. Mr. McNamara instructed Messrs. Thahane and Paijmans to talk to Mr. King and to EDs who are not members of the Committee of Executive Directors on Compensation.

IDA Bill

Mr. McNamara asked Mr. Rotberg to report on the situation with respect to the IDA VI Bill. Mr. Rotberg replied that the main issue now is to decide how far to press to get that Bill to a vote. He further said that the Authorization Bill is a priority for the Bank. The House leadership, however, will not press on this issue of IDA VI. He reported that the U.S. Treasury is hoping to get the new Administration not to object. Mr. McNamara commented that if the Bank can get the authorization then it gets the continuing resolution, and there is no longer the need for an appropriation. Mr. Rotberg said that many people in the house just oppose that. Mr. McNamara said that the Bank should get Reagan's people, e.g., Charls Walker and others, to accept that IDA VI would be better behind rather than to be renegotiated in the next Administration. He asked Mr. Rotberg to talk quickly to the Treasury and Mr. Colby King. He insisted that the Bank has to get the Bill voted on.

Turning to the issue of borrowing prospects for the Bank, Mr. Rotberg explained that there are now new restrictions in Germany and in Switzerland. He added that no drop in interest rate was foreseen, and he suggested that the Bank should delay borrowing in the U.S. until next Spring. He said, however, that there is a new opportunity in Japan because of increasing OPEC flows in yen. The new difficulties on the borrowing side essentially come from the problem of growing current accounts deficits in the OECD countries. These countries now compete with the Bank in their own markets, and also in capital-surplus oil-exporting countries, e.g., Saudi Arabia and the United Arab Emirates.

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November 19, 1980

OFFICE OF THE PRESIDENT

822/8/19

President's Council Meeting, November 17, 1980

Present: Messrs. McNamara, Barletta, Baum, Chaufournier, Gabriel, Hattori, Hopper, Paijmans, Qureshi, Rotberg, Stern, Thahane, Weiner, de la Renaudiere, Gue, Jaycox, P.Wright, Scott, Mrs. Boskey

Mr. McNamara asked Mr. Rotberg to report on the situation concerning the IDA Bill. Mr. Rotberg said that the Bill is now likely to come to the Floor of the House on Wednesday afternoon. Apparently some 50-60 Republican votes could be counted upon. In addition, substantial support has built up from some likely members of the new Administration. Mr. Rotberg said, however, that the vote is certain to be very close, particularly in view of the discussions on budget restrictions which took place during the weekend. He added that he needed to talk to the Treasury and that he would not know for several hours what the situation would precisely be. Mr. McNamara explained that it is absolutely essential to get this Bill voted on during the lame duck session of Congress.

Mr. McNamara then decided that Mr. Thahane's memorandum to PC members relating to the work of the ad hoc committee of EDs, which had been scheduled for today's discussions, should not be discussed today. He asked Mr. Baum to report on his trip to Brussels.

Mr. Baum explained that there had been a ceremony in Brussels on Saturday to present the King Baudouin Foundation award to the CGIAR. The prize was shared with Mr. Paulo Freire, a Brazilian educator. Mr. Baum explained that the various functions included a press conference on Friday, a dinner at the Central Bank of Belgium, and also a number of official ceremonies on Saturday, including a private audience between Mr. McNamara and the King. Mr. Baum said that the press conference, attended by some 60 journalists, had gone very well. The ground rules had precluded discussions outside of agricultural research and the work of the CGIAR. He also said that Mr. Freire proved to be a very warm and nice individual. He further added that the Belgians had organized everything with exquisite taste, in particular the award ceremony. Mr. McNamara commented that the high level of dignity and taste that surrounded the whole ceremony obviously was a response to the good work of Mr. Baum and the CGIAR. Mr. Baum then explained that he had attended the meeting of the CGIAR sponsors in Japan as a preliminary to the Brussels events. He said that the reception in Japan had been extremely warm. Japan has become one of the CGIAR's largest donors. Japan is indeed interested in collaborating further with the various research centers. Mr. Baum also said that he had traveled to Australia where he had received a very warm reception. He commented that Australia, being far removed, appreciates visits from the Bank. He said that he had offered to hold a procurement seminar in Australia, probably in the Spring. He added that, on the proposal for the creation of an energy affiliate, the Australian Government had proved rather cautious. Mr. McNamara concluded on this subject reaffirming that the reception in Brussels had been extremely warm. He added, however, that he was not able to understand exactly what Mr. Freire had done, and nobody had explained to him what the impact of Mr. Freire's work has been thus far. He then asked Mr. Paijmans to comment on the Board discussion on compensation.

Mr. Paijmans reported that the Board meeting on Tuesday had gone with a very detailed discussion on the proposal for an interim salary adjustment. All of the EDs but one spoke. He said that Mr. King had made an especially long and emotional statement. A clear majority of EDs was in favor of the proposal for an adjustment but a minority was strongly opposed. He commented that there is indeed a growing realization that the Bank and the Fund cannot stand alone in isolation of what happens in the various member countries. He added that the Fund discussion the following day had followed the same pattern with the same voting pattern. He said that the result of the Hay Survey will certainly lead to some rough discussion. He commented that the Hay Survey is currently going very well. He further said that a series of papers on some conceptual issues related to compensation, e.g., expatriation allowance, will come out during this week for discussion at the Personnel Management Committee and later on at the President's Council.

Mr. McNamara emphasized that every member of the PC should study those papers very carefully when they come out. He added that these papers should be sent to the Board by the end of March. He also said that a decision by the Board should not come after end-April of next year. To illustrate the importance of carefully studying the proposed papers, he said that the issue of expatriation allowance would be quite different if it were to apply to one country only or to four or five countries. Returning to the discussion at the Board meeting on Tuesday, Mr. McNamara said that, if any of the EDs had put up an amendment calling for a 3.5% increase instead of the 5% agreed on, he would have had to go along. He gave his opinion that the Board was clearly uneasy about the whole issue of salary adjustment. He added that it was evident that EDs' thinking was influenced by the fact that their own societies are very seriously affected by inflation.

Mr. McNamara then turned to the problem of when the Bank should close offices on Christmas Eve. After observing that so far there had not been any written policy concerning closing time of offices on that day, Mr. McNamara noted that generally little was being done in the afternoon of December 24; therefore, he decided that the Bank should be closed on Wednesday at 1:00 p.m.

Mr. McNamara then explained that the paper on the proposed expansion of the lending program had been distributed today to the EDs. He cautioned that the Bank should not build in its budget the implications of this expanded lending program until there is an indication from the Board that it will accept at least some of the elements contained therein. For that matter, there should be first a discussion on these various elements, e.g., China and energy. Mr. McNamara then commented that a major part of the need for expansion of the lending program is due to inflation. He added that the increase in the level of annual commitments from 1968 to 1980 looks very impressive in nominal terms, e.g., from $1 billion to $12 billion annually; however, in real terms the increase is only three or four times. Likewise, the proposed increment in the level of commitments from 1980-85, e.g., from $12-$25 billion, and the new figure presented in the paper for 1985 ($28 billion) look horrifying, but they include a component due to inflation which is very high indeed. He said that the next paper will deal with the financing problems. Mr. Chaufournier asked what type of deflator had been used in the estimate. Mr. McNamara replied that it is the index of capital goods price increase, which has been agreed to by the deflator committee.

Mr. McNamara concluded by saying that the climate with respect to the IDA Bill is definitely getting worse.

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November 24, 1980

OFFICE OF THE PRESIDENT

822/8/19

President's Council Meeting, November 24, 1980

Present: Messrs. McNamara, Barletta, Baum, Chaufournier, Gabriel, Golsong, Hattori, Husain, Paijmans, Rotberg, Stern, Thahane, Weiner, de la Renaudiere, Gue, Haq, Pollan, Wiehen, Wright, Mrs. Boskey

IDA VI

Mr. Rotberg said that Mr. Reagan has not yet given any signal on where he stands on the IDA Authorization Bill. As a consequence, nothing is likely to happen in the very near future. Mr. Rotberg said that current commitment authorities on IDA VI should take the Bank through March 1981. Mr. McNamara commented that it is not so much that Mr. Reagan is opposed to the Authorization Bill, but rather there is an internal struggle within the Republican Party. In fact, the IDA Bill enjoys clear support of Messrs. Burns, Simon, Connally and Shultz. The key question now is timing. Mr. McNamara added that the Bank should continue to press for the inclusion of the IDA Authorization Bill on the agenda of the lame duck session. Congress is away this week but it will reconvene probably next week. Secretary Miller has agreed that there should not be any talk about possible cuts in the Authorization Bill. If we fail in getting the Bill on the Agenda during this session of Congress, then the Bank will have to start thinking about what to do. In any event, Mr. McNamara added, the Bank should work on the issue of additional advance contributions, e.g., with Canada and the UK. Mr. Rotberg said that advance contributions could be expected from the UK, Canada, Finland and Sweden.

12/01 Response to the Brandt Commission Recommendation for Part II National Representation in Bank Management

Mr. McNamara asked for the views of PC members on the draft paper on this subject. Mr. Husain said that he had two questions relating to the issue. First, there should be recognition that substantial progress has been made in the last 10-12 years, especially in the representation of Part II nationals in the management of the Bank. However, in spite of this improvement, this representation in the management is only 25%. Second, in every sector of activity of the Bank, there are quantitative targets. In this case, the paper should also present some numbers as objectives for the next five years. He finally asked what are the percentages of representatives of developing countries in the total number of professionals in the Bank. Mr. Paijmans answered that there are now 35% in the case of YPs and 30% for professionals. He added that the objectives for 1980 are to reach a 40% representation. Mr. McNamara commented that in 1968 the ratio was about 20%. Today it is an average of 34% and the target for 1980 is 40%. He added that in 1968 Bank professional staff was largely composed of Anglo-Saxon males. Since then there have been some attempts to include both women and representatives of Part II countries. He further said that the Bank is not the UN and, in particular, the Bank insists on quality and qualifications on the recruitment of professional staff. He also said that it is extremely difficult to increase both the female staff and staff of Part II countries at the same time. One of the first questions to be addressed is whether the Bank should establish a goal for the representation of developing countries' nationals for 1985 ~~of~~ or 1990. He said that the Personnel Management Committee has been struggling for the past six months to try to establish a goal for women and Part II professionals. He said that one question is to review the over-all goal for Part II nationals' representation in the total professional staff and then for their representation in management. He also said that he agreed with Mr. Haq that the present paper should not go out as it is; it should be tied to the other papers under preparation. He concluded by saying that the minimum that ought to be said is that the Bank will try to formulate a goal.

Mr. Chaufournier commented that some assumptions should be made about the over-all expansion of staff for the coming years, this having some impact on the issue of representation of various staff groups. Mr. McNamara agreed, but he said that one has to assume reasonable opportunities to recruit in the future. There is a minimum increase of 4% in a given year, in addition to a turnover rate of about 3% giving a total 7% of the staff to be recruited annually. Mr. Thahane noted that the paper relates to participation of Part II nationals in the management of the Bank. This, in his view, should not go forth without the other paper on the over-all representation of Part II nationals. He added that the Bank obviously has some difficulty in establishing objectives but it needs to come to grips with those difficulties, in view of the existing attitudes of Part II countries vis-a-vis the Bank. Mr. McNamara commented that it is interesting to note that many people do not realize what has been accomplished so far. He said that, until Mr. Benjenk became Vice President External Relations, representation of Part II nationals in the Regional Vice Presidents was 50-50. Mr. Barletta agreed that there has been a positive trend over the last few years. He noted, however, that there are serious difficulties of trade-offs between the various objectives, e.g., to bring in more women from Part II countries. He added that it is very difficult to bring Division Chiefs from outside. Division Chiefs are usually appointed from within the Bank. Mr. Baum said that he agreed with everything that had been said thus far, especially as it relates to the good progress that has been made. He said, however, that the people who will read the paper already have some views about this issue. He noted that the Bank is certainly not doing enough to train people from Part II countries to take managerial responsibilities. Mr. McNamara agreed and instructed Mr. Paijmans to take into consideration in a revised version of the paper the problems of: (a) multiplicity of objectives in this matter; and (b) the actions taken for recruitment of Part II nationals. Mr. Wright said that in DPS it is very hard to get economists from Part II countries. Those who come from Part II countries are mainly from India. Mr. McNamara said that he was not so much concerned about the distribution within the Part II countries, but rather that the relevant ratio is that of Part II nationals over Part I nationals. He added that, including Mr. Wuttke the new Executive Vice President IFC, there would be as many German nationals as U.S. Nationals in the PC.

Mr. Clausen's Nomination

Mr. McNamara mentioned that at tomorrow's meeting the Board should consider Mr. Clausen's nomination. If this nomination is approved, it will give authority to the Board to make an offer to Mr. Clausen. Mr. McNamara mentioned that the Bank should be very careful about what will be said, especially to the press. He said that essentially very little, if anything, should be said since no final action will be taken at tomorrow's meeting. He said that hopefully the Board will accept the nomination, and then nominate a committee to meet with Mr. Clausen. He said that there are still some uncertainties, especially with regard to salary. Mrs. Boskey mentioned that, in Mr. McNamara's case, there had been a statement that the Board had approved of offering the Presidency to him. She asked whether Mr. McNamara would want to do the same thing in Mr. Clausen's case. Mr. McNamara said that he would be opposed to such an action. He mentioned that the Bank of America has a board meeting coming in the near future and difficulties are expected for Mr. Clausen's succession. The Bank should not put additional embarrassment to the Bank of America. In other words, the less the Bank says, the better. Mr. Golsong agreed, saying that nothing should be said at tomorrow's meeting. Mr. McNamara commented that the press will certainly ask some questions. He suggested that all that should be said is that the actions have not been completed yet. Mrs. Boskey then said that another problem is what the Board members will say. Mr. McNamara said that it is essential to agree with Board members to say nothing, or at the very least, to say exactly the same thing.

Energy Affiliate

Mr. McNamara informed the meeting that discussions are scheduled today on the energy affiliate with representatives of nine countries. He said that these discussions are meant to be very preliminary. Depending on Board action on the first two major policy papers, namely, the expansion of the lending program and the means of financing it, the Bank will then propose a paper to the Board on the energy affiliate, probably by mid-January. Mr. Thahane said that the group should not be seen by outsiders as strictly composed of countries which have an interest in the energy affiliate. He said that many other countries are indeed interested. Mr. McNamara commented that there are not too many countries interested in putting money up. He added, however, that some member countries are not going to be very happy about not being part of this group, and he insisted that these discussions are very preliminary.

Mr. McNamara concluded the meeting by informing PC members about his forthcoming trip to Switzerland and Kuwait. He will be leaving on Thursday and will be back on Tuesday, December 2, in the evening.

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December 1, 1980

OFFICE OF THE PRESIDENT

822/8/20

President's Council Meeting, December 8, 1980

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Gabriel, Hattori, Husain, Knox, Rotberg, Stern, Thahane, Wapenhans, Weiner, Clarke, Karaosmanoglu, McClure, Rowe, Wright

PLO

Mr. McNamara asked Mr. Thahane to report on the meeting of the Joint Committee of Governors which met in Manila last week. Mr. Thahane explained that the objective of the Committee at this first meeting was to look into the problem of interpretation of the decisions taken by the Board of EDs between July 25 and the Annual Meeting, with respect to the issue of the PLO invitation as an observer. He said that the meeting was clearly a success. In particular, Mr. Muldoon, the Chairman of the Committee, had taken the lead and provided a rather sound analysis of the problems to be discussed. Mr. Thahane said that a number of agreements were reached. First, with respect to the actions of the Chairman, his decision to send the first letter of invitation to the PLO had been taken without consultation with the EDs. Hence, the decisions of the EDs to put this issue to their governments was correct. Second, the responses of management to the letter of July 5 were correct. The Chairman's communication of August (in which he had expressed his view that the office of the Chairman has been humiliated) did not withdraw the invitation. Third, on the problem of the behavior of management, the Governor for Pakistan and Mr. El-Naggar tried to push the idea that management's decision had frustrated the Chairman. Mr. Muldoon had made very clear that it is the responsibility of any civil service to draw the attention of a chairman on the implications of his actions. Therefore, the managements of the Bank and the Fund were correct in so doing. Fourth, on the issue of the withdrawal of votes before the closing of the voting, it is the responsibility of the Secretariat to check that the votes are issued by authorized persons. There was some difficulty on interpretation of the existing By-Laws: the Governors could indeed withdraw. Mr. El-Naggar had asked that a number of votes be re-examined for the voting in the Fund. However, in the case of the Bank, since the Board had chosen not to do a vote-by-vote inspection, it is a closed chapter by Mr. Muldoon's decision. Mr. Thahane explained that the next meeting will take place in Wellington from January 21-23. He said that the work has to be completed then and a draft report on the results of the first meeting is to be sent before Christmas to the Committee members. Mr. McNamara said that he was pleased to hear about the positive results of this first meeting. Mr. Golsong said that a key element of what happened in the first meeting was that there was no invalidation of the actions taken in the past. Mr. Thahane said that Mr. Muldoon had been very impressive as Chairman. Obviously, he had done a lot of homework. Mr. McNamara concluded on this subject by saying that, when this affair is over, he should send Mr. Muldoon a note.

Expansion of the Lending Program

Mr. McNamara informed the meeting that a Board discussion of the paper on the expansion of the lending program was originally scheduled for December 16. He said, however, that EDs now want to postpone this discussion until after the discussion on the paper on the means of financing has taken place. He told the meeting that Paul Applegarth will circulate the paper on the means of financing to all members of the PC and he requested a meeting of the PC for next Friday, December 12, at 5:00 p.m. He added that the second paper is an extremely important one. He suggested to the participants that they would reach the conclusion that there are many uncertainties but that there should be the possibility to find solutions. He added that he was not trying to take decisions now, but rather to reach tentative conclusions. He also told the meeting that Board discussion of the two paper should now be scheduled for various successive Board meetings beginning on January 22. He said that he was hoping that the paper on the means of financing could be distributed to the Board on December 16. He added that, in his view, discussion may go on for weeks. He then suggested that he would like to begin the Board discussions early, starting on the 15th of January, and then to be continued on January 22 and 27. He said that the Board can then object to this timing and the Bank management could suggest postponement by one week which would amount to beginning discussions on January 22. He said finally that he was sorry that there would not be a discussion of the lending paper first. He expected, however, that the Board may have to start with it anyway, even though the two papers would be presented at the same time. Mr. Thahane agreed, saying that they could start with the lending paper, even if they have the other one. Mr. McNamara suggested that there is no alternative to the Board than to discuss lending proposals for China and for energy, since these two issues are essential starting points. Then, he explained that he expects the Board to come to the conclusion that there are indeed many imponderables, e.g., there is money available in the international scene, but the key issue is how to get hold of it in order to transfer it where it is needed in the developing countries. Hence, there is the inescapable conclusion that the role of intermediation of the Bank and the Fund in this process has to be discussed.

Paper on the Bank and South Africa

Mr. McNamara opened the discussion on this paper, which had been distributed to PC members and was scheduled for discussion, by making the suggestion that the Bank could choose to do nothing about this matter. He then said, however, that he would prefer to suggest that he himself write a letter to the 12 EDs of the countries represented in the special UN committee on the implementation of the declaration on decolonization. The letter should say that the matter is going to be considered again in January, that there is no basis whatsoever for such condemnation and that there has not been any Bank loan to South Africa since 1966. The letter should finally ask each ED to urge their countries to vote against any such resolution. He said that a second letter could be sent to the full Board, with the first letter attached, urging the Board members to instruct the Fourth Committee of the UN to vote against the Resolution. Mr. Benjenk explained that there are two committees involved, the UN Decolonization Committee, and its Fourth Committee. On the special UN committee, he said that the Bank was outnumbered: there are 24 member countries on this committee, 9 of which are Soviet satellites, and only 6 of the 24 can be counted as favorable to the Bank. Mr. McNamara disagreed, saying that, in his view, at least 13 of the 24 countries could be counted as positive with respect to the Bank. He then enquired whether the issue was that of Bank lending to South Africa. Mr. Stern expressed his view that the issue is not so much the lending to South Africa but rather a broader one of relationships between the Bank and South Africa for things like procurement. He suggested that no action on the part of the Bank should be taken. Mr. McNamara expressed his belief that the committee thinks that the Bank is lending to South Africa. Mr. Thahane said that he did not think that any Bank representative in the UN, whether it be Messrs. Grenfell in New York or Burney in Geneva would win such a fight. He said that the fight had to be taken at the level of the capitals of the countries represented in the committees. In this sense, he said that he thought the Regional Vice Presidents have a very specific role to play. He further added that the RVPs can play a key role here in Washington with the various Ambassadors of those countries, whom they meet periodically, if only for the signing of loans. Mr. McNamara reaffirmed his view that the two letters should be written. He agreed with Mr. Stern when he had suggested that not too much time and effort should be spent on this problem. He mentioned, however, that the problem of South Africa is certain to become much more serious as a world problem in the future and, for this reason, the Bank does not want to leave any impression that it has very close relationships with South Africa.

Mr. Barletta said that, if the issue is one of procurement as Mr. Stern had suggested, the EDs could do something about it. Mr. McNamara expressed the view that it is not an issue of procurement, but rather that this institution (the Bank) is under a general attack. Mr. Stern reaffirmed his view that this should be the least of the Bank's problems. He recommended that the Bank should try a lowest-cost approach to resolving this problem, but that, if it does not work, the Bank should forget about it. Mr. McNamara said that, in his view, the Bank cannot and should not allow such attacks to take place without any reaction. In that respect, he referred to the letter recently sent by 12 EDs to the Wall Street Journal editors, which he described as "excellent." Mr. Rotberg mentioned that, at a recent meeting at Columbia University, he had been asked a number of questions as to why governments vote against the Bank. Mr. Thahane said that he disagreed with Mr. Stern's position, inasmuch as he thought that little things tend to accumulate and become big things. Mr. McNamara reaffirmed his view that the Bank should start with the letter.

Mr. Wapenhans expressed his view that, at least as far as African governments are concerned, they know what it is all about. They have the procurement issue in their mind but they do not want to exaggerate the problem. He said that the suggestion to go through the EDs is probably the best one. He finally added that a political consensus on such an issue could possibly be reached in regional context, e.g., the OAU.

The Maputo Conference

Mr. McNamara asked Mr. Wapenhans to brief the meeting on the results of the Maputo Conference which he attended recently. Mr. Wapenhans explained that this was the second conference, gathering nine members of the South Africa region, meant to bring about regional coordination in the area. He said that Botswana was in the chair for this meeting. He reported that a pragmatic approach to the problems had been evident throughout the conference. The items of discussion where consensus could quickly be achieved included: transport, communication, animal disease control, food security, interchange of agricultural research, and manpower training. He said that the total bill for the programs under consideration would amount to some \$2 billion. Project details, however, were available only in the transport sector. Almost 40% of this total amount would be for Mozambique. With the addition of Angola, it would be more than one-half of the total. Mr. Wapenhans said that the Nordic group had taken a prominent role, especially with the transport committee. In general, in transportation the projects are not new but rather rehabilitation. He further explained that Tanzania is the country most likely to lose from this emphasis on transportation, since the Mozambique and Angola routes are more economic and the South Africa route is congested. He said that in this field of transportation there was a concrete pledge from the

Nordic countries for something like $60 million. With regard to the Bank, the main question had been that of an eventual membership of Mozambique in the Bank. Mr. Wapenhans said that the issue was discussed with the Governor of the Central Bank of Mozambique, whom he found as extremely well briefed both on the Bank and on the Fund. The Governor had insisted on the great economic potential of Mozambique and on the importance of this country as a transit point in the area. Mr. Wapenhans said that no conclusions were reached on the membership question. He added that, the previous day to his meeting with the Governor, Mr. Cheysson had met with President Machel and the meeting was described as catastrophic. Mozambique apparently is not prepared to join the Lome Convention for closer approximation with the EEC. He said that it was not clear why the COMECON had an observer at the meeting and he added that Russia and China had no representatives at the meeting. In his view, it was likely that pressure would come from other countries in the area, e.g., Botswana and Swaziland, for Mozambique to join the Bretton Woods institutions. To Mr. McNamara who enquired about the state of the Mozambique economy, in particular with respect to possible external financing requirements, Mr. Wapenhans replied that it was not at all clear what the requirements could be, but there is gross stagnation in the economy at this time.

Mr. Thahane said that he personally knows the Governor of the Central Bank whom he described as a very good individual. He added that membership has been discussed frequently in Mozambique, and the President, Mr. Machel, basically is in favor it it; however, the Vice President is violently opposed. The President, therefore, opted not to join at this time. Mr. Thahane added that Mozambique relies heavily on Nordic and Chinese assistance, but the Russians are trying hard to move in. He said that it is likely that the issue of membership will be discussed again. He mentioned that there are strong suspicions of the Fund but much more positive views with respect to the Bank. The EEC worries Mozambique much more, largely because of the issue of private properties that were nationalized. There is also a misunderstanding on what the Lome Convention can or cannot do. Mr. McNamara then asked whether the Bank should do anything at this time. Mr. Wapenhans replied that, in his view, nothing should be done.

Mr. Benjenk's Travel

Mr. McNamara asked Mr. Benjenk to report on his extended trip to Europe. Mr. Benjenk said that, on three occasions during his absence, he had been with Mr. McNamara whom he assumed had already briefed the PC on the results of his trips, e.g., the visit to The Pope, the visit to Brussels, and the visit to Switzerland. He said that, in addition to those events, he had visited the UN offices in Geneva, the DAC in Paris, and he had also traveled to Spain for a meeting on behalf of EDI. In Geneva, he said that he had met with a number of institutions, e.g., UNCTAD and ILO. He reported that all representatives of these institututions expressed strong views that they want to work more closely with the Bank. Most of these representatives feel that the Bank is rather arrogant. They indicated that the situation in this respect is certainly better than it was five years ago, but there is still a lot of progress to be made. Mr. Benjenk said that he had tried his best to diminish that feeling. He then told the meeting that he had given an address to a number of ambassadors, journalists and executives of those various institutions. He said that his speech had been largely based on the World Development Report thinking, and he had painted a rather bleak picture of the world in the next 4-5 years. The speech was then followed by a question-and-answer session which lasted more than one hour. Mr. Benjenk explained that there was not one negative question. A number of questions were related to human development aspects, e.g., health, nutrition and education. Also, a number of questions were asked on the issue of the Bank's interrelationships with other institutions. He said that ILO in particular is keen to work with the Bank. He added that a number of French representatives had made clear to him their special interests for the least developed countries and also to the Bank's relationship with them.

Concerning the DAC meeting in Paris, Mr. Benjenk said that he had made a statement on behalf of the Bank. He had emphasized in particular the actions that are needed by the international community in view of a seriously deteriorating situation: structural adjustment lending, energy, etc. He said that he had also spoken about the ongoing study on sub-Saharan Africa and this was extremely well received. He observed, however, that many people were surprised at the diagnosis of an extremely bleak situation made both by the Bank and by the Fund. He concluded by explaining that Mr. John Lewis had been surprised at their surprise. Mr. McNamara then explained that, as far as his trip to Switzerland was concerned, the press coverage speaks for itself.

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December 22, 1980

OFFICE OF THE PRESIDENT

822/8 b1

President's Council Meeting, December 12, 1980

Present: Messrs. McNamara, Applegarth, Barletta, Baum, Benjenk, Hattori, Husain, Karaosmanoglu, Knox, McClure, Paijmans, Rotberg, Rowe, Scott, Stern, Thahane, Vergin, Wapenhans, Weiner, J. Wood, Wright.

Mr. Regan's Nomination

Mr. McNamara asked Mr. Rotberg for his views about Mr. Regan's nomination as the new Secretary of the Treasury in the Reagan Administration. Mr. Rotberg said that he had talked several times with Mr. Regan and Mr. Birk at Merrill Lynch, both of whom he described as very positive about the Bank. Both are firmly convinced that it is in the self-interest of the U.S. to assist the developing world and to strengthen the role of the Bank. He said that Mr. Regan is quite nervous about the current economic instability in the U. S. He indicated that Merrill Lynch has very close ties with Middle America, and especially close relationships with the small towns in this country, where it sells a large number of bonds; it gives a great deal of advice, and, largely because of its size, can afford to reflect and think on several developmental and economic issues in this country. Also, because of its huge capital base, Merrill Lynch has been able to buy some big firms outside the U.S. In addition, Merrill Lynch is a bank (or at least it owns banks) which has led them to be preoccupied with the exposure of commercial banks in the developing countries. Undoubtedly, Mr. Regan and Mr. Birk believe that there is a greater role to be played by the Bank and the Fund. In their view, the decision of whether or not a country should "go down" should not be left to, e.g., Chase Manhattan. Mr. McNamara said that he had visited Merrill Lynch with Messrs. Rotberg and Wood in September of this year. He said that Mr. Regan had been quite positive about the proposed energy affiliate. Mr. McNamara said, however, that this positive attitude of Mr. Regan does not mean that there will not be difficulties, but at least Mr. Regan is a man who understands the world of international finance and is basically supportive of this Bank. Mr. McNamara added that, in related developments, Senator Charles Percy is now to become the Chairman of the Senate Foreign Relations Committee, and Senator Mathias is to become the Chairman of the Subcommittee on International Economic Operations. Both Senators are very close to and very supportive of the Bank.

Paper on the Means of Financing a Possible Expansion of the Lending Program

Mr. McNamara explained that this paper is a long and difficult one. He asked the participants to focus their comments on the major issues. He told the meeting that this paper is going to be attached to the first one, i.e., the possible expansion of lending over the presently planned levels. He added that the last page of this paper has not yet been distributed. This page will explain that the problem of expanding the Bank's lending program is a very serious one; there are many uncertainties, decisions may not be taken speedily and the Bank will have to proceed step-by-step. Hence, the need to move first with the energy affiliate. However, since the establishment of an energy affiliate may still require considerable time, an alternative may be to bring forward the lending from the later years of the presently approved lending program. He then asked for comments. Mr. Husain, referring to the issue of IDA, said that in the first paper it had been calculated that the lending would be around \$22 billion and it was implied that this could be unfeasible. He then asked the reason for scaling down the IDA replenishments. In addition, he said that the paper refers to the possibility of shifting countries from IDA to IBRD funds, and he asked how the creditworthiness judgments were made for the justification of the shifts. Mr. McNamara explained that management is unlikely to go very far if it tells the Board that it expects the Board to approve X billions of dollars for IDA. This is largely due to the present adverse atmosphere of budgetary constraints, especially in the industrialized nations. He explained that what is said in the paper is that there are ways to expand the lending program without prejudicing results of future negotiations on IDA. He then asked Mr. Stern to give his views on the creditworthiness issue. Mr. Stern said that there are indeed some differences of views on creditworthiness, but these are only marginal to the central issue. He added that there are several alternatives, e.g., phasing Egypt out of IDA, and a harder blend of IDA/IBRD funds for some African countries. The main problem is still the serious doubt about the creditworthiness of India. Mr. McNamara said that the desired lending program cannot be financed unless there is some cutback. While there should not be any problem for FY82 and FY83, there are lots of uncertainties for the years beyond. He added that the energy affiliate has two obvious objectives: in the first place, there is the proposed $12 billion expansion of the energy program; and secondly, the transfer of the $13 billion from the current program to the affiliate would permit the reallocation of the same amount in the existing lending program for other sectors. He added that there is a problem in finding ways of financing energy in IDA countries. He finally said that there are two overwhelming conclusions to the financing paper: (a) there is a substantial need for greater Bank Group funds; and (b) there are indeed some ways to finance an expanded lending program. He said that the Bank cannot process the full program for FY82 and possibly FY83, and the issue is to find out how much additional money can be obtained. He then explained that management cannot even talk with the Board about the lending program and he added that he understood perfectly the reasons behind the Board's decisions.

Mr. Husain then mentioned that the paper talks about a core program for which funds can be raised using the existing borrowing instruments. He said that the paper also points to the possibility of using other instruments. In that respect, he asked whether changing the existing lending policies should not be envisaged. Mr. McNamara agreed that there may be the need for changing the lending policies, and he added that perhaps the core program may itself require a change in the instruments. To illustrate the same point, Mr. Rotberg observed that ATT cannot even finance its core program. Mr. McNamara added that, if the Bank modifies on both sides, i.e., borrowing and lending, it can obtain the money it needs. He pointed to a key element of the paper which is that it is possible to finance an extended lending program on acceptable terms. Mr. Knox said that this is where he was having some problems, since the issue is the question of price of "acceptable terms." Mr. McNamara said that, if one were to take the example of Ivory Coast, the implication of the expanded lending program would be to enable Ivory Coast to obtain additional funds for energy financing. He then asked whether Ivory Coast would turn down such an opportunity, and he said that of course they would not. Mr. Knox commented that this may be rather difficult to sell to some countries. Mr. McNamara agreed, but he said that these countries may not have any alternative. Mr. Rotberg also agreed, observing that some countries are already borrowing at 18%.

Mr. Weiner asked why, if all this argumentation is so clear, there are such reactions and uncertainties on the part of the Board. Mr. McNamara explained that OECD countries would choose less development for the developing countries or more reliance on private financing for this development, in view of their present budgetary restraints. The problem for the Bank is to move the OECD countries towards more development of the developing countries through more financing by the Bank. He added that this is the main question, i.e., can the Bank move them?

Mr. Weiner observed that the paper does not specifically address that issue. Mr. McNamara disagreed, pointing out that the paper addresses issues such as the increase of callable capital and the raising of more money. He also indicated that one of the tables in the paper shows the incremental capital outlay of some $35 billion for which budget claims would only be in the order of $3 billion for the period 1982-1986. He admitted, however, that this could be put through more forcefully in the paper. Mr. Rotberg commented that it would be interesting to show in the table the total amount of mobilized resources related to this minimal amount of budget claims of $3 billion.

Mr. Benjenk then asked a question relating to the issue of the gearing ratio. He wondered whether this issue was not relegated very far into the future. Mr. McNamara commented that this is the same argument which Mr. Haq presented. He indicated that he did not see the problem in the same way. The fact is that a change in the gearing ratio is practically impossible for the next three or four years. In addition, it is a necessary but not a sufficient condition. He said that, if the paper is not sufficiently clear on this, then it should be made more explicit. Mr. Baum then said that he had some difficulty in mastering the paper in the very small time that was available. He observed that he found the paper to be too short in some areas, and too long on the discussion of some of the hypotheses. He suggested that a summary could be very helpful. Mr. McNamara explained that there would be an index in the final version which should make the reading easier. He also said that the thrust of the paper is that the Bank is not trying to resolve all of the issues at hand. Mr. Baum repeated that he thought that a short summary could be useful.

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December 24, 1980

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Office of the President - President's Council Meeting, December 15, 1980.

Exception(s)

Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

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OFFICE OF THE PRESIDENT 822/8/23

Meeting with Representatives of the Reagan Transition Team, December 17, 1980

Present: Messrs. McNamara, Tom Blackburn, Howard Segamark, Bob Riley, David King (U.S. Alternate ED), Stern

Mr. Blackburn explained the purpose of the visit to Mr. McNamara. He said that he is part of the Transition Team for the Reagan Administration and that his responsibilities include looking at the international financial institutions. He is leading a small group (Mr. Segamark is his deputy) whose main purpose is to act as a catalyst for the new administration, in order to acquaint them with their forthcoming duties and responsibilities. Mr. Blackburn first expressed his concern about the alleged lack of independence of the Board of Executive Directors to oversee the management of the Bank. Mr. McNamara asked Mr. Blackburn whether he had ever seen an organization, in the United States or anywhere else, with a Board of forty Executive Directors, which meets every week. He said that, in his view, the Bank's Board is more independent than that of any corporate group which he knows. He explained that every single investment is authorized and evaluated by the EDs. He emphasized the importance given to evaluation of projects by the Operations Evaluation Department, the Director of which is appointed by the EDs. In addition, there is the Joint Audit Committee which is completely independent and meets frequently with outside auditors, inside auditors and the Evaluation Unit. As a further illustration, Mr. McNamara mentioned that the Bank's Annual Report is not a report by management, but a report of the Board. At their meeting last week to outline the subjects which they want to emphasize in the forthcoming Annual Report, the EDs included this very evaluation process.

Mr. Riley asked Mr. McNamara whether there was any follow-up on projects after the evaluation had been completed. Mr. McNamara explained that the Bank occasionally performs what is known as a "second look." He proceeded to explain to Mr. Riley the project cycle according to which, in general, it takes about two years to prepare a project and to put it to the Board for approval. The disbursement period may then take up to eight years. About a year after the completion of disbursements, the Bank undertakes a full evaluation of the project. Thereafter there may be second looks depending upon the projects, the sectors and/or the countries. Mr. McNamara further stressed that, in his view, the major weakness is that neither the U. S. nor the developing countries have an equivalent system or process of evaluation. When the Bank asks the governments' views on their evaluation of projects, they usually do not have the capacity to perform the function. A major step which the Bank now wants to promote is the introduction of evaluation units in the developing countries. Mr. King also explained that the Joint Audit Committee has a sub-committee, of which he is a member, whose responsibility is to pick at random six to eight project cases and re-assess them independently through an evaluation process. Mr. McNamara finally said that none of the other international agencies has a system that comes close to the Bank's; the Asian Development Bank is now beginning to move in this direction.

Mr. Blackburn then mentioned that, with the on-going move into structural adjustment lending, he thought that the evaluation process would probably become very difficult, if not impossible. Mr. McNamara strongly disagreed, saying that on the contrary it is likely to be much easier. In the first place, he explained that structural adjustment lending is an area in which the Bank is going to move rather slowly, e.g., it will represent only 5% of the lending program for this year. In the second place, structural adjustment lending has very clear purposes and targets which can be evaluated rapidly. Mr. Stern explained that much less time elapses for the disbursement period. He gave the example of a recent $200 million loan to The Philippines, which includes only two major issues: a major tariff overhaul and a financial overhaul. He explained that the second half of the loan will not be released until a review of progress and a report to the Board is made, after about one year. In addition, no second loan will be made before the full review of the first loan.

Mr. Blackburn then asked for some explanation of the differences between IDA and IBRD, especially as regards the grace periods and the interest charges. Mr. Stern explained briefly those differences, emphasizing especially that, even though the lending terms are different the technical criteria, the guidelines for project process and so forth are exactly the same in both cases. Mr. Blackburn then asked for some clarification on the procedures for disbursing money to the borrowing countries. Again Mr. Stern explained to him the current system, emphasizing that the Bank proceeds on the basis of reimbursements for actual expenditures which have to be covered first by the government.

Mr. Blackburn then asked Mr. McNamara what his recommendations would be for changes in the U.S. policy beyond asking for some more money. Mr. McNamara said that it is not so much the "more money" issue which is relevant, but rather the issue of the U.S. having to fulfill its obligations. The U.S. is now failing to meet its obligations; in particular, it is in default on IDA VI. In his view, there is especially the need for negotiating authorities within the U.S. system. Mr. Blackburn then mentioned that this was an interesting Constitutional problem. As he sees it, any negotiator now is sent by Treasury on behalf of the President, but not on behalf of Congress. Mr. McNamara said that this was not exactly the problem. He said that there is presently a system of negotiation, but part of the problem is that Congress is not organized. Mr. Blackburn said that he agreed, and that, reflecting back on earlier years, he thought there had been good reasons for the seniority system in Congress. Mr. McNamara said that, in 20 years of observing Congress, this one probably had the highest IQ and the best level of education; however, it was probably as ineffective as any of the previous ones.

Mr. Riley then asked for some clarification on the situation and outlook for the flow of capital to developing countries. Mr. McNamara explained that the official development assistance in CY1980 will rise about 13% in nominal terms. He added that private market financing will increase by much more than that. Mr. Stern added that the official development assistance will be a declining share of the total capital flows. Mr. McNamara concluded by expressing his doubts as to whether the ODA will be at a level consistent with OECD's interests. He said that, in his view, he did not think so.

OL
December 24, 1980

822/8/24

OFFICE OF THE PRESIDENT

President's Council Meeting, December 22, 1980

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chaufournier, Gabriel, Hopper, Husain, Knox, Paijmans, Qureshi, Rotberg, Thahane, Wapenhans, Weiner, Chang, Scott, Waide

Implementation of the Guidelines for Managing People in the World Bank Group

Mr. McNamara asked Mr. Paijmans to elaborate on the proposal for implementation of the guidelines discussed in last week's PC meeting. Mr. Paijmans explained that, in the first eight weeks of next year, Personnel Department will come back to the members of the PC with all sorts of ideas concerning implementation of the guidelines. The introduction of the guidelines is essentially to be done by the Vice Presidents themselves. As soon as it is put into print form, the Vice Presidents are to present those guidelines to their staff essentially through the Division Chiefs. By March 1981, it is expected that all levels of the Bank staff should have been reached. Mr. McNamara agreed with this proposal and said that it should be started as soon as possible.

Burma Aid Group

Mr. Hopper reported that this had been a very easy meeting. Burma has moved quite substantially during the last year, especially in the field of price adjustment. To Mr. McNamara who specifically asked what had happened with respect to timber and rice, Mr. Hopper replied that timber production hit record levels last year. The programs are ahead of schedule, with new timber areas under production, especially with good varieties of teak. The export prospects look particularly good. The Burmese are now looking at the possibility of installing plywood plants instead of relying exclusively on export of logs so as to increase the value added locally. Rice production also registered large increases with production of last year at a record level. The Burmese are now raising the price of higher-grade rice, which should be enough of an incentive to encourage further production increases of higher-quality rice. In addition, fertilizer consumption has expanded considerably with excellent response from farmers. However, inputs of fertilizers are still heavily subsidized. In general, the economy has moved considerably with an increase in GNP of 5.6% last year and an estimated minimum of 6% for this year; however, there is still great concern about inflation. Mr. Hopper added that, at the Group meeting, congratulations by all donors were extended to the Burmese for their performance on implementation of projects. The Burmese asked for $500 million for which they had no difficulty in obtaining pledges. Mr. McNamara said that this was excellent and it represented a great change from the situation of ten or even five years ago in Burma. Mr. Hopper added that the Minister had been extremely frank in his assessment of the situation and the prospects. In particular, he had made clear that there are things which the Burmese Government cannot do at this time, for example, decrease the subsidies too quickly, or adjust prices to the full extent necessary in a short time period.

Mr. Hopper's Visit to Bangladesh

Mr. Hopper explained that, in his visit to Bangladesh in April of this year, Mr. McNamara had left an Aide Memoire with the Government saying that IDA financing would increase if certain targets were met, especially in the field of population planning, exports, food production, and savings. Mr. Hopper said that the export picture looks very good. There has been an increase of 7%-8% in real terms this year, mainly due to a good performance in the export of jute carpets, especially to the Soviet Union. In the food sector, production may reach 14.5-15 million tons, slightly short of the target of 18-20 million tons set in the Aide Memoire. A major problem may be the shortage of 400,000 tons of storage capacity. There may still be the need to import grains. With respect to savings, Mr. Hopper said that it may be too early to tell at this time. As far as population planning is concerned, Mr. Hopper reported that there is a strong and impressive attack on this problem with a strong personal initiative from the President himself. He said, however, that the sterilization target of 100,000 a month may be unattainable. He reported special concern with respect to a higher than expected morbidity rate with the sterilization program, this being due to overdose of anesthesia in some cases and possibly some other causes which will need close monitoring. Mr. Hopper emphasized the tremendous change in Bangladesh, where families now eat two meals a day instead of one some years ago.

Mr. Husain's Visit to France and Germany

Mr. Husain reported that the French are extremely interested in exchanging views with the Bank with respect to China. The French views are quite similar to the Bank's. In essence, there is agreement that China is now going through major changes and nobody knows exactly how this will end politically. The French are disappointed at the cancellation of some contracts that had been signed previously with the Chinese. Mr. Husain reported that he had explained to the French how the original plans drawn by the Chinese proved not attainable. He said that he had had a number of discussions with the French Government, especially at the Elysee Palace and with Treasury officials. The French view is that China is likely to remain a second-rate economic power for quite some time, especially with respect to international trade. The early euphoria with the Chinese economic prospects has largely diminished since these prospects will be much less than expected. Technology is weak, e.g., on oil development; oil resources are being depleted rather quickly. With respect to coal, transportation is a major bottleneck. In agriculture, the population growth rate (1%) and the production growth rate (2%) can only leave enough room to close the food gap. Finally, it is unlikely that exports could grow at more than 7% annually.

Mr. Husain reported that the French are generally very supportive of the Bank's work with China. On the issue of additionality of funds for lending to China, the Bank is likely to get some support from the French. Specifically, the French may accept $400 million of IDA funds for the first year of lending to China. In related matters, however, the French are extremely concerned about the availability of IDA funds for Africa. Mr. Husain said that he reassured the French Government that China would not take any IDA funds away from African countries.

With respect to Germany, Mr. Husain indicated that he had found Germany generally in a state of shock over their problem with the balance of payments deficit. He said that he had meetings with KFW and Mr. Schulmann. In general, the Germans view the Bank program much more critically than the French. They admit support for China and they accept IDA funding as necessary. However, Mr. Schulmann in particular said very forcefully that China should be accommodated within the existing IDA/IBRD funding arrangements.

Reporting on the energy affiliate, Mr. Husain explained that he had found both the Germans and the French very supportive.

Energy Affiliate

Mr. McNamara asked Mr. Qureshi to bring the PC up-to-date on the latest developments concerning the discussions with respect to the energy affiliate. Mr. Qureshi first reminded PC members about the meeting which took place at the end of November with representatives of nine countries who had met in Washington to discuss informally some of the fundamental issues with respect to the proposed affiliate. He said that it had been made clear at the time that the Bank intended to conduct bilateral contacts as well. He reported that the meeting had been quite positive, with general agreement on the necessity to create an energy affiliate and on the need to take an integral approach to the energy problems. He mentioned that two major issues had been left largely unresolved: (a) the capital structure and the voting rights of the affiliate; and (b) the organizational structure. On the latter point, he indicated that Bank management has a strong preference for full integration of the affiliate with the World Bank. He added that there are indeed some differences of opinion on the appropriate degree of linkages between the energy affiliate and the World Bank. Bank management had promised to prepare papers on the two issues. The issue of the treatment for the poorest countries is also still unresolved. While there is general agreement on the market orientation of the affiliate, there is still difficulty with respect to the treatment of countries eligible for IDA funds only. Mr. Qureshi said that there is still a great deal of debate on this point. He added that the Bank is now preparing the documentation for the second meeting scheduled for February 2-3. The Bank expects to expand the Group to include other countries, especially Japan and the UK, and possibly two or three other countries. The two main purposes to be served by the next meeting are: (a) to get the interested countries to play a leadership role; and (b) to get more explicit ideas from the oil-exporting countries. In general, Mr. Qureshi commented that the discussions are moving very well.

Mr. Qureshi informed the meeting that he had recently been in the UK at the Government's invitation. He had especially good discussions with Mr. Kenneth Cousins, who is in charge of international finance. The British feel strongly, as does the Bank, that there should be a maximum integration of the affiliate with the Bank. They also feel that the justification for the creation of the affiliate rests not only on the ability to mobilize additional private capital but also on obtaining funds directly from the capital-surplus oil-exporting countries. The British indicated that this latter point is politically indispensable and it would help in obtaining the UK Government's support.

Mr. Qureshi reaffirmed that there is now no question among the major members of the Bank that the energy affiliate should be established. He said that the Bank had indicated to those governments that the timetable is now to move quickly. In the first place, there should be a meeting on February 2 and 3; within a week after this meeting, a paper would be submitted to the Board with management's preliminary approach to the creation of the affiliate. If the paper can be considered by the Board at the end of February, and if there can be Board approval, then the Bank would call for a meeting of Deputies. By mid-calendar year, there could be a full-fledged proposal which could be considered at the Ottawa Summit Meeting. Then, the proposal would be put to the Board of Governors for action by individual governments by the end of the year. Conceivably, the affiliate could then start operating in 1982.

Mr. McNamara commented that one of the key issues with respect to the affiliate has to do with the possibility of OPEC involvement in the energy affiliate. In particular, there are three major elements to be considered: (a) the impact of OPEC participation on the cost of borrowing, which may mean a difference of perhaps 10-12 basis points; (b) the effect on risks; and (c) the myth that OPEC's participation should be the price that OPEC would have to pay for the increases in the price of oil. In that sense, Mr. McNamara indicated that there was a real political problem.

Mr. Benjenk commented that there may be a contradiction in the position of the British between integration of the affiliate with the Bank one one side and OPEC participation on the other. Mr. McNamara indicated that he did not think so and Mr. Qureshi made the point that the British are very clear on this problem. He mentioned that, in the UK, there is a great divergence of opinion between the political circles and the civil service. Mr. Chaufournier then raised the question of what the developing countries themselves think about OPEC's participation. Mr. McNamara replied that they are all in favor of decreasing the share of OECD countries, regardless of how this is done. Mr. Barletta then asked what the position of the Middle East OPEC countries is with respect to the affiliate. Mr. Qureshi indicated that they are all very positive, while they have some doubts on how to go about it, especially with respect to the capital structure and the organization.

Lending Rate

Mr. McNamara indicated that the paper on the lending rate, to be considered in January by the Board, will not satisfy many people. Some will say that it does not live with the spirit of the formula established in 1979. This formula is not giving the expected results in terms of spread between the lending rate and the cost of borrowing. Mr. McNamara mentioned that he has consistently said that he does not believe in formulae for the financial management of the Bank. The main imperative here is the desired level of income of the Bank. He indicated that for the ten-year period 1980-1990 the Bank is in line with this objective of the level of income, but it is outside the spread objective.

Budget

Mr. McNamara indicated that there are a range of things that go against the Bank in the preparation of the new budget. The Bank will have to manage this issue with great care. In particular, there is increasing difficulty to budget for FY82. The Bank should budget on the basis of certainty, and one of the major uncertainties is IDA VI .

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January 16, 1981